



**KESKO CORPORATION'S  
REMUNERATION STATEMENT  
2011**

This remuneration statement was discussed at the meeting of Remuneration Committee of the Kesko Corporation Board on 1 February 2012.

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**REMUNERATION STATEMENT FOR 2011****1 Remuneration plans****1.1 Remuneration of the Board and its Committees**

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

**1.2 Remuneration of the President and CEO and other management*****Principles of remuneration and the decision-making process***

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

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

The President and CEO makes decisions on the compensation and other financial benefits of the Corporate Management Board members not responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

***Performance bonus scheme (short-term remuneration plan)***

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

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

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

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

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

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

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

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

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

In addition to the share-based compensation plan, Kesko operates an option scheme resolved by the 2007 Annual General Meeting. A total maximum of 3,000,000 options can be granted under the scheme. The scheme includes an obligation placed by Kesko's Board of Directors on option recipients to use 25% of their proceeds from their share options to buy company shares for permanent ownership. Kesko's Board of Directors makes decisions on the granting of options on the basis of the Remuneration Committee's proposal and within the terms and conditions of the option scheme resolved by the company's General Meeting.

The share-based compensation plan or the option scheme does not contain terms or conditions that would limit the recipients' income from shares or options.

### ***Period of notice and termination benefit***

If given notice by the company, the President and CEO and the other Corporate Management Board members are entitled to a monetary salary for the period of notice, fringe benefits and a separate lump sum termination benefit determined on the basis of the executive's monetary

salary and fringe benefits for the month of notice. The termination benefit and granted shares or share options, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination benefit or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on the service contract without other benefits.

### ***Retirement benefits***

The President and CEO and the other Corporate Management Board members, except for three (3), belong to the Kesko Pension Fund's department A which was closed in 1998, and their pensions are determined based on its rules and their personal service contracts. They have defined retirement benefit plans. Three of the members joined Kesko after 1998, and their pensions are determined based on the Employees' Pensions Act (TyEL) applied in Finland.

## **2 Salaries, fees and other financial benefits**

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

The Annual General Meeting adopts resolutions on the fees and other financial benefits of the members of the Board and its Committees annually. The remunerations of the members of the Board and its Committees are paid in cash. The Board members do not have share remuneration plans or share-based compensation plans. Nor do they participate in other remuneration plans or retirement benefit plans of the company.

The Annual General Meeting of 4 April 2011 resolved to leave the Kesko Board members' fees unchanged. In 2011, they were as follows:

Annual fees:

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

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

Daily allowances and compensation for travelling expenses are paid to the members of the Board and the Committees in accordance with the general travel rules of Kesko.

## Annual and meeting fees paid to Board members for Board and Committee work in 2011 (€)

	Annual fees	Meeting fees			Total
		Board	Audit Committee	Remuneration Committee	
Heikki Takamäki (Ch.)	80,000	5,000	-	1,500	86,500
Seppo Paatelainen (Dep. Ch.)	50,000	5,000	2,500	1,500	59,000
Esa Kiiskinen	37,000	5,000	-	-	42,000
Ilpo Kokkila	37,000	4,500	-	1,500	43,000
Mikko Kosonen	37,000	5,000	2,500	-	44,500
Maarit Näkyvä	37,000	3,500	4,000	-	44,500
Rauno Törrönen	37,000	5,000	-	-	42,000
<b>Yhteensä</b>	<b>315,000</b>	<b>33,000</b>	<b>9,000</b>	<b>4,500</b>	<b>361,500</b>

## Board's annual and meeting fees resolved by the Annual General Meeting in 2006–2011 (€)

Annual fee	Fee/year	
	2009–2011	2006–2008
Board Chair	80,000	60,000*
Board Deputy Chair	50,000	42,000*
Board member	37,000	30,000*

\* Monthly fees resolved in 2006–2008 converted into annual fees.

Meeting fee	Fee/meeting	
	2009–2011	2006–2008
Fee for a Board meeting	500	500
Fee for a Committee meeting	500	500
Committee Chair's fee for a Committee meeting, if he/she is not also the Board Chair or Deputy Chair.	1,000	1,000

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

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

The salaries, fringe benefits and performance bonuses paid to the President and CEO and his other financial benefits in 2009–2011 are presented in the tables on the following page.

## President and CEO Matti Halmesmäki

Salaries, performance bonuses and fringe benefits in 2009–2011 (€)

	2011	2010	2009
Non-variable monetary salary	642,900	605,100	569,300
Performance bonuses*	339,500	227,500	152,250
Fringe benefits	19,980	22,560	23,014
<b>Total</b>	<b>1,002,380</b>	<b>855,160</b>	<b>744,564</b>

\* Paid based on previous year's performance.

### Period of notice and termination benefit

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

### Share options granted 2007–2011 (pcs)

Share option (symbol)	2010–2011	2009	2008	2007
2007A	-	-	-	50,000
2007B	-	-	50,000	-
2007C	-	50,000	-	-
<b>Total</b>	<b>-</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>

At 31 December 2011 the President and CEO held 50,000 2007A, 30,000 2007B and 50,000 2007C share options.

### Commitment period\*

4/2007–4/2010

4/2008–4/2011

4/2009–4/2012

\* Period during which share options may not be assigned or exercised.

### Ownership obligation

25 % of proceeds from share option sales shall be used to purchase company shares for permanent ownership.

### Share-based payment (pcs)

	2011	2010
Maximum amount	18,000	21,000*
Granted*	7,794	-
Commitment period (until)	31 Dec. 2014	31. Dec. 2015

\* The Board decision in February 2012. The share award for the 2011 vesting period will be paid by the end of April 2012 in accordance with the terms of the plan. The amount of the award for the 2012 vesting period will be decided in 2013.

### Commitment period

Each vesting period attached to the Kesko B share awards is followed by a commitment period of three calendar years, during which shares may not be transferred.

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

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

### Retirement benefits

The President and CEO is a member of the Kesko Pension Fund's department A and his retirement benefits are determined based on the department's rules and his managing director's service contract. His retirement age is 63 and his retirement benefit is based on a defined benefit plan. At retirement, his pension will be 66% of his pensionable salary, which is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last 10 years.

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

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the individual compensation, other financial benefits, the performance bonus system criteria and



the performance bonuses paid to the President and CEO and the Corporate Management Board members responsible for lines of business. Kesko's Board makes decisions on the performance bonus principles of the other Corporate Management Board members.

The President and CEO makes decisions on the compensation and other financial benefits of the Corporate Management Board members not responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

## Corporate Management Board members and their responsibility areas in 2011

	Since	Responsibility area
Matti Halmesmäki, Ch.	1 Jan. 2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17 Mar. 2005	Food trade
Minna Kurunsaari, Senior Vice President, home and speciality goods trade	1 Dec. 2011	Home and speciality goods trade, electronic marketing and services projects
Arja Talma, President of Rautakesko Ltd*	17 Mar. 2005	Building and home improvement trade
Pekka Lahti, President of VV-Auto Group Ltd	1 Mar. 2005	Car and machinery trade
Riitta Laitasalo, Senior Vice President, Human Resources of Kesko	1 Jan. 2001	Human resources, K-instituutti
Merja Haverinen, Senior Vice President, Corporate Communications of Kesko	1 Apr. 2011	Corporate Communications and responsibility, brands
Jukka Erlund, Senior Vice President, CFO of Kesko	1 Nov. 2011	Accounting, finance and IT management, financial services

\* Until 1 November 2011 Talma was the CFO of Kesko. In 2011, the Corporate Management Board members also included Paavo Moilanen, Senior Vice President for Kesko's Corporate Communications until 31 Mar., Rautakesko Ltd's President Jari Lind until 9 Jun. and Matti Leminen, Senior Vice President, home and speciality goods trade, until 30 Nov.

The salaries, fringe benefits and performance bonuses paid to the Corporate Management Board members in 2010-2011 are presented in the following tables.

## Corporate Management Board members' salaries, performance bonuses and fringe benefits 2010-2011 (€)\*

	Non-variable monetary salary		Performance bonuses		Fringe benefits		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Matti Halmesmäki (Ch.)	642,900	605,100	339,500	227,500	19,980	22,560	1,002,380	855,160
Corporate Management Board**	1,537,924	1,515,860	438,500	244,250	97,127	112,080	2,073,550	1,872,190
<b>Total</b>	<b>2,180,824</b>	<b>2,120,960</b>	<b>778,000</b>	<b>471,750</b>	<b>117,107</b>	<b>134,640</b>	<b>3,075,930</b>	<b>2,727,350</b>

\* Salaries, performance bonuses and fringe benefits are reported on cash basis. The 2010 accrual may be calculated by adding the amount of performance bonus paid in 2011 to the salaries and fringe benefits in 2010. The performance bonus accrued for 2011 will be decided in spring 2012.

\*\* Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and they include each member's salaries, performance bonuses and fringe benefits for their terms of office.



## Share options granted to Corporate Management Board members in 2007-2011 (pcs)

Grant year	2010–2011	2009	2008	2007
Share option (symbol)		2007C	2007B	2007A
Matti Halmesmäki (Ch.)	-	50,000	50,000	50,000
Corporate Management Board*	-	115,000	100,000	99,500
<b>Total</b>	-	<b>165,000</b>	<b>150,000</b>	<b>149,500</b>

\* Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and include the share option amounts of Kurunsaari, Erlund and Haverinen as they joined the Corporate Management Board in 2011.

At 31 December 2011 President and CEO Halmesmäki held 50,000 2007A, 30,000 2007B and 50,000 2007C share options and the other members of the Corporate Management Board held 95,000 2007A, 84,750 2007B and 115,000 2007C share options, or all Corporate Management Board members held a total of 145,000 2007A, 114,750 2007B and 165,000 2007C share options.

The share options 2007A-2007C include an obligation set by Kesko's Board to option recipients to use 25 % of the proceeds from their share options to buy company shares for permanent ownership. The vesting periods (periods during which share options cannot be assigned or exercised) are as follows: 2007A: 4/2007–4/2010; 2007B: 4/2008–4/2011; 2007C: 4/2009–4/2012.

## Share-based payments to Corporate Management Board members (pcs)

	2011		2012
	Maximum amount	Granted**	Maximum amount**
Matti Halmesmäki (Ch.)	18,000	7,794	21,000
Corporate Management Board*	33,300	14,419	40,500
<b>Total</b>	<b>51,300</b>	<b>22,213</b>	<b>61,500</b>

\* Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and are reported as at the end of 2011.

\*\* The Board's decision in February 2012. The share award for the 2011 vesting period will be paid by the end of April 2012 in accordance with the terms of the plan. The amount of the award for the 2012 vesting period will be decided in 2013.

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

Each vesting period attached to the Kesko B share awards is followed by a commitment period of three calendar years, during which shares may not be transferred. The commitment period for shares granted for the 2011 vesting period will expire on 31 Dec. 2014.

## Retirement benefits, notice periods and termination benefits of Corporate Management Board members

	Retirement pension age (yrs)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit	
Matti Halmesmäki, Ch.	63	66	6*/12 mo	12 mo salary	If the company terminates the executive's service contract, he/she is paid a 6-12 months' salary for the period of notice and a separate lump sum termination benefit representing his/her 6-12 months' non-variable monetary salary and fringe benefits (a total of 12-24 x salary for the month of termination + fringe benefits). If the executive resigns, he/she is entitled to the salary for the period of notice.
Terho Kalliokoski	62	66	6 mo	6 mo salary	
Minna Kurunsaari	62	66	6 mo	6 mo salary	
Arja Talma	Based on TyEL**	Based on TyEL**	6 mo	6 mo salary	
Pekka Lahti	62	66	6 mo	12 mo salary	
Riitta Laitasalo	60	66	6 mo	12 mo salary	
Merja Haverinen	Based on TyEL**	Based on TyEL**	6 mo	6 mo salary	
Jukka Erlund	Based on TyEL**	Based on TyEL**	6 mo	6 mo salary	

*Except for Erlund, Haverinen and Talma, the executives are members of the Kesko Pension Fund's department A. Their retirement ages and pensions are determined based on the department's rules and each of their service contracts. Their retirement benefits are based on defined benefit plans.*

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

*\*\* TyEL = the Employees' Pensions Act.*

### 3 Share-based compensation plans

#### 3.1 Share-based compensation plan 2011–2013

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

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

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

A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares must not be transferred. If a person's employment or service relationship terminates prior to the end of the commitment period, he/she must return the shares subject to transfer restriction to Kesko or its designate without consideration.

## 3.2 Share option scheme 2007

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

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

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

in units of 1,000,000 options each.

The exercise periods of options are:

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

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

After the 2010 dividend distribution, the subscription price of a B share subscribed for with option 2007A is €41.02, with option 2007B €23.37 and with option 2007C €14.64.

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