2010

Kesko Pension Fund

ANNUAL REPORT


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2010

Contents

Annual report 2010

78TH FINANCIAL YEAR

Kesko Pension Fund is the shareholders' own pension institution which provides the shareholders' employees in Department B with basic pension cover pursuant to the Employees' Pension Act, as well as supplementary pension cover for employees that belong to Department A of the Pension Fund. Department A was closed on 8 May 1998.

Department B shareholders

K-citymarket Oy	Indoor Group Oy
Insofa Oy	Intersport Finland Oy
Kenkäkesko Oy	Keslog Oy
Kespro Oy	K-Instituutti Oy
K-Plus Oy	Musta Pörssi Oy

Department A shareholders

Anttila Oy	Indoor Group Oy
Intersport Finland Oy	K-citymarket Oy
Kenkäkesko Oy	Kesko Oyj
Keskon Eläkekassa	Keskon Sairauskassa
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 and Departments A and B of the fund were established in 1962. The function of Kesko Pension Fund is to take care of the 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 2010

In this publication, we present the 2010 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 B5-223, telephone 0105311.

Annual Report of Kesko Pension Fund

PARTIAL 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.

According to the plan, the liability of Department B will be transferred in two stages. The first stage was completed on 1 September 2010, while the second stage has been planned to be carried out on 1 January 2012. The completion of the second stage requires the consent of the Financial Supervisory Authority. The change in pension company does not have any impact on the pension level or coverage of the personnel or pensioners. The first stage of the transfer concerned the personnel of Kesko Oyj, Ruokakesko Oy, Rautakesko Oy, Konekesko Oy, K-talouspalvelukeskus Oy, Kesko Pension Fund, Kesko Employee Sickness Fund, K-kauppiasliitto ry, Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu VTP Oy, and part of Keslog Oy's personnel, as well as individuals retired from these companies. Previously terminated insurance within Kesko Pension Fund and any pensions paid through them were also transferred to Ilmarinen on 1 September 2010.

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. As a resul of the transfer, the number of personnel in the Pension Fund reduced by three pension processors. Of them, one employee was transferred to the employee pension insurance company in 2010 and two from the beginning of 2011.

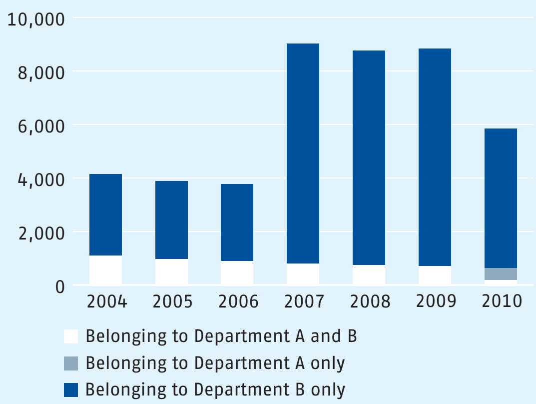
MEETING OF THE REPRESENTATIVES

The regular general meeting of the representatives was held on 12 April 2010. Matti Halmesmäki, President and CEO of Kesko Oyj, served as chairman. In 2011, the regular general meeting of the Pension Fund will be held on 12 April in Helsinki at Kesko's main office, starting from 12 noon.

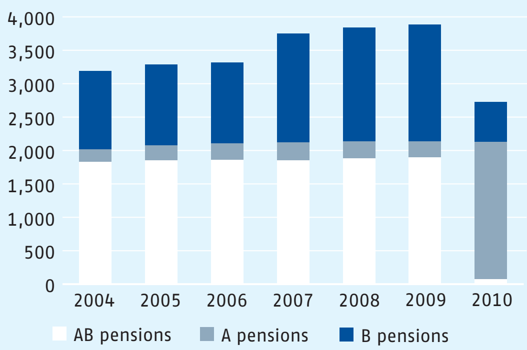
MEMBERS

At the end of the year under review, 5,839 people belonged to the Pension Fund. Department B had 5,381 members and Department A 640 members. A total of 182 individuals belonged to both departments.

Number of Kesko Pension Fund members 2004–2010



Number of individuals receiving a pension through the Kesko Pension Fund 2004–2010



PENSIONS

At the end of the reporting year, there were a total of 2,722 pensions in payment, which is 1,167 less than in the previous year because of the portfolio transfer. Survivors' pensions were paid to 367 (524) people. As a result of the portfolio transfer, the majority of pensioners (2,060 at the end of the year) received pensions through Department A.

Individuals who receive both their own employee pension and widow's pension as a beneficiary appear twice in the pension statistics. Part-time pensions are included in retirement pensions. At the end of 2010, the total number of part-time pensions was: 17 (25). Survivor's pensions and unemployment pensions are included in "other pensions".

Total pension expenditures were EUR 69.3 million, which is 29.4 per cent of earnings under the Employees' Pension Act in 2010. The amount of pensions paid decreased by a total of 7.3 per cent from the previous year. Pensions paid in Department B decreased by 24.8 per cent and clearings of PAYG pensions increased by 75.8 per cent largely because of the portfolio transfer. Department A's pension expenditure decreased by 3.7 per cent.

In 2010, Department B of the Pension Fund paid EUR 16.8 million into the pay-as-you-go pool. In the previous year, EUR 9.6 million were paid into the pool.

During the year under review, 39 persons transferred directly to retirement pension from their employment relationships, 13 transferred to A early retirement pension, 13 transferred to reduced disability pension and 23 transferred to disability pension. In addition, 8 persons transferred to part-time pension and a rehabilitation allowance was granted for 13 persons. The rehabilitation allowance is granted for retraining or work testing in situations where the risk of disability is probable in the near future. In 2010, a total of 109 persons transferred directly from employment to a pension or rehabilitation allowance. The corresponding figure was 98 in 2009.

The total number of pension recipients 31.12.2010

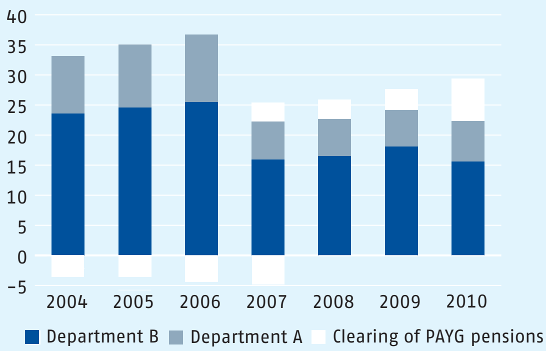
Pension type	2010	2009	Change
Retirement pensions	1,894	2,597	-703
Early retirement pensions	45	51	-6
Reduced disability pensions	52	66	-14
Disability pensions	328	553	-225
Other pensions	403	622	-219
Total	2,722	3,889	-1,167

Pensions were increased from 1 January 2010 by the employee pension index in both Departments A and B, and the increase was 0.26 per cent in all cases.

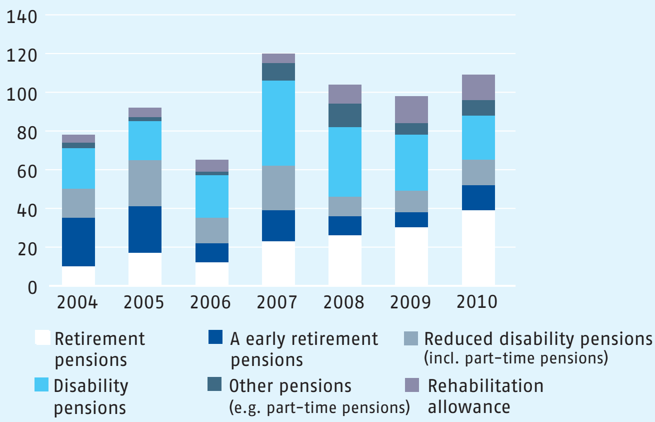
During the year under review, paid pensions and received clearings of PAYG pensions were as follows:

Pension expenditures (EUR million)	2010	2009	Change (%)
Department A	15.7	16.3	-3.7
Department B	36.8	48.9	-24.8
Clearing of PAYG pensions, Department B	16.8	9.6	75.8
Total	69.3	74.8	-7.3

Paid pensions and clearing of PAYG pensions as a percentage of the payroll



Pension decisions made on individuals retiring for the first time, and decisions on the rehabilitation allowance



Number of paid-up policies in Department A

In 2010, Department A granted paid-up policies to a total of 18 individuals. Six people returned their paid-up policies to the Pension Fund, no holders of paid-up policies deceased in 2010, and 15 people retired through paid-up policies. One person holding a paid-up policy returned to the Pension Fund and Department A. The number of paid-up policies in Department A was 217 (221) at the end of the year.

Membership fees

During the year under review, a total of EUR 118,669.49 in membership fees and EUR 45,115.40 in interest on the fees was paid to members who quit Department A and returned their paid-up policy.

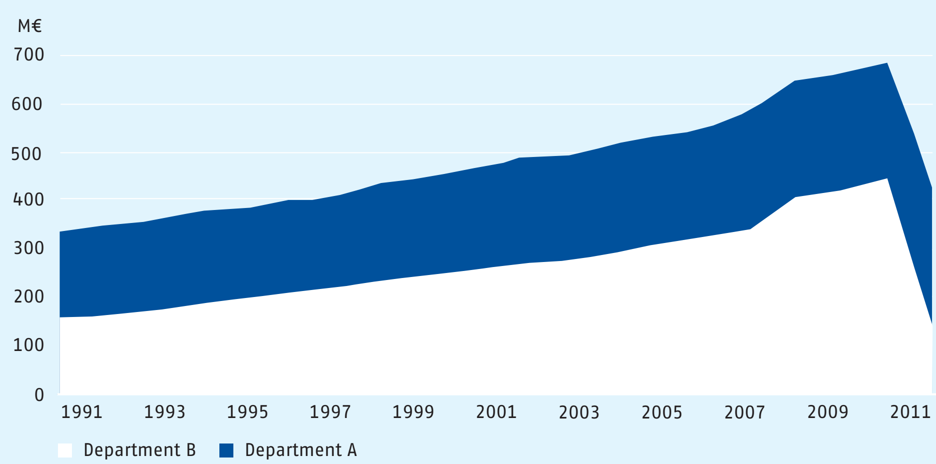
TECHNICAL PROVISIONS

In Department B, the provision for unearned premiums decreased by EUR 150.6 million and the provision for claims outstanding by EUR 119.9 million. The provision for future bonuses decreased by EUR 40.8 million. Of the decrease in provisions, EUR 308 million was caused by the portfolio transfer. Of this, EUR 274.8 million comprised a decrease in actual provision items and EUR 33.2 million was the amount of transferred solvency margin used for reducing the provision for future bonuses. Because of the portfolio transfer, EUR 7.8 million of balancing provisions were cleared for former shareholders in accordance with the new calculation basis. Considering the portfolio transfer and changes in the balancing provision, the provision for the remaining portfolio increased by EUR 12 million during the year. In the financial statements, EUR 7.6 million of the provision for future bonuses was cleared. At the end of 2010, the technical provisions of Department B of the Pension Fund contains EUR 10.8 million in provisions for future bonuses. The amount of provision for future bonuses forms part of the solvency margin of the pension fund. The technical provisions of Department B stood at a total of EUR 114.3 (425.7) million.

In Department A, the provision for unearned premiums increased by EUR 40.2 million and the provision for claims outstanding by EUR 12.7 million. The index increase provision was increased by EUR 5 million. The increase in the provision for unearned premiums and claims outstanding was caused by the change in the calculated interest. The interest rate was reduced from 3.5 per cent to 2.0 per cent. The change in the index increase provision was decided on within the Pension Fund's Board of Directors. The technical provisions of Department A stood at a total of EUR 297.8 (239.9) million.

Technical provisions must be covered by investment assets. The assets that cover pension liabilities must satisfy certain requirements set out in law. The cover regulations and solvency regulations for Department B were amended in 2007. The law (Act on the calculation of the solvency margin and the coverage of technical provisions of pension institutions 8 December 2006/1114) concerns all authorised pension providers and it emphasises the distribution of investments. Under the law, the funds of the pension institution are divided into five classes and the general rule is that all investments are suitable for the cover. Restrictions

Technical provisions 1991–2010, relative to value of currency Dec. 2010 (cost-of-living index)



have been reduced, but, for example, a maximum of 5 per cent of technical provisions can be covered using the shares of one company and 10 per cent using investments in one property. For Department A, the old cover regulations remain in force, which have more restrictions. For example, a maximum of 50 per cent of the cover of technical provisions can be made of up of equities and fund units, and a maximum of 40 per cent of the cover can be made up of properties. Neither department of Kesko Pension Fund exceeds the limits set out in law for the investment assets used as cover.

The technical provisions of both departments are completely covered.

INSURANCE PREMIUM

The Pension Fund's Department B did not collect any insurance premiums in 2010.

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 2010 was a total of EUR 7.5 (10.2) million. The result of Department A was EUR 7.5 million and Department B posted a result of zero. The Pension Fund's Board of Directors proposed to the representatives of the Pension Fund that Department A'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 in the balance sheet. Furthermore, the Board of Directors decided to propose to the representatives 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 this transfer, Department A's equity is EUR 36.4 million. In Department B, EUR 7.6 million of provisions for future bonuses was reduced in order to bring the result to zero. Following this transfer, Department B's provision for future bonuses is EUR 10.8 million.

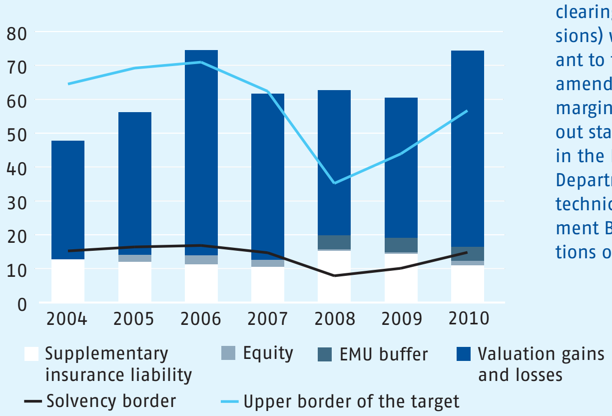
Preparation of the financial statements

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.

Solvency margins

The solvency margins of the Pension Fund specify the buffer that the Pension Fund has available in case of fluctuations in investments. The solvency margin describes the solvency of the Pension Fund. Under the law, the solvency margin regulations only apply to Department B of the Pension Fund.

Kesko Pension Fund Department B, working capital 31 December 2004 – 31 December 2010, % of technical provisions, pursuant to crisis legislation



The solvency margins of Department B of the Pension Fund stood at EUR 73.8 (216.9) million at the end of the year under review, of which EUR 10.8 million was provision for future bonuses and EUR 1.4 million was equity. In addition, when calculating solvency, a clearing reserve item (that was 4 per cent of the technical provisions) was treated in the same way as the solvency margins pursuant to the definitions of the crisis law (Act on the temporary amendment of the provisions concerning the funding and solvency margin of the retirement pensions of pension institutions carrying out statutory pension insurance operations). The size of this item in the Pension Fund's solvency margins was EUR 4.1 million. In Department B, the solvency margin was 74.3 (60.4) per cent of the technical provisions used in the solvency calculation. In Department B, the solvency limit pursuant to the decree and the definitions of the crisis law was 16.0 (11.3) per cent.

INVESTMENT ACTIVITIES

At the end of the year, the market value of the investments of the Pension Fund stood at EUR 565.4 (960.9) million. Of the investments, calculated at market values, 37.0 per cent were in properties and shares of real estate companies, 31.8 per cent were in shares and equity funds, 2.6 per cent were in alternative investments (private equity funds), and 28.6 per cent in interest rate investments. By department, the investments are divided so that the value of the investments of Department A was EUR 391.4 (387.2) million and the value of the investments of Department B was EUR 174.0 (573.7) million. The investment of the assets is highly diversified, which reduces risk in fluctuating economic circumstances. Kesko Pension Fund's investment operations are managed in accordance with the prepared investment plan.

Investment lending

At the end of the year, the Pension Fund's notes receivable stood at EUR 46.1 (44.3) million, of which the share of Department A was EUR 41.8 (23.3) million and the share of Department B was EUR 4.3 (21.0) million.

At the end of the year, receivables from employers that are shareholders stood at EUR 1.3 (3.4) million, of which the share of Department A was EUR 1.0 (1.1) million and the share of Department B was EUR 0.3 (2.3) million.

Both notes receivable and receivables from employers have sufficient security. At the end of the year, investment lending made up 8.2 (4.6) per cent of the Pension Fund's total portfolio.

Property investments

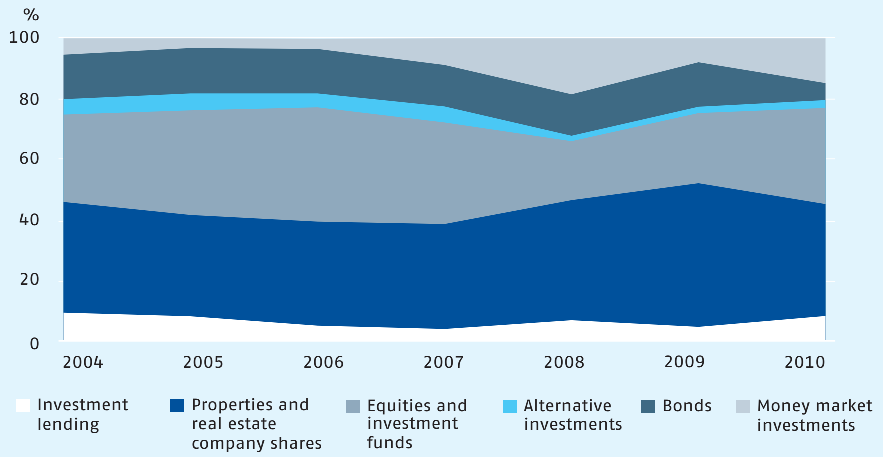
The Pension Fund's property assets decreased in 2010. Property assets were sold to outside parties and transferred between the departments as a consequence of the portfolio transfer and resulting profit returns in Department B. Sales of properties produced sales gains of EUR 158.8 million and sales losses of EUR 1.4 million. Of the sales gains, EUR 71.8 million were produced in Department A and EUR 87.0 million in Department B. Of the sales losses, EUR 0.3 million were produced in Department A and EUR 1.1 million in Department B.

The renovation of the Turtola K-citymarket and the construction of the Kankaanpää K-citymarket were completed in 2010. Department B did not have any significant items in its construction account at year-end. The logistics centre to be built in Kerava was incomplete in the 2010 financial statements. Its construction account is held by Department A and totalled EUR 17.9 million in the financial statements.

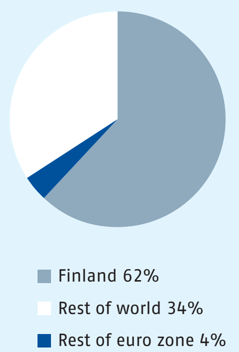
Refunds of impairments were not recognised in the 2010 financial statements. An impairment of EUR 7.5 million was recognised for the Itäkeskus K-citymarket. This was based on new property estimates and the current building's service life. All value changes in the Pension Fund's properties are based on the new fair values of properties obtained in August–December.

Interest rate investments 31 December 2010	Distribution	Moderate duration
Bonds	27.5%	4.5
Money market instruments	72.5%	0.2

Investments at fair value



Distribution of equities by region



Calculated at market values, the property investments make up 37.0 (47.5) per cent of the Pension Fund's total investments. At the end of the year, the amount of capital invested in properties was EUR 209.2 (456.4) million.

Interest rate investments

At the end of 2010, the total market value of interest rate investments (including fund-units investing in interest rate papers) was EUR 115.5 (217.2) million. Interest rate investments made up 20.4 (22.6) per cent of the Pension Fund's total portfolio. It was divided so that 14.8 (7.9) per cent was in short-term interest rate investments, and 5.6 (14.7) in long-term interest rate investments. The distribution of the Pension Fund's interest rate investments is shown in the following table.

Equity investments

At the end of 2010, the market value of the the Pension Fund's total quoted investments in shares and funds was EUR 180.0 (200.7) million. This was 31.8 (20.9) per cent of the entire portfolio. A total of 7.4 per cent of the portfolio was invested in unlisted shares. Of the stock portfolio, 62 per cent was invested in Finnish shares.

In 2010, shares produced well at a global level. The profit of Kesko Pension Fund's listed shares was 33.4 per cent in 2010. The 12-month trailing earnings of MSCI World and OMX Helsinki Cap, used as comparison indices, were 21.1 and 29.8 per cent, respectively. The volatility of the Pension Fund's portfolio of listed shares was 16.4 per cent.

Alternative investments

Alternative investments in the Pension Fund's portfolio consist of private equity fund investments. At the end of 2010, alternative investments made up 2.6 (2.1) per cent of the market value of the Pension Fund's portfolio.

Result of investment operations

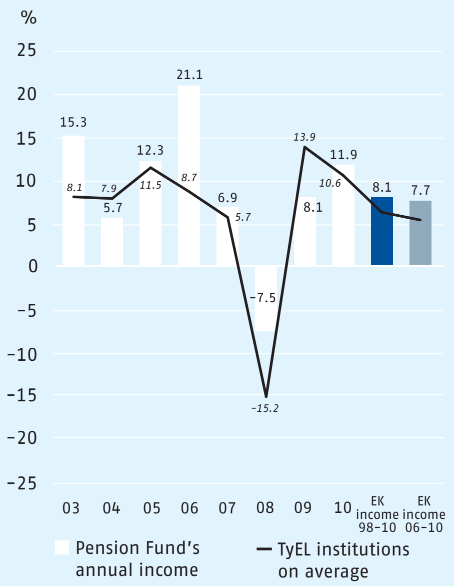
The net book income of investment operations was EUR 114.5 (22.5) million in Department A and 141.5 (28.4) million in Department B. The total net book income of investment operations was EUR 256.0 (50.9) million. The large net book income was affected by changes in the investment portfolio caused by the 2010 portfolio transfer and resulting realised sales gains. In 2010, a total of EUR 4.0 million was recognised in refunds of impairments of shares and holdings, and a total of EUR 4.9 million was recognised in new impairments.

In 2010, the income from committed capital, at market values, of investment operations was 12.9 (11.1) per cent in Department A and 11.0 (6.0) per cent in Department B. The income from committed capital of the whole Pension Fund was 11.9 (8.1). The figure below shows the income of Kesko Pension Fund in recent years and the average annual income for five and 13 years. The income has been compared with the average annual income of TyEL companies over the recent years, and the average annual income calculated out of annual income over five and 13 years. In 2010, the average income of pension companies is estimated on the basis of the income figures released by the companies in January 2011.a.

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.

Net income of investment operations at fair values



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 in both departments 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.

Department B of the Pension Fund provides statutory pension cover for the employees of its shareholders. The employee pension scheme is a partially funding system with respect to the Employees' Pension Act. The calculation of the Pension Fund's technical provisions is based, on one hand, on the calculation principles set by the Ministry of Social Affairs and Health and, on the other, on the calculation principles requested by the Pension Fund and approved by the Ministry of Social Affairs and Health. In calculating the technical provisions, the Pension Fund follows calculation principles that are, in the case of the actual pension liabilities, common to all TyEL pension institutions, including industry-wide pension funds, pension funds and authorised pension insurance companies. Thus, the risk for an individual pension institution is the divergence of the insurance portfolio or investment portfolio from the average in an unfavourable direction at some point in time. Kesko Pension Fund Department B's insurance portfolio does not involve this kind of divergence. 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 in both departments. The Pension Fund's actuary is responsible for assessing this.

Risks of the investment operations

The objective of Kesko Pension Fund's investment operations is to invest funds safely and profitably so that, over the long term, the Pension Fund is an affordable alternative for its employer shareholders. 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, risk management policy is part of the investment policy. The Pension Fund prepares for the risks of investment operations by following the allocation, fluctuation margins, comparison indices and other restrictions of the investment assets monthly. 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.


MINI

Income statement

1,000 €	1.1.–31.12.2010	1.1.–31.12.2009
Technical account		
Premiums written		
Statutory pension contributions	0	54,060
Membership fees of other pensions	271	299
	271	54,359
Earnings from investment operations	293,289	81,843
Claims incurred		
Claims paid on statutory pensions	-51,022	-55,882
Change in the provision for claims on statutory pensions	119,918	-15,557
Claims paid on other pensions	-15,966	-16,505
Change in the provision for claims on other pensions	-12,684	5,035
Transfers of liability	-308,009	0
	-267,763	-82,909
Change in provision for unearned premiums		
Statutory pensions	191,425	-9,758
Other pensions	-45,175	-732
	146,250	-10,490
Management expenses	-992	-1,432
Costs of investment operations	-37,315	-30,989
Balance on technical account	133,740	10,382
Non-technical account		
Other expenses	0	0
Surplus from ordinary activities	133,740	10,382
Income taxes		
Taxes for the accounting period and earlier periods	-256	-194
Internal transfer		
Statutory pensions	33,000	0
Other pensions	-33,000	0
Returns to the employer	-126,000	0
Surplus/deficit for the accounting period	7,483	10,188

Balance sheet

1,000 €	31.12.2010	31.12.2009
ASSETS		
Intangible assets	43	61
Investments		
Property investments		
Properties and shares in properties	179,357	291,567
Loan from real estate companies	46,096	44,333
	225,453	335,900
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	18,384	44,123
Receivables from an employer company that is a shareholder	1,342	3,390
	19,726	47,512
Other investments		
Equity and holdings	116,102	133,018
Financial market instruments	75,763	174,401
Deposits	9,000	0
	200,865	307,419
	446,044	690,831
Receivables		
Other receivables	6,036	7,429
Other assets		
Tangible assets		
Machinery and equipment	11	14
Cash at hand and in bank	692	106
	703	120
Receivables carried forward	25	1,851
Total assets	**452,851**	**700,292**
LIABILITIES		
Equity		
Reserve fund	10,208	8,170
Surplus from previous accounting periods	20,075	11,925
Surplus/deficit for the accounting period	7,483	10,188
	37,767	30,283
Technical provisions		
Statutory pensions		
Provision for unearned premiums	52,393	203,002
Provision for claims outstanding	51,116	171,034
Provision for bonuses	10,837	51,653
	114,347	425,690
Other pensions		
Provision for unearned premiums	124,046	83,871
Provision for claims outstanding	152,703	140,019
Provision for index increases	21,000	16,000
	297,749	239,890
	412,096	665,580
Debt		
Other debt	2,350	3,651
Accrued liabilities and deferred income	638	778
Total liabilities	**452,851**	**700,292**

Income statement by department

Department A, 1,000 €	1.1.–31.12.2010	1.1.–31.12.2009
Technical account		
Premiums written		
Membership fees of other pensions	271	299
Earnings from investment operations	128,180	33,998
Claims incurred		
Claims paid on other pensions	–15,966	–16,505
Change in the provision for claims on other pensions	–12,684	5,035
	–28,650	–11,470
Change in provision for unearned premiums		
Other pensions	–45,175	–732
Management expenses	–272	–294
Costs of investment operations	–13,717	–11,499
Balance on technical account	40,637	10,302
Non-technical account		
Other expenses	0	0
Surplus from ordinary activities	40,637	10,302
Income taxes		
Taxes for the accounting period and earlier periods	–153	–113
Internal transfer		
Other pensions	–33,000	0
Surplus/deficit for the accounting period	7,483	10,188

Department B, 1,000 €	1.1.–31.12.2010	1.1.–31.12.2009
Technical account		
Premiums written		
Statutory pension contributions	0	54,060
Earnings from investment operations	165,110	47,845
Claims incurred		
Claims paid on statutory pensions	–51,022	–55,882
Change in the provision for claims on statutory pensions	119,918	–15,557
Transfers of liability	–308,009	0
	–239,113	–71,439
Change in provision for unearned premiums		
Statutory pensions	191,425	–9,758
Management expenses	–721	–1,138
Costs of investment operations	–23,598	–19,490
Balance on technical account	93,103	80
Non-technical account		
Other expenses	0	0
Surplus from ordinary activities	93,103	80
Income taxes		
Taxes for the accounting period and earlier periods	–103	–80
Internal transfer		
Statutory pensions	33,000	
Returns to the employer	–126,000	
Surplus for the accounting period	0	0

Balance sheet by department

Department A, 1,000 €	31.12.2010	31.12.2009
ASSETS		
Intangible assets	43	61
Investments		
Property investments		
Properties and shares in properties	157,334	84,449
Loan from real estate companies	41,774	23,331
	199,108	107,780
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	4,759	16,607
Receivables from an employer company that is a shareholder	1,054	1,098
	5,812	17,706
Other investments		
Equity and holdings	89,634	80,555
Financial market instruments	37,867	60,606
	127,501	141,161
	332,422	266,646
Receivables		
Other receivables	2,308	2,077
Other assets		
Tangible assets		
Machinery and equipment	11	14
Cash at hand and in bank	563	5
	574	19
Receivables carried forward	23	917
Total assets	335,370	269,720
LIABILITIES		
Equity		
Reserve fund	8,857	6,820
Surplus from previous accounting periods	20,075	11,925
Surplus/deficit for the accounting period	7,483	10,188
	36,416	28,933
Technical provisions		
Other pensions		
Provision for unearned premiums	124,046	83,871
Provision for claims outstanding	152,703	140,019
Provision for index increases	21,000	16,000
	297,749	239,890
Debt		
Other debt	1,178	861
Accrued liabilities and deferred income	27	36
Total liabilities	335,370	269,720

Department B, 1,000 €	31.12.2010	31.12.2009
ASSETS		
Investments		
Property investments		
Properties and shares in properties	22,023	207,119
Loan from real estate companies	4,321	21,002
	26,345	228,120
Investments in an employer company that is a shareholder		
Shares and holdings in an employer company that is a shareholder	13,625	27,515
Receivables from an employer company that is a shareholder	289	2,291
	13,914	29,806
Other investments		
Equity and holdings	26,468	52,463
Financial market instruments	37,896	113,795
Deposits	9,000	0
	73,364	166,258
	113,622	424,185
Receivables		
Other receivables	3,728	5,352
Other assets		
Cash at hand and in bank	129	101
Receivables carried forward	2	935
Total assets	**117,481**	**430,573**
LIABILITIES		
Equity		
Reserve fund	1,351	1,351
Surplus from previous accounting periods	0	0
Surplus for the accounting period	0	0
	1,351	1,351
Technical provisions		
Statutory pensions		
Provision for unearned premiums	52,393	203,002
Provision for claims outstanding	51,116	171,034
Provision for bonuses	10,837	51,653
	114,347	425,690
Debt		
Other debt	1,172	2,790
Accrued liabilities and deferred income	611	742
Total liabilities	**117,481**	**430,573**

Notes to the income statement

1,000 €	1.1. – 31.12.2010	1.1. – 31.12.2009
Premiums income from statutory pensions		
Pursuant to TyEL		
Employer's share	0	42,437
Employee's share	0	11,623
Total	**0**	**54,060**
Change in provision for unearned premiums		
Statutory pensions:		
TyEL	191,425	-9,758
Claims incurred		
Statutory pensions:		
Pensions paid:		
TyEL	-36,764	-48,896
Clearing of PAYG pensions:		
TyEL	-16,823	-9,570
YEL	138	149
	-16,685	-9,421
Share of the premium income of the unemployment insurance fund the share of expenses of pension parts accrued on the basis of unsalaried time periods	2,437	2,404
State compensation pursuant to VEKL	1	0
State compensation pursuant to YEL	0	0
Other compensations	-10	31
	2,428	2,436
Other pensions:		
Pensions paid	-15,716	-16,317
Other compensations	-86	-108
Surrenders	-164	-80
	-15,966	-16,505
Total	**-66,988**	**-72,387**
Management expenses		
Salaries and fees	-333	-316
Pension expenses	321	-54
Other indirect employee costs	-13	-13
Statutory payments	-230	-254
Other management expenses	-737	-796
Total	**-992**	**-1,432**
Statutory payments		
Portion of costs of the Finnish Centre for Pensions	-194	-217
Judicial administration fee	-16	-16
Supervision fee of the Insurance Supervisory Authority	-20	-20
Total	**-230**	**-254**

Net earnings from investment operations

1,000 €	1.1. – 31.12.2010	1.1. – 31.12.2009
Earnings from investment operations:		
Earnings from an employer company that is a shareholder		
Dividend income	3,995	4,439
Interest income	43	32
	4,038	4,471
Income from property investments		
Dividend income	2	1
Interest income	2,307	2,519
Other income	32,235	35,701
	34,544	38,221
Income from other investments		
Dividend income	2,911	2,710
Interest income	4,544	10,138
Other income	112	627
	7,567	13,475
Total	**46,148**	**56,166**
Refunds of impairments	4,030	16,335
Capital gains	243,110	9,342
Total	**293,289**	**81,843**
Expenses of investment operations: 1)		
Expenses from property investments	-10,632	-12,317
Expenses from other investments	-873	-647
Interest expenses and other debt expenses	-1,776	-4
Total	-13,282	-12,968
Impairments and depreciation and amortisation expense		
Impairments	-12,407	-3,810
Depreciation expense for buildings	-8,985	-13,865
	-21,392	-17,675
Capital losses	-2,642	-347
Total	**-37,315**	**-30,989**
Net earnings from investment operations before appreciations and adjustments	255,974	50,854
Appreciation of investments	0	0
Net earnings from investment operations in the income statement	**255,974**	**50,854**

1) Expenses from investment operations contain a total of EUR 542,000 in management expenses of investment operations

Notes on solvency

Solvency margin

Department B, 1,000 €	31.12.2010	31.12.2009
Equity	1,351	1,351
Voluntary provisions	0	0
	1,351	1,351
Provision for bonuses before profit-adjusting entries	51,653	51,166
Provision for bonuses, for transfer of portfolio	-33,244	0
Provision for bonuses, transfers 31 December 2010	-7,572	488
	10,837	51,653
Valuation gains and losses on assets	57,491	148,919
Financial guarantees and collateral	0	0
Corresponding amount from the clearing reserve 31 December 2010	4,140	14,961
Total	**73,819**	**216,885**

Department B	31.12.2010	31.12.2009
Minimum solvency margin %	**1.00%**	**1.00%**
Degree of solvency %	**74.29%**	**60.40%**
Solvency border %	**16.00%**	**11.28%**
Maximum solvency margin	**64.01%**	**45.12%**

Department B, 1,000 €	31.12.2010	31.12.2009
Solvency margin pursuant to section 83b of the Insurance Funds Act presented so that it does not contain the part of the balancing liability corresponding to solvency margin [1]	69,679	201,923
Minimum solvency margin presented without the temporary deductions for 2008–2012 pursuant to Act 853/2008 [2]	5,521	14,063
Degree of solvency [3]	67.32%	53.98%

[1] Calculated according to Section 6 of Act 853/2008

[2] One-third of the solvency border, so that the technical provisions used to calculate the solvency border are calculated before the deduction of the corresponding part of the balancing liability pursuant to Section 3 of Act 853/2008

[3] The solvency margin is solvency margin pursuant to Section 83b of the Insurance Funds Act so that it does not contain the part of the balancing liability corresponding to solvency margin.

Key figures and analyses

Summary of key figures

Department B	2010	2009	2008	2007	2006
Premiums written, 1,000 €	0	54,060	64,454	58,015	19,788
Paid pensions and other compensation, 1,000 € [1]	51,022	55,882	51,017	47,256	29,313
Net income from investment operations at fair values, 1,000 €	50,083	33,618	-30,611	30,792	80,974
income from committed capital, %	11.0	6.0	-5.7	5.8	19.4
Turnover, 1,000 €	141,511	82,415	61,698	69,265	47,736
Total management expenses, 1,000 €	721	1,138	958	824	652
% of turnover	0.5	1.4	1.6	1.2	1.4
Management expenses not including management expenses of maintenance activities and statutory fees					
% of the TyEL payroll	0.3	0.3	0.3	0.3	0.4
Overall result, 1,000 €	78,273	11,440	-20,330	17,142	65,532
Technical provisions, 1,000 €	114,347	425,690	400,375	385,380	302,806
Solvency margin, 1,000 €	73,819	216,885	210,144	215,076	187,002
% of technical provisions [2]	74.29	60.40	62.69	61.70	74.40
in relation to the solvency border	4.64	5.36	6.89	3.90	4.13
Balancing liability, 1,000 €	12,932	21,025	19,535	22,268	23,201
Pension assets, 1,000 € [3]	171,838	574,609	544,031	556,891	454,776
Use of the result to reduce contributions to the Pension Fund (%) of TyEL payroll	7.8	2.1	0.0	0.0	7.4
TyEL payroll, 1,000 €	235,912	270,299	268,579	258,076	141,343
TyEL insurance	14	26	28	28	25
TyEL insured	5,381	8,837	8,757	9,226	3,779
Pensioners	662	3,889	3,839	3,749	3,318

1) Corresponds to the item "paid compensations" in the income statement

2) The ratio is calculated as a percentage of the technical provisions used in the calculation of the solvency border

3) Technical provisions + valuation gains and losses

Key figures and analyses

Itemisation of net income of investment operations and result

Department B, 1,000 €	2010	2009	2008	2007	2006
Direct net earnings	12,999	16,382	13,083	12,647	13,227
Loan assets	561	702	2,006	969	952
Bonds	1,772	2,524	2,420	2,025	4,805
Other financial market instruments and deposits	-968	4,094	3,002	1,803	378
Equity and holdings	3,724	4,436	4,262	4,122	3,810
Property investments	8,466	5,074	1,868	4,096	3,489
Other investments	0	0	0	0	0
Income, expenses and operating expenses not allocated to investment classes [1]	-556	-448	-475	-368	-206
Changes in value in accounting [2]	128,512	11,973	-15,840	-1,396	14,721
Equity and holdings	45,579	9,013	-15,839	-554	14,510
Bonds	4,376	1,973	-1	-842	211
Property investments	78,557	987	0	0	0
Other investments	0	0	0	0	0
Net earnings of investment operations in accounting	141,511	28,355	-2,757	11,251	27,948
Change in valuation gains and losses [3]	-91,428	5,263	-27,855	19,542	53,026
Equity and holdings	-13,676	11,251	-49,826	7,981	23,870
Bonds	-2,846	321	1,979	347	-3,430
Property investments	-74,636	-4,140	18,175	10,613	32,622
Other financial market instruments and deposits	-270	-2,168	1,818	601	-36
Net income of investment operations at fair values	50,083	33,618	-30,611	30,792	80,974
Income requirement of technical provisions [4]	-4,810	-22,178	-4,234	-18,841	-15,442
Book result of investment operations	136,701	6,177	-6,990	-7,591	12,506
Result of investment operations at fair values	45,273	11,440	-34,845	11,951	65,532
The share of derivatives in the net earnings of investment operations	0	500	0	0	0

[1] Contains interest rate items of the income statement that are not recognised in income from investment operations
[2] Capital gains and losses as well as other changes in value in accounting
[3] Off-balance sheet changes in value
[4] In 2008, the interest requirement corresponding to the supplementary coefficient is not included in the income requirement of the technical provisions

Material risks of operations:

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 monthly. 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 will be transferred in two stages. The first stage was completed on 1 September 2010, while the second stage has been planned to be carried out on 1 January 2012. The completion of the second stage requires the consent of the Financial Supervisory Authority.

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 in both departments 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 membership years. 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 640 actively insured, 217 paid-up policies and 2,131 pensioners.

In calculating the technical provisions, the Pension Fund follows the calculation principles pursuant to Decree Record Number 5/002/2006 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 membership years, 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 uses a provision for index increase due to the increase in liability resulting from index increases of future pensions. In the financial statements, EUR 5 million has been transferred from surplus to the index increase provision, i.e. the provision totals 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 36.4 million in equity, which can be used to balance out fluctuations if necessary. In addition, the Pension Fund holds EUR 58.4 million of valuation differences as a buffer. Therefore, the total buffer amounts to EUR 115.8 million, including the provision for index increase, comprising 42 per cent of the total amount of the actual technical provisions of EUR 276.7 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 years 2010–2011 was about EUR 2.7 million. Converted into insurance premiums for 2010, this comprised approximately 7 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
6%	20%	20%	54%	100%

TyEL pension insurance (Department B):

Operations pursuant to the Employees' Pensions Act (TyEL) are strictly regulated by law. The calculation of the Pension Fund's technical provisions is based, on one hand, on the calculation principles set by the Ministry of Social Affairs and Health and, on the other, on the calculation principles requested by the Pension Fund and approved by the Ministry of Social Affairs and Health. In calculating the technical provisions, the Pension Fund follows calculation principles that are, in the case of the actual pension liabilities, common to all TyEL pension institutions, including industry-wide pension funds, pension funds and authorised pension insurance companies.

Due to the above considerations, certain matters should be brought up concerning insurance-technical risks:

With respect to national disability pensions, a provision is made in the technical provisions for pensions in which retirement has occurred but the pension has not been granted yet, a so-called incurred but not reported provision. This provision is made to prepare for cases in which an appeal concerning a pension decision is pending or in which the period of primary benefits of sickness allowances pursuant to the Sickness Insurance Act has not yet expired. The provisions are made in all pension institutions with the same bases, which have been defined so that the provisions are sufficient at the level of the whole TyEL system. The adequacy of the provisions of the Pension Fund must be evaluated separately every year, especially in the case of a pension fund such as Kesko Pension Fund in which the group of employers belonging to the fund all belong to the same corporate group. Kesko Pension Fund's incurred but not reported provisions can be estimated to be sufficient.

The Pension Fund's technical provisions include a balancing liability for equalising fluctuations in the risks of the insurance business. Kesko Pension Fund's balancing liability is about 55 per cent of the upper limit of the balancing liability. The balancing liability balances out the insurance premium need of years in which expenditures resulting from new pension cases exceed the Pension Fund's average expenditures. It also functions as a balancing buffer against the abovementioned insufficiency of incurred but not reported provisions.

The amount of actual technical provisions resulting from pensions was EUR 90.6 million on 31 December 2010. The equity risk of 10 per cent of this amount of assets is the responsibility of the entire pension scheme, excluding the deviation risk of the Pension Fund's equity investments in relation to the industry's average income. The Pension Fund is responsible for 90 per cent of the amount of assets. For this reason, the Pension Fund has EUR 10.8 million in supplementary insurance liability as a buffer and EUR 58.8 million in other solvency margin. In addition, the abovementioned balancing liability of EUR 12.9 million exists to buffer against insurance risks.

The actual technical provisions include an equity-linked supplementary insurance liability of EUR 0.5 million, which comprises part of the pension scheme's buffer against the equity risk of assets of 10 per cent.

When evaluating the Pension Fund's insurance technical risks, it should be taken into account that the Pension Fund is not liable for all of the pensions paid by the Pension Fund. Kesko Pension Fund is liable for about 25–30 per cent of the pensions paid by the Pension Fund and this amount is funded by the Pension Fund. The rest of the pensions are the liability of all of the pension institutions and are financed jointly by them; the funds for these pensions are collected annually from all employers and employees as part of the TyEL insurance premium. With respect to the jointly-financed pensions, the Pension Fund only has a balancing liability ensuring sufficient liquidity, which stood at EUR 26.5 million in the financial statements on 31 December 2010.

The distribution of technical provisions according to duration in the financial statements 2010 is illustrated below.

Under 1 year	1–5 years	5–10 years	Over 10 years	Total
4%	12%	14%	70%	100%

This distribution illustrates the true duration of the technical provisions regardless of the pension institution, without taking into account any discontinuation of the Pension Fund's Department B.

The Pension Fund's degree of solvency (solvency margin in relation to technical provisions) is 74.3 per cent and the solvency position (solvency margin in relation to solvency border) is 4.64. Excluding the share of technical provisions corresponding to solvency margin, the degree of solvency is 67.3 per cent and the solvency position is 4.21.

2. RISKS OF INVESTMENT ACTIVITIES:

Objectives and risk management of investment activities:

The objective of the Pension Fund's investment activities is to see to the security and profit of investments and their convertibility into money, 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, supplementary insurance liability (Department B) and the valuation gains or losses of investments. A minimum requirement on the level of the solvency margin is set in legislation. 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 same 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. With an eye on this consideration, the target distributions between asset classes are decided in the annual investment plan.

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, risk management policy has been included as a part of investment 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 through regulations on solvency margin and by ensuring the sufficient distribution of the portfolio.

Distribution of investments

Pension Fund, total, 31 December 2010	EUR million	%
Short-term interest rate investments	83.7	14.8%
Bonds and bond funds	31.8	8,1%
Loan assets	46.1	11.8%
Listed shares	138.2	24.4%
Unlisted shares	41.8	7.4%
Alternative investments *	14.6	2.6%
Properties	209.2	37.0%
Total investments	565.4	100.0%

* including private equity funds

A total of 37.0 per cent of the Pension Fund's portfolio is invested in properties. 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 2010, the distribution and duration of the Pension Fund's interest rate investments were as follows:

Interest rate investments 31 December 2010	Distribution	Moderate duration
Bonds	27,5 %	4,5
Money market instruments	72,5 %	0,2

Credit risk is minimised by means of restrictions in the investment plan. On 31 December 2010, the Pension Fund's portfolio contained a very small amount of bond investments, EUR 31.8 million, and 83 per cent of the bond portfolio was invested in bonds with at least a BBB credit rating. All bond investments were in Department A.

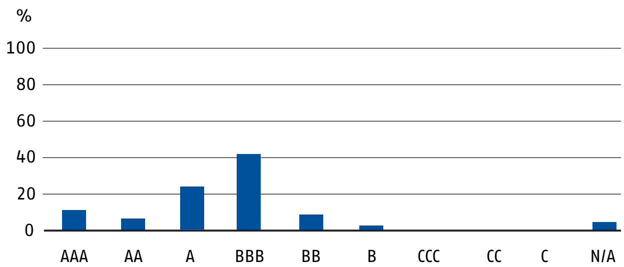
”Concentration of risk” refers to an excessive allocation of funds in a single investment object or investment group. Concentrations of risk are prevented in part by margin requirements which define the limits of margin-eligible assets. In addition, measures by the actors themselves at the national, industry and company levels seek to prevent the formation of concentrations of risk. The distribution of the portfolio is followed monthly at this level as well. The single largest concentration of funds in the Pension Fund’s portfolio is in the share of Kesko Oyj, the market value of which on 31 December 2010 was EUR 45.3 million, or 8.0 per cent of the entire portfolio of the Pension Fund (including both departments). Parts of the share were sold in 2010 and its weight has reduced significantly. The Pension Fund continues to have a large amount of solvency margins (EUR 190 million in total), so a high ownership share does not cause problems in risk analysis or margin calculations.

Counterparty risk is managed by means of the permitted investment objects defined in the Investment Policy. During 2008, a new counterparty risk reporting procedure was started, which is performed about once a week. It 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 2010 and 2009 are presented in the table below.

Credit rating distribution (%) for Kesko Pension Fund’s Department A bond portfolio



Net earnings from investments	Net income investments at fair value 31.12.2010	Comitted capital 31.12.2010	Income from comitted capital, % 31.12.2010	Income from comitted capital, % 31.12.2009
Pension Fund total (figures 1,000 €)				
Loan assets	2,350	42,426	5.5%	5.4%
Bonds	7,409	117,909	6.3%	7.4%
of which bond funds	2,020	35,515	5.7%	15.6%
Other financial market instruments and deposits	−913	78,465	−1.2%	2.7%
of which bond funds	0	0	0.0%	0.0%
Equity and holdings	69,659	216,810	32.1%	25.0%
Alternative investments	−2,931	17,760	−16.5%	0.0%
Property investments	27,671	385,038	7.2%	2.9%
of which investment funds and joint investment companies	0	0	0.0%	0.0%
Other investments	0	0	0.0%	0.0%
Total investments	**103,246**	**858,409**	**12.0%**	**8.1%**
Earnings, costs and operating expenses not allocated to types of investment	−873	0	0.0%	0.0%
Net earnings from investment operations at fair value	**102,372**	**858,409**	**11.9%**	**8.1%**

In 2010, the Pension Fund did not perform the ALM analysis as in the previous years. Monthly monitoring has remained unchanged in 2010, with the share portfolio's volatility and Beta index, and the interest portfolio's duration, risk concentrations and decentralisation being monitored every month. In addition, the solvency margin and capital adequacy of Department B are monitored. A risk analysis has been performed on the basis of individual monitoring.

The share risk index, i.e. volatility, was 16.4 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 33.5 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 1.2 per cent using this risk index.

In the analysis, the risk level of properties is considered to be 12 per cent. Using this figure, the probability that there will be a loss during a specific year in properties is 31 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 1.5 per cent, i.e. the loss will occur every 67 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 Department B 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 105 million on 31 December 2010. According to the portfolio analysis, the probability of losing this EUR 105 million amount during one year is 0.1 per cent, i.e. never. The amount of solvency margins above the capital adequacy border is EUR 133 million. According to the analysis, the probability of losses of this size occurring in one year is zero.

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. In 2006, a continuity plan was 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.

Signatures of the Board of Directors and Chief Executive Officer

Helsinki, 25 January 2011

Riitta Laitasalo
Chairman

Kirsi Tamminen

Matti Mettälä

Matti Huusko

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, 2010. 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.

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, 3 March 2011

Mikko Nieminen
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	Arja Talma
	Matti Mettälä	Heikki Ala-Seppälä
	Representatives of the members:	
Deputy Chairman	Matti Huusko	Esa Lehtonen
	Kirsi Tamminen	Jaakko Nertamo

The Board of Directors met 10 times during the year under review

Clerical employees	Veikko Savela	Pension Fund Director
	Päivi Sariola	Financial Manager
	Eija Ikonen	Controller
	Petra Kostamoinen	Assistant Controller
	Kaija Hietanen	Assistant Controller
	Tuula Pellava	Pension Manager
	Jaana Saukkonen	Pension Processor
	Jaana Tuliniemi-Onnela	Pension Processor
	Janne Riste	Occupational Psychologist

Representatives	**Ordinary members**	**Deputy members**
	Kai-Ari Ervasti	Tom Fagerström
	Esko Huttunen	Jaakko Nertamo
	Matti Huusko	Vesa Jokela
	Petri Järvinen	
	Esa Lehtonen	
	Pasi Mäkinen	
	Erja Palviainen	
	Petri Piiparinen	
	Pekka Svanljung	
	Kirsi Tamminen	
	Leila Tilvis	
	Jarmo J Virtanen	

Auditors	**Ordinary**	**Deputy**
Chosen by the shareholders	Mikko Nieminen Authorised Public Accountant	PricewaterhouseCoopers Oy Authorised Public Accounting Firm
Chosen by the members	Sari Airola Authorised Public Accountant	PricewaterhouseCoopers Oy Authorised Public Accounting Firm

Experts	
Senior Physician	Sakari Tola Professor, M.D., docent, occupational medicine specialist
Insurance-technical calculations	Silta Oy
Senior Mathematician	Jarkko Pajunen SHV

Satamakatu 3, FI-00160 Helsinki
Phone +358 10 5311
Fax +358 (9) 179 630
E-mail: firstname.lastname@kesko.fi
www.keskonelakekassa.fi