



KESKO ANNUAL REPORT
**REMUNERATION
REPORT FOR
THE GOVERNING
BODIES OF KESKO
CORPORATION**

2020



REMUNERATION REPORT FOR THE GOVERNING BODIES OF KESKO CORPORATION

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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 2020. 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 2021. 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 2021 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 General Meeting. The Remuneration Committee confirms that the governing bodies have been remunerated in accordance with the remuneration policy and that no deviations from the policy have occurred. 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 2018 Annual General Meeting.

Fees paid and operating profit for the past five years

Role	2016	2017	2018	2019	2020
Board Chair	87,500	87,500	106,500	109,000	118,000
Board Deputy Chair	60,500	60,000	63,000	67,000	70,500
Other Board members, average	43,108	44,800	56,000	56,100	59,300
President and CEO, Mikko Helander	2,174,015	2,849,437	2,299,656	2,633,100	2,997,382
Deputy CEO, Jorma Rauhala		1,028,176	959,543	1,088,999	1,309,688
Employees, Finland	38,794	40,247	39,523	40,578	41,127
Operating profit*, € million	274	296	332	371	486

* Excluding the impact of IFRS 16

The fees of the Board Chairman, Vice Chairman and other members include annual fees 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 the performance bonuses and share awards. The salary of the employees 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 (when salaries and fees are paid out).

2. Board of Directors' fees

In accordance with Kesko's remuneration policy for governing bodies, the Annual General Meeting on 28 April 2020 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 shareholders jointly holding 15% of the votes attached to the Company's shares.

With respect to the annual fees, the resolution of the General Meeting was as follows: "The Annual General Meeting resolved, in accordance with the Board's proposal, that the aforementioned annual fees will be made in Kesko Corporation's B shares and in cash, with approximately 30% of the fees paid in shares. After the transfer of shares, the remaining amount is to be paid in cash. The Company will acquire the shares or transfer shares held by the Company as treasury shares in the name and on behalf of the Board members. The Company is responsible for the costs arising from the acquisition of the shares. The shares will be acquired or transferred to the Board members on the first working day to follow the publication of the interim report for the first quarter of 2020, however with the exception that should the Annual General Meeting 2020 decide on a share issue without payment to carry out a share split, the shares will be acquired or transferred as soon as possible after the shares issued in the share issue without payment have been registered in the Trade Register and included in the book-entry securities system. A Board member cannot

RESOLUTION OF THE 2020 ANNUAL GENERAL MEETING ON THE ANNUAL AND MEETING FEES OF BOARD MEMBERS

Annual remuneration to Board members (€)

	2020
Chair	97,000
Deputy Chair	60,000
Member	45,000
Board member who is the Audit Committee Chair	60,000

Meeting fees / meeting (€)

	2020
Board meeting	
Chair	1,000
Member	500
Committee meeting	
Committee Chair who is not the Chair or Deputy Chair of the Board	1,000
Member	500

transfer shares obtained in this manner until either three years have passed from the day the member has received the shares or their membership on the Board has ended, whichever comes first." Additionally, the General Meeting resolved that meeting fees be paid in cash and that daily

allowances and the reimbursements of travel expenses be paid to the Board members in accordance with the general travel rules of Kesko.



Annual remuneration and meeting fees paid to Board members for Board and Committee work in 2020 (€)*

	Annual remuneration	Meeting fees			Total, €	Number of B shares transferred based on the annual remuneration**	Kesko shares held on 31 Dec. 2020
		Board*	Audit Committee	Remuneration Committee			
Esa Kiiskinen (Chair)	97,000	19,000		2,000	118,000	1,992	447,200 A shares held by him and by entities controlled by him 7,004 B shares held by him
Peter Fagernäs (Deputy Chair)	60,000	8,500		2,000	70,500	1,233	4,000 A shares held by him 13,337 B shares held by him
Jannica Fagerholm	60,000	8,500	5,500		74,000	1,233	8,337 B shares held by her
Piia Karhu	45,000	8,500	3,000		56,500	925	3,257 B shares held by her
Matti Kyytsönen	45,000	8,500	3,500	2,000	59,000	925	7,237 B shares held by him
Matti Naumanen	45,000	8,500			53,500	925	80,256 A shares held by him and by entities controlled by him 3,257 B shares held by him
Toni Pokela	45,000	8,500			53,500	925	745,600 A shares held by entities controlled by him and 3,257 B shares held by him
Total	397,000	70,000	12,000	6,000	485,000	8,158	

* The fees of the Board for its meeting in December 2019 were paid in January 2020 and are included in the figures presented in the table. The fees of the Board for its two meetings in December 2020 were paid in January 2021 and are not included in the figures presented in the table, with the exception of Esa Kiiskinen, who was paid the meeting fees for December 2020.

** Kesko's own shares were transferred on 5 May 2020. The average price on the transfer date was €14.15.

In addition, Kesko's Board members were paid daily allowances and reimbursements of travel expenses in accordance with the resolution of the 2020 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 2020 financial year. Jorma Rauhala, whose principal position is President of the building and technical trade division, served as Deputy CEO throughout the 2020 financial year.

FEES PAID AND FEES 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 system (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 2020 within the limits provided for by Kesko's remuneration policy. The base salaries of Kesko's President and CEO and Deputy CEO were not

SALARIES, BONUSES AND FRINGE AND RETIREMENT BENEFITS FOR THE PRESIDENT AND CEO AND DEPUTY CEO IN 2020 (€)

Description	The President and CEO	The Deputy CEO
Fixed monetary salary*	954,000	443,100
Performance bonus	712,500	159,589
Share awards**	1,298,739	683,532
Car and mobile phone benefits	32,143	23,467
Total	2,997,382	1,309,688
Supplementary pension plan***	1,350,000	-

* Includes holiday pay and holiday bonus.

** The euro amount of the share award has been calculated using the trade-weighted average price of the shares on the transfer date of 12 March 2020, which was €53.95 (prior to the share issue without payment, i.e. split). The euro amounts of the share awards are reported as gross figures. The applicable tax was withheld from these amounts and the remaining net amounts were paid as shares. The gross number of Kesko B shares transferred to the President and CEO was 96,292 shares, and the net number was 48,148 shares. The gross number of Kesko B shares transferred to the Deputy CEO was 50,680 shares, and the net number was 25,340 shares. The numbers are reported as shares after the share issue without payment registered on 30 April 2020 (post-split).

*** 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 2020.

raised in 2020. In 2020, the President and CEO and Deputy CEO were paid the salaries, bonuses, fringe benefits and retirement benefits presented in the table above.

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 2018–2021, shares were transferred in the spring of 2020 based on the performance indicators for 2018 and 2019. Under the Performance Share Plan (PSP) for 2019–2022, shares will be transferred in the spring of 2021 based on the performance indicators for 2019 and 2020.

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.



RELATIVE PROPORTIONS OF FIXED AND VARIABLE REMUNERATION

The President and CEO was paid a total of €2,011,239 in performance bonuses and share awards in 2020, representing 67% of his total remuneration. The Deputy CEO was paid a total of €843,121 in performance bonuses and share awards, representing 64% of his total remuneration.

The maximum amount of the performance bonus for 2020 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 €712,500, which is equivalent to 79% of his annual salary. The performance bonus paid to the Deputy CEO amounted to €159,589, which is equivalent to 38% of his annual salary.

The gross share compensation paid to the President and CEO amounted to €1,298,712, which is equivalent to 145% of his annual salary. The gross share compensation paid to the Deputy CEO amounted to €683,532, which is equivalent to 160% of his annual salary.

APPLICATION OF PERFORMANCE CRITERIA TO VARIABLE REMUNERATION

The performance bonuses paid in 2020 were earned in 2019. The key indicators for the President and CEO's performance bonus 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 bonus 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 2020 were earned in 2018 and 2019. 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 2018 and 2019 is described verbally in the table. The share awards paid in 2020 were paid on the basis of the average realised values of the indicators in 2018 and 2019.

Criteria

	2019	2018
Kesko's return on capital employed (ROCE %)	Above target	Above target
Kesko's sales development	Below target	At target
Absolute total shareholder return (TSR, %) of Kesko B shares	Above target	Above target

The share awards paid in 2020 were earned in 2018 and 2019. 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 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 plans, President and CEO and Deputy CEO (number of B shares)

	PSP 2018–2021	PSP 2019–2022
President and CEO, maximum allocation	152,000 ***	152,000 ***
Deputy CEO, maximum allocation	80,000 ***	80,000 ***
Actual earnings	63.35%*	71.60%**
Performance period ends	31.12.2019	31.12.2020
Shares transferred	2020	2021
Commitment period ends	10.2.2022	10.02.2023

* PSP 2018–2021 was earned in 2018 and 2019 and paid in shares to the participants' book-entry accounts in spring 2020.

** PSP 2019–2022 was earned in 2019 and 2020 and will be paid to the participants' book-entry accounts in spring 2021

*** The reported number of shares is a gross figure. This means that the applicable tax will be withheld for the gross number, after which the remaining net number of shares is paid to the participants. The number is reported as shares after the share issue without payment registered on 30 April 2020 (post-split).



SUPPLEMENTARY PENSIONS

The old-age pension for the President and CEO begins at the age of 63 and the amount has been agreed to be 60% of the President and CEO's pensionable earnings in accordance with the Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding his retirement. The pension is based on a defined benefit plan.

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. The pension is based on a defined benefit plan.