



REMUNERATION REPORT FOR THE GOVERNING BODIES OF KESKO CORPORATION

KESKO ANNUAL REPORT 2021



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1. Introduction

This is the remuneration report for governing bodies applied within Kesko Corporation (“Kesko”) that complies with legislation and the Finnish Securities Market Association’s Corporate Governance Code that entered into force on 1 January 2020. This remuneration report concerns the remuneration of the members of Kesko’s Board of Directors as well as the President and CEO and the Deputy CEO of Kesko in 2021. This remuneration report is based on the remuneration policy for Kesko’s governing bodies reviewed by the Annual General Meeting of 28 April 2020. The Annual General Meeting resolved in favour of the proposed remuneration policy.

The Remuneration Committee of Kesko’s Board of Directors prepared this remuneration report, and the Board approved it in its meeting on 2 February 2022. Kesko’s auditor, Deloitte Oy, has audited this remuneration report to confirm that it contains the information referred to in the Ministry of Finance Decree on the remuneration policy and remuneration report of a share issuer (608/2019). This remuneration report will be reviewed by Kesko’s 2022 Annual General Meeting. Kesko’s 2021 Annual General Meeting was held on 12 April 2021 under exceptional arrangements because of the coronavirus pandemic, in accordance with the temporary legislation (677/2020) approved by the Finnish Parliament. All items on the agenda of the Annual General Meeting were subjected to voting, and around 91% of the votes cast were in favour of approving the remuneration report for 2020. No questions concerning the remuneration report were presented to the Annual General Meeting.

This remuneration report is available on Kesko’s website at www.kesko.fi/en/investor/corporate-governance.

In accordance with the remuneration policy, the Board’s Remuneration Committee supervises the policy’s implementation and ensures that the Company’s governing bodies are remunerated within the limits of the policy presented to the Annual General Meeting. In the 2021 financial year, the remuneration of Kesko’s Board members and President and CEO, as well as its Deputy CEO, has been in line with the remuneration policy approved by the Annual General Meeting in 2020. No fees already paid have been clawed back.

In accordance with what is presented in Kesko’s remuneration policy, the aim of remuneration is to align

the objectives of the shareholders and the members of the Board, the President and CEO, and the Deputy CEO in order to increase the value of the Company and to execute its business strategy in the long term. As a result, remuneration promotes the Company’s long-term financial success.

Kesko’s business has grown steadily over the past five years. The good performance is also reflected in the remuneration of the President and CEO and the Deputy CEO. Changes in the total remuneration of the President and CEO and the Deputy CEO are mostly due to changes in their realised performance bonuses and share awards. The annual fees of Board members were raised through a resolution of the 2021 Annual General Meeting.

Fees paid and operating profit for the past five years

Role	2017	2018	2019	2020	2021
Board Chair	87,500	106,500	109,000	118,000	119,900
Board Deputy Chair	60,000	63,000	67,000	70,500	74,900
Other Board members, average	44,800	56,000	56,100	59,300	61,160
President and CEO, Mikko Helander	2,849,437	2,299,656	2,633,100	2,997,382	4,381,783
Deputy CEO, Jorma Rauhala	1,028,176	959,543	1,088,999	1,269,791	2,123,288
Employees, Finland	40,247	39,523	40,578	41,127	42,974
Operating profit*, € million	296	332	371	486	698

* Comparable operating profit excluding the impact of IFRS 16.

The fees of the Board Chair, Deputy Chair and other members include annual and meeting fees. The remuneration paid to the President and CEO and the Deputy CEO includes their fixed annual salary, car and mobile phone benefits, and variable components, namely performance bonuses and share awards. The employee salary is the average base annual salary (personnel expenses as presented in the financial statements divided by the number of full-time employees in Finland). All sums are reported on a cash basis.

2. Board of Directors' Fees

In accordance with Kesko's remuneration policy for governing bodies, the Annual General Meeting on 12 April 2021 made resolutions regarding the Board members' remuneration and the basis for reimbursement of their expenses. The proposal had been submitted to the General Meeting by the Shareholders' Nomination Committee.

The annual and meeting fees determined for the members of the Board of Directors by the Annual General Meeting are presented in the following tables. In accordance with the resolution of the Annual General Meeting, the annual fees were paid in Kesko Corporation's B shares and cash, with approximately 30% of the fees paid in shares. After the transfer of shares, the remaining amount was paid in cash. The Company paid the asset transfer taxes related to the shares. The Company transferred treasury shares held by the Company to the members of the Board of Directors on 29 April 2021. A Board member cannot transfer shares until either three years have passed from the day the member received the shares or their membership on the Board has ended, whichever comes first.

RESOLUTION OF THE 2021 ANNUAL GENERAL MEETING ON THE ANNUAL AND MEETING FEES OF BOARD MEMBERS

Annual remuneration to Board members (€)

	2021
Chair	102,000
Deputy Chair	63,000
Member	47,500
Board member who is the Audit Committee Chair	63,000

Meeting fees / meeting (€)

	2021
Board meeting	
Chair	1,200
Member	600
Committee meeting	
Committee Chair who is not the Chair or Deputy Chair of the Board	1,200
Member	600



Annual and meeting fees paid to Board members for Board and Committee work in 2021 (€)

	Meeting fees*				Remuneration, total	Number of B shares transferred based on annual fee**
	Annual fee	Board of Directors	Audit Committee	Remuneration Committee		
Esa Kiiskinen (Chair)	102,000	15,200		2,700	119,900	1,176
Peter Fagernäs (Deputy Chair)	63,000	8,600		3,300	74,900	727
Jannica Fagerholm	63,000	8,600	6,800		78,400	727
Piia Karhu	47,500	8,600	3,400		59,500	548
Jussi Perälä***	47,500	6,600			54,100	548
Toni Pokela	47,500	8,600			56,100	548
Timo Ritakallio***	47,500	6,600	2,400	1,200	57,700	548
Matti Kyytsönen***		2,000	1,000	1,500	4,500	
Matti Naumanen***		2,000			2,000	
Total	418,000	66,800	13,600	8,700	507,100	4,822

* Meeting fees for the Board meeting, Audit Committee meeting, and Remuneration Committee meeting in December 2020 were paid in January 2021 and are included in the figures presented in the table, excl. the Board meeting fee paid to Esa Kiiskinen in 2020.

** Kesko's treasury shares were transferred on 29 April 2021. The average price on the transfer date was €25.51.

*** Kyytsönen and Naumanen were Board members until 12 April 2021. Perälä and Ritakallio have been Board members since 12 April 2021.

In addition, Kesko's Board members were paid reimbursements for their expenses in accordance with the resolution of the 2021 Annual General Meeting.

There are no share compensation schemes for Board members nor do they participate in the Company's remuneration schemes or pension plans.

3. Remuneration of the President and CEO and the Deputy CEO

The Company's managing director, referred to as the President and CEO, was Mikko Helander throughout the 2021 financial year. Jorma Rauhala, whose principal position is President of the building and technical trade division, served as Deputy CEO throughout the 2021 financial year.

FEES PAID AND FALLING DUE

Kesko's Board has decided on the remuneration of the President and CEO and the Deputy CEO based on a proposal prepared by the Remuneration Committee. The remuneration scheme of the President and CEO and the Deputy CEO has consisted of a fixed monetary salary (a monthly salary), a short-term incentive scheme (a performance bonus) and a long-term commitment and incentive scheme (share award), and other financial benefits (a company car, mobile phone and a supplementary pension). A health insurance, life insurance and leisure travel insurance have been taken out for the President and CEO. The President and CEO and the Deputy CEO have leisure accident insurance and they are provided with an employer-subsidised benefit for cultural activities and physical exercise.

The remuneration of Kesko's President and CEO and Deputy CEO has been compared with the remuneration levels and practices of similar companies. Based on the comparisons, it was decided that the President and CEO and Deputy CEO will be remunerated for 2021 within the limits provided for by Kesko's remuneration policy. The base salaries of Kesko's President and CEO and Deputy CEO were not raised in 2021. In 2021, the President and CEO and the Deputy

SALARIES, BONUSES AND FRINGE BENEFITS FOR THE PRESIDENT AND CEO AND DEPUTY CEO (€)

Description	President and CEO	Deputy CEO
Fixed monetary salary*	935,258	435,694
Performance bonus	787,500	281,400
Share awards**	2,625,028	1,381,594
Car and mobile phone benefits	33,997	24,600
Total	4,381,783	2,123,288
Supplementary pension plan***	1,000,000	-

* Includes holiday pay and holiday bonus.

** The euro value of the share awards has been calculated using the trade-weighted average share price on the date of assignment, 19 March 2021. The euro amounts of share awards are gross amounts, from which the applicable withholding tax has been deducted and the remaining net amount has been paid in shares. The gross number of Kesko B shares transferred to the President and CEO in 2021 was 108,832 shares, and the net amount 54,416 shares. The gross number of Kesko B shares transferred to the Deputy CEO in 2021 was 57,280 shares, and the net amount 28,640 shares.

*** The Deputy CEO is a member of Kesko Pension Fund and his pension is determined in accordance with the rules of the pension fund. No contributions were made to the Deputy CEO's supplementary pension in 2021.

The performance bonus to be paid to the President and CEO for 2021 will be €787,500, and the performance bonus to be paid to the Deputy CEO €263,953. In accordance with Kesko's performance bonus rules, the bonuses will be paid on the final day of April at the latest. Moreover, the President and CEO will be paid share awards totalling 123,052 shares (gross) in spring 2022 based on the 2020 and 2021 performance the PSP 2020-2023. The Deputy CEO will be paid share awards totalling 64,764 shares (gross) in spring 2022 based on the 2020 and 2021 performance under the PSP 2020-2023.

CEO were paid the salaries, bonuses, fringe benefits and retirement benefits presented in the above table.

SHARE-BASED COMPENSATION

The President and CEO and the Deputy CEO were paid share awards in line with what is presented in the table above. Under the Performance Share Plan (PSP) for 2019-2022, shares were transferred in the spring of 2021 based on the performance indicators for 2019 and 2020. Under the Performance Share Plan (PSP) for 2020-2023, shares will be transferred in the spring of 2022 based on the performance indicators for 2020 and 2021.

After the two-year performance period, a two-year commitment period begins. During the commitment period, the shares cannot be pledged or transferred, but the other

rights attached to the shares remain in force. If a person's employment or service relationship terminates prior to the expiry of the commitment period, the person must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee may keep some or all of the shares under the return obligation. If the grantee retires during the commitment period, the grantee is entitled to keep the shares and other securities already received.

The President and CEO and the Deputy CEO are required to hold a number of Kesko shares equivalent to at least one year of their gross salary, so as to ensure that the interests of the Company's management and shareholders are aligned. The requirement concerning the shareholding in Kesko is fulfilled by both the President and CEO and the Deputy CEO.



Performance Share Plan (PSP) indicators

	2021	2020	2019
Absolute total shareholder return (TSR) of a Kesko B share	100.0%	100.0%	100.0%
Kesko's return on capital employed (ROCE, %)	100.0%	100.0%	70.0%
Kesko's sales development	100.0%	39.9%	20.1%

The share awards paid in 2021 were earned in 2019 and 2020. The share awards to be paid in 2022 were earned in 2020 and 2021. The criteria for Kesko's Performance Share Plan have been Kesko's return on capital employed (ROCE, %), Kesko's sales development, and the absolute total shareholder return (TSR, %) of a Kesko B share.

The table below presents information on the share awards granted and paid in the previous financial year as well as on the principal terms and conditions for Kesko's share plans.

Share award plans for the President and CEO and Deputy CEO

	PSP 2019-2022	PSP 2020-2023
President and CEO, maximum share allocation	152,000 ***	136,800 ***
Deputy CEO, maximum share allocation	80,000 ***	72,000 ***
Actual earnings	71.6% *	89.95% **
Performance period ends	31.12.2020	31.12.2021
Shares transferred	2021	2022
Commitment period ends	10.2.2023	10.2.2024

* PSP 2019-2022 was earned in 2019 and 2020, and the shares were paid to the participants' book-entry accounts in spring 2021.

** PSP 2020-2023 was earned in 2020 and 2021, and the shares will be paid to the participants' book-entry accounts in spring 2022.

*** The stated share number represents the gross amount, from which the applicable withholding tax is deducted. The remaining net amount is paid to the participants in shares.

RELATIVE PROPORTIONS OF FIXED AND VARIABLE REMUNERATION

The President and CEO was paid a total of €3,412,528 in performance bonuses and share awards in 2021, representing 78% of his total remuneration. The Deputy CEO was paid a total of €1,662,994 in performance bonuses and share awards, representing 78% of his total remuneration.

The maximum amount of the performance bonus for 2021 was 100% of the President and CEO's annual salary and 67% of the Deputy CEO's annual salary. The performance bonus paid to the President and CEO amounted to €787,500, which is equivalent to 87.5% of his annual salary. The performance bonus paid to the Deputy CEO amounted to €281,400, which is equivalent to 67% of his annual salary.

The gross share compensation paid to the President and CEO amounted to €2,625,028, which is equivalent to 290% of his annual salary. The gross share compensation paid to the Deputy CEO amounted to €1,381,594, which is equivalent to 329% of his annual salary.

APPLICATION OF PERFORMANCE CRITERIA TO VARIABLE REMUNERATION

The performance bonuses paid in 2021 were earned in 2020 and the performance bonuses to be paid in 2022 were earned in 2021. The key indicators for the President and CEO's performance bonus in 2020 and 2021 were the development of Kesko's shareholder value, Kesko's operating profit, the return on capital employed (ROCE, %) and the development of sales. The key indicators for the Deputy CEO's performance in 2020 and 2021 were Kesko's operating profit and the operating profit of the building and technical trade division, the return on capital employed (ROCE, %) and the development of sales. The overall performance of the President and CEO and the Deputy CEO was also used as a criterion for determining their remuneration.

The share awards paid in 2021 were earned in 2019 and 2020. The criteria for Kesko's performance-based share compensation plan were Kesko's return on capital employed (ROCE, %), the development of Kesko's sales, and the total shareholder return of a Kesko B share. The development of these criteria in 2019, 2020 and 2021 is presented in the table. The share awards paid in 2021 were paid based on the average actual indicators for 2019 and 2020 as presented in the table. The share awards to be paid in 2022 will be paid based on the average actual indicators for 2020 and 2021.

SUPPLEMENTARY PENSIONS

The old-age pension based on a defined benefit plan is accumulated for President and CEO Mikko Helander until 30 June 2023. The amount of his old-age pension based on

Performance bonus targets and levels achieved in 2020 and 2021 by the President and CEO and Deputy CEO

President and CEO		Level achieved in 2021	Level achieved in 2020
Financial performance for Kesko and K Group	Kesko's EBIT	At maximum level	At maximum level
	Kesko's ROCE, %	At maximum level	At maximum level
	Kesko's sales development	At maximum level	Below target level
Personal targets	Targets related to strategy execution have been set for the President and CEO, which are taken into account in the total assessment.	Above target level	Above target level
Total assessment on a scale of 0 to 100		87.5	87.5

Deputy CEO		Level achieved in 2021	Level achieved in 2020
Financial performance for Kesko and the building and technical trade division, weight 80%	Kesko's EBIT	At maximum level	At maximum level
	EBIT in building and technical trade	At maximum level	At maximum level
	ROCE, % in building and technical trade	At maximum level	At maximum level
	Sales development in building and technical trade	At maximum level	At maximum level
Personal targets, weight 20%	Targets related to strategy execution have been set for the Deputy CEO and President of the building and technical trade division, which are taken into account in the total assessment.	Above target level	At maximum level
Total assessment on a scale of 0 to 100		93,8	100

a defined benefit plan is 60% of his pensionable earnings in accordance with the Employees Pensions Act (TyEL) for the ten (10) years preceding his retirement. Supplementary pension based on a defined contribution plan will be accumulated for the President and CEO from 1 July 2023. In accordance with the stock exchange release issued on 12 April 2021, Helander will continue as the President and CEO of the Company until further notice. Based on the previous

agreement, he would have retired when he turns 63 in June 2023.

The old-age pension for the Deputy CEO begins at the age of 63. The Deputy CEO is a member of the Kesko Pension Fund. The amount of his old-age pension is 66% of his pensionable earnings for the ten (10) years preceding his retirement in accordance with the Employees Pensions Act (TyEL). The pension is based on a defined benefit plan.



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