



2019

KESKO ANNUAL REPORT

REMUNERATION STATEMENT

REMUNERATION STATEMENT

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Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 4 February 2020.

This is the Remuneration Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2016. Kesko will issue its first Remuneration Report for Governing Bodies in accordance with the new Finnish Corporate Governance Code issued by the Securities Market Association and effective as of 1 January 2020 for the financial year beginning on 1 January 2020. This Remuneration Statement and other information to be disclosed in accordance with the Corporate Governance Code are available on Kesko's website at www.kesko.fi/en/investor/corporate-governance.

Decision-making procedure concerning remuneration

The Annual General Meeting decides on the fees and other financial benefits for the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees annually. Significant shareholders prepare to the Annual General Meeting the proposals concerning the Board of Directors, including the proposal for the remuneration of Board members, and when necessary, the proposal for the number of Board members and the Board members.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions regarding the

remuneration of the President and CEO and the Group Management Board members responsible for lines of business. As for the other Group Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles and share awards. Other decisions regarding remuneration are made by the President and CEO, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

The Board of Directors decides on the principles of Kesko's remuneration schemes, and monitors the implementation of the remuneration schemes for the President and CEO and other Group Management Board members. The Board also decides, within the limits of the authorisations granted by the Annual General Meeting, on the terms and conditions of share or share-based remuneration schemes and on the distribution of shares. Valid authorisations for the Board of Directors concerning remuneration and their use are described in the Remuneration Report.

Main principles of remuneration

Board of Directors

The remuneration of the members of the Board of Directors and its Committees comprises annual and meeting fees decided by the Annual General Meeting. Kesko's Annual General Meeting of 8 April 2019 resolved that approximately 30% of the annual fees are to be paid in shares in the Company and the remainder in cash. A Board member cannot transfer shares obtained as remuneration for Board work until either three years have passed from the day the member has received the shares or until their

membership on the Board has ended, whichever comes first. The meeting fees are paid in cash. Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko. Members of the Board do not participate in the Company's other remuneration schemes or pension plans.

President and CEO and Group Management Board

General

The remuneration scheme for the President and CEO and the other members of the Group Management Board consists of a fixed monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria determined annually (short-term commitment and incentive scheme), a share compensation scheme (long-term commitment and incentive scheme) and retirement benefits for management. In addition, a health insurance, life insurance and leisure travel insurance have been taken out for President and CEO Helander. Termination benefits have been agreed upon with the President and CEO and the other Group Management Board members.

The total remuneration of Kesko's President and CEO and the other Group Management Board members is compared to that of similar positions in other large companies in Finland. Remuneration elements are compared to those of peer companies to ensure the competitiveness and appropriateness of total remuneration for each position.



Performance bonus scheme (Short-term commitment and incentive scheme)

Kesko employs annually determined performance bonuses for short-term remuneration. Kesko's Board of Directors makes decisions on performance bonus scheme criteria for management annually. One performance bonus criteria for all Group Management Board members is the Group's comparable operating profit. The targets for Group Management Board members responsible for lines of business stress their division's comparable operating profit, return on capital employed (ROCE %) and business-specific sales or market share indicator. For the other Group Management Board members, profit targets include the Group's return on capital employed (ROCE %) and the Group's sales target, in addition to the Group's operating profit target. Furthermore, each member of the Group Management Board has individual targets. The performance bonus criteria and their weights vary depending on duties. At least 80% of the performance bonus is tied to the fulfilment of financial targets.

Kesko's Board of Directors and its Remuneration Committee monitor and evaluate the fulfilment of the performance and profit criteria and their impact on the Company's long-term financial success.

The maximum performance bonus for Kesko's President and CEO corresponds to 100% of his monetary salary for the calendar year, excluding fringe benefits. For the other Group Management Board members, depending on the profit impact of their position, the maximum performance

bonus corresponds to 33-67% of their monetary salary for the calendar year, excluding fringe benefits. In determining the performance bonus for a Group Management Board member, monetary salary for the calendar year is determined based on the fixed monetary salary of the final month of the calendar year the performance of which is the basis for the bonus. Performance bonuses are paid after the completion of the annual financial statements by the end of April following the year of determination.

If exceptional events with significant impact on operations take place during the financial year, or if the market situation or the Company's productivity trend so requires, the application, target-setting and payment rules of the performance bonus scheme can be changed by a decision by Kesko's Board also in individual cases.

At its discretion, the Board may decide not to pay a performance bonus or to recover a bonus that has already been paid, if the bonus recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Share-based commitment and incentive scheme (Long-term commitment and incentive scheme)

In February 2017, Kesko's Board of Directors decided on a long-term share-based commitment and incentive scheme for top management and selected key persons. The scheme

consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary share-based compensation plan is the Performance Share Plan (PSP). There is also a transitional Bridge Plan for 2017 and an RSP (Restricted Share Pool) plan for special situations. Share awards based on the plans are paid in Kesko B shares. The recipient of the shares is free to use them once the commitment period of the share plan has ended, provided that the person is still employed by a Kesko Group company.

The purpose of a share-based compensation plan is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The plan also aims to commit the people to Kesko Group and give them the opportunity to receive Company shares upon meeting the targets set in the share-based compensation plan.

The maximum gross amount of share award paid for each performance period is 400% of the monetary salary of the last calendar year of the performance period for which the award is paid.

The primary Performance Share Plan (PSP) consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. Kesko's Board decides annually whether to initiate a new plan. The PSP initiated at the start of 2019 consists of a two-year performance period (1 Jan. 2019–31 Dec. 2020), followed by a two-year commitment period (1 Jan. 2021–10 Feb. 2023). 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 return obligation. If the grantee retires during the commitment period, the grantee is entitled to keep the shares and other securities already received. Kesko Group's tax free sales (%), Kesko Group's comparable return on capital employed (ROCE,%) and the absolute total shareholder return (TSR, %) of a Kesko B share were the performance criteria for the PSPs initiated in 2019, 2018, and 2017, which the same criteria weights each year.

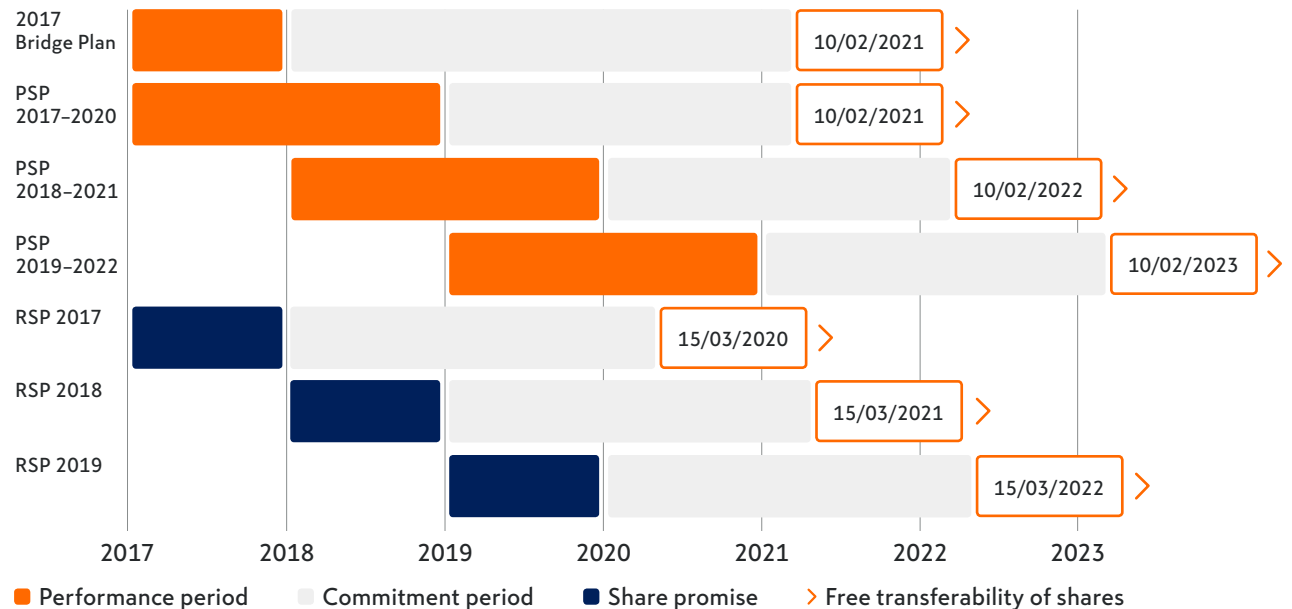
The transitional one-off Bridge Plan for 2017 had a one-year performance period (1 Jan. 2017 – 31 Dec. 2017) followed by a three-year commitment period (1 Jan. 2018 – 10 Feb. 2021). Apart from that, the rules of the plan are the same as for the PSP. The Bridge Plan aimed at covering the transitional phase from Kesko's previous long-term commitment and incentive scheme, which was based on one-year performance periods, to the new commitment

Share plan

	Bridge Plan 2017	PSP 2017–2020	PSP 2018–2021	PSP 2019–2022
Number of participants in the beginning of the plan	140	140	130	130
Maximum number of gross B shares granted				
Total	340,000	340,000	340,000	310,000
Allocated in the beginning of the plan				
President and CEO	38,000	38,000	38,000	38,000
Other Group Management Board members	96,800	96,800	94,000	94,000
Actual earnings	46.7%*	55.05%*	63.35%*	-
Performance period ends	31.12.2017	31.12.2018	31.12.2019	31.12.2020
Shares transferred	2018	2019	2020	2021
Commitment period ends	10.2.2021	10.2.2021	10.2.2022	10.02.2023

* For the Bridge Plan, the actual gross earning of B shares (amount of shares): total 133,751, the President and CEO 17,746, and other Group Management Board 34,185. For PSP 2017–2020, the actual gross earning of B shares (amount of shares): total 142,850, the President and CEO 20,919, and other Group Management Board 40,300. For PSP 2018–2021, the actual gross earning of B shares (amount of shares): total 191,434, the President and CEO 24,073, and other Group Management Board 56,700. Gross earning means that the applicable withholding tax is deducted from the earnings, and the remaining net amount is paid to the participants in shares.

Kesko's share-based compensation plans 2018





and incentive scheme adopted in 2017 with share plans with two-year performance periods.

The Restricted Share Pool (RSP) is a secondary share plan for special situations, to be decided upon separately. It consists of annually commencing individual share plans that each have a three-year commitment period, after which the potential promised share awards for an individual plan will be paid to the participants, provided that their employment or service relationship with Kesko Group continues until the payment of the awards.

In RSP plans, share promises have not been given to the President and CEO or other Group Management Board members. The maximum number of shares to be granted under the plans initiated in 2019, 2018 and 2017 is 20,000 shares per plan. The commitment period for the 2019 RSP will end on 15 March 2022, for the 2018 RSP on 15 March 2021, and for the 2017 RSP on 15 March 2020.

Kesko applies a share ownership recommendation to the members of Kesko's Group Management Board. According to the recommendation, each Group Management Board member shall maintain a holding of at least 50% of the net shares they have received under the Company's share-based compensation schemes until their holding of Kesko shares corresponds to at least their fixed gross annual salary.

At its discretion, the Board may decide not to pay a share award or to recover an award that has already been paid, if the recipient has been found guilty of malpractice or

an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Retirement benefits

Retirement benefits for President and CEO

Old-age pension for the President and CEO begins at 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 the retirement. The pension is based on a defined benefit plan.

Retirement benefits for Group Management Board members other than the President and CEO

The old-age pension age for Group Management Board members is 63 years.

In 2019, four Group Management Board members were members of Kesko Pension Fund (four in 2018). Their amount of old-age pension is 66% of pensionable earnings for the ten (10) years preceding the retirement. Their supplementary pensions are determined based on the rules of Kesko Pension Fund and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. The old-age pensions of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in

Finland (the Employees' Pensions Act, TyEL). In addition, they have a defined contribution supplementary pension.

Termination benefits

Termination benefit for President and CEO

The period of notice for President and CEO Helander is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if Helander resigns. If the Company terminates the contract for a reason other than a material breach of contract by the President and CEO, and if the President and CEO does not retire on an old-age pension or some other pension, the President and CEO is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 12 months' monetary salary and fringe benefits.

Termination benefit for Group Management Board members other than the President and CEO

The period of notice for the other Group Management Board members is six (6) months if the service contract is terminated by the Company, and six (6) months if the executive resigns. If the Company terminates the contract for a reason other than a material breach of contract by the executive, and if the executive does not retire on an old-age pension or some other pension, the executive is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 6–12 months' monetary salary and fringe benefits.

Remuneration report

This remuneration report provides information on the fees and other financial benefits paid to members of the Board of Directors, the President and CEO and the other members of the Group Management Board during the financial year 2019. Fees paid during the 2018 financial year are presented as comparison data.

Board of Directors and its Committees

The 2019 Annual General Meeting resolved that approximately 30% of annual fees is to be paid in B series shares in the Company. After the transfer of shares, the remaining amount is to be paid in cash. A Board member cannot 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. The meeting fees are paid in cash. Daily allowances and the reimbursements of travel expenses are paid to the Board members in accordance with the general travel rules of Kesko. Members of the Board do not have share compensation schemes nor do they participate in the Company's other remuneration schemes or pension plans.

Annual remuneration to Board members (€)

	2019	2018
Chair	97,000	97,000
Deputy Chair	60,000	60,000
Member	45,000	45,000
Board member who is the Audit Committee Chair	60,000	60,000

Meeting fees / meeting (€)

	2019	2018
Board meeting		
Chair	1,000	1,000
Member	500	500
Committee meeting		
Committee Chair who is not the Chair or Deputy Chair of the Board	1,000	1,000
Member	500	500



Annual remuneration and meeting fees paid to Board members for Board and Committee work in 2019*

	Annual remuneration	Meeting fees			Total, €	Number of B shares transferred based on the annual remuneration**	Kesko shares held on 31 Dec. 2019
		Board	Audit Committee	Remuneration Committee			
Esa Kiiskinen (Chair)	97,000	10,000		2,000	109,000	580 1,350 A shares held by him and 106,000 A shares held by entities controlled by him 1,253 B shares held by him	
Peter Fagnäs (Deputy Chair)	60,000	5,000		2,000	67,000	359 1,000 A shares and 776 B shares held by him	
Jannica Fagerholm	60,000	5,000	7,000		72,000	359 1,776 B shares held by her	
Piia Karhu	45,000	5,000	3,500		53,500	270 583 B shares held by her	
Matti Kyytsönen	45,000	5,000	3,500	2,000	55,500	270 1,578 B shares held by him	
Matti Naumanen	45,000	5,000			50,000	270 2,400 A shares held by him and 17,664 A shares held by entities controlled by him 583 B shares held by him	
Toni Pokela	45,000	4,500			49,500	270 179,400 A shares held by entities controlled by him and 583 B shares held by him	
Total	397,000	39,500	14,000	6,000	456,500	2,378	

* Reported on a cash basis.

** Date of assignment for Kesko's treasury shares 26 April 2019.

President and CEO

Mikko Helander has been the Company's President and CEO and the Chairman of the Group Management Board since 1 January 2015. Remuneration for the President and CEO is based on the managing director's service contract approved by the Company's Board, in line with the Board decisions prepared by the Remuneration Committee.

Other Group Management Board members

In addition to the President and CEO, the Group Management Board members in 2019 were:

- Jorma Rauhala, President, building and technical trade division, Deputy to the President and CEO
- Ari Akseli, President, grocery trade division
- Johan Friman, President, car trade division
- Jukka Erlund, EVP, Chief Financial Officer
- Mika Majoinen, EVP, Group General Counsel*
- Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations
- Anni Ronkainen, EVP, Chief Digital Officer

*Mika Majoinen left the company on 31 December 2019

Salaries, bonuses and fringe and retirement benefits for the President and CEO (€)

Description	2019	2018
Fixed monetary salary	€930,000	€952,500
Performance bonus	€525,000	€450,000
Share awards*	€1,146,391	€868,998
Car and mobile phone benefits	€31,709	€28,158
Total:	€2,633,100	€2,299,656
Supplementary pension plan	€1,350,000	€1,350,000

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 20 March 2019 and 15 March 2018. The euro values of the 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 in 2019 was 20,919, and the net amount was 10,460 shares. The gross number of Kesko B shares transferred in 2018 was 17,746, and the net amount was 8,873 shares.

Salaries, bonuses and fringe benefits for Group Management Board members other than President and CEO (€)

Description	2019	2018
Fixed monetary salary	€2,002,280	€1,963,590
Performance bonus	€530,150	€417,400
Share awards*	€2,208,556	€1,673,996
Car and mobile phone benefits	€144,099	€133,582
Total:	€4,885,084	€4,188,568

*The euro value of the share awards has been calculated using the trade-weighted average share price of the dates of assignment, 20 March 2019 and 15 March 2018. The euro values of the 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 in 2019 was 40,300, and the net amount was 20,152 shares. The gross number of Kesko B shares transferred in 2018 was 34,185, and the net amount was 17,095 shares.

Shareholdings of President and CEO and other Group Management Board members

	Kesko shares held on 31 Dec. 2019	Kesko shares held on 31 Dec. 2018
Mikko Helander, Chairman	55,424 B shares held by him	44,964 B shares held by him
Jorma Rauhala, President, building and technical trade division, Deputy CEO	28,704 B shares held by him	24,300 B shares held by him
Ari Akseli, President, grocery trade division	9,808 B shares and 81 A shares held by him	8,596 B shares and 81 A shares held by him
Johan Friman, President, car trade division	7,327 B shares held by him	3,363 B shares held by him
Jukka Erlund, EVP, Chief Financial Officer	24,167 B shares held by him	20,203 B shares held by him
Mika Majoinen, EVP, Group General Counsel*	12,722 B shares held by him	11,070 B shares held by him
Matti Mettälä, EVP, Human Resources, Corporate Responsibility and Regional Relations	15,362 B shares held by him	12,884 B shares held by him
Anni Ronkainen, Executive Vice President, Chief Digital Officer	11,080 B shares held by her	8,602 B shares held by her

*Mika Majoinen left the company on 31 December 2019



Board of Directors' valid authorisations concerning remuneration and their use

Kesko's Annual General Meeting of 4 April 2016 authorised the Company's Board to decide on the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (2016 Share issue authorisation). Based on the authorisation, shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason for the Company, such as implementing the Company's commitment and incentive scheme. Shares can be issued either against or without payment. A share issue can only be without payment, if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. The authorisation is valid until 30 June 2020.

Based on the 2016 share issue authorisation, the Board decided to transfer own B shares held by the Company as treasury shares. Consequently, 71,432 shares were transferred on 20 March 2019 to members of management and key personnel included in the target group for the 2017-2018 performance period of the share-based commitment and incentive plan (PSP) (Stock exchange releases 6.2.2019 and 20.3.2019). Based on the 2016 share issue authorisation, in 2018 the Board transferred 66,190 shares to members of management and key personnel included in the target group for the 2017 performance period of the transitional share-based commitment and incentive

plan (Bridge Plan) (Stock exchange releases 1.2.2018, 15.3.2018, 5.4.2018 and 1.6.2018). Based on the 2016 Share issue authorisation, in 2017 the Board transferred a total of 192,822 Kesko B shares held by the Company as treasury shares to persons included in the target group for the 2016 performance period of Kesko's previous share-based compensation scheme 2014-2016 (Stock exchange release 15.3.2017). Of the shares granted, 3,774 shares were returned to the Company during 2019, 7,211 shares in 2018 and 9,850 shares in 2017 in accordance with the terms and conditions of the share-based compensation scheme. The returns during 2019 were communicated in stock exchange releases on 8 March 2019, 14 June 2019, and 24 September 2019.

The Board decided to implement the resolution made by the Annual General Meeting of 8 April 2019 to pay a portion of the annual fees of Board members in B shares in the Company, by using the 2016 share issue authorisation to transfer 2,378 Kesko B shares held by the Company as treasury shares to the members of the Board. In line with the resolution of the Annual General Meeting, the number of shares corresponded to approximately 30% of the annual fees for each Board member, calculated on the closing price of the share on the date of the Board's meeting, 24 April 2019. The decision was communicated in a stock exchange release issued on 25 April 2019, and the transfer of shares in a stock exchange release on 26 April 2019.

The Annual General Meeting of 11 April 2018 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 of the Company's

own B shares (2018 Authorisation to acquire own shares). The B shares would be acquired with the Company's distributable unrestricted equity, not in proportion to the shareholdings of shareholders, at the market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the time of acquisition. The shares would be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares would reduce the amount of the Company's distributable unrestricted equity. The B shares would be acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme for management and other personnel. The Board would make decisions concerning any other issues related to the acquisition of own B shares. The authorisation was valid until 30 September 2019.

On 24 April 2018, Kesko's Board decided, based on the 2018 authorisation to acquire own shares, to acquire B series shares in Kesko Corporation, and established a share buy-back programme for the purpose (Stock exchange release 25.4.2018). Under the share buy-back programme, Kesko acquired 500,000 of its own B series shares to implement a commitment and incentive scheme for management and personnel (Stock exchange release 21.5.2018). No shares were acquired in 2019.