



# Remuneration Statement

EN 2016



# Remuneration statement 2016

Decision-making procedure concerning remuneration	3
Main principles of remuneration	4
Commitment and incentive schemes	4
Remuneration report	6
Board of Directors and its Committees	6
President and CEO	8
Group Management Board	10



# Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 1 February 2017.

This is the Remuneration Statement in accordance with the Finnish Corporate Governance Code issued by the

Securities Market Association effective on 1 January 2016. This statement and the other information to be disclosed in accordance with the Corporate Governance Code are available on Kesko's website at <http://kesko.fi/en/investor/corporate-governance/>.

## Decision-making procedure concerning remuneration

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees' members annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members do not have share compensation or share-based compensation plans. Nor do they participate in the other compensation plans or pension plans of the Company.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits, the performance bonus system criteria and the performance bonuses paid to 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.

The President and CEO makes decisions on the remuneration and other financial benefits of the Group Management Board members other than those responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

The remuneration scheme of 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 decided annually (short-term compensation scheme), a share compensation plan (long-term compensation scheme) and management's retirement benefits.

The Board of Directors monitors the implementation of the remuneration schemes of the President and CEO and the other Group Management Board members.



# Main principles of remuneration

## Commitment and incentive schemes

### Performance bonus scheme (short-term compensation scheme) in 2016

The performance bonuses determined annually are paid after the completion of the annual financial statements by the end of April following the year of determination. Kesko's Board of Directors makes decisions on management's performance bonus criteria annually.

The criteria have been the Group's operating profit excluding non-recurring items and the Group's sales performance. The indicators applied to executives responsible for lines of business are the operating profit of the executive's area of responsibility excluding non-recurring items, as well as indicators of sales and market shares. In addition, a performance bonus criterion applied to all Group Management Board members is the achievement of personal targets. The performance bonus criteria and their weights vary depending on the duties.

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

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 Group Management Board members, the monetary salary of four to five months, depending on the profit impact of their duties. The performance bonus of a Group Management Board member is determined based on the monetary salary of the last month of the calendar year, the performance of which is the basis of the bonus.

If exceptional events and events with significant impacts on operations take place during the financial year, or if the market situation or the Company's productivity

trend requires, the application, target setting and payment rules of the performance bonus scheme can be changed by a decision of Kesko Corporation's Board also in individual cases.

At its discretion, the Board may decide not to pay a performance bonus, or decide 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 he/she is guilty of such acts.

### Share-based compensation plan 2014–2016 (long-term compensation scheme)

In addition to the performance bonus scheme, Kesko operates the 2014–2016 share-based compensation plan decided by the Company's Board and intended for the Group's management and certain other key persons.

The purpose of the 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 grantees to 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 has three vesting periods: the calendar years 2014, 2015 and 2016. Kesko's Board decides the vesting criteria, the target group and the maximum amounts of the share award separately for each vesting period based on the Remuneration Committee's proposal. The final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria are decided by the Board at the beginning of the year following the vesting period. The criteria for the 2016 vesting period were, with equal



weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's basic earnings per share (EPS) excluding non-recurring items and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index. Under the share-based compensation plan, a total maximum of 600,000 own B shares held by the Company as treasury shares can be granted.

The award possibly paid for a vesting period is paid in Kesko B shares. In addition, a cash component at maximum equal to the value of the shares is paid to cover the taxes and tax-like charges incurred under the award. A commitment period of three calendar years following each vesting period is attached to the shares granted, during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. The commitment period of the 2016 vesting period will end on 31 December 2019. If a person's employment or service relationship terminates prior to the expiry of a commitment period, he/she 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 can keep the shares under return

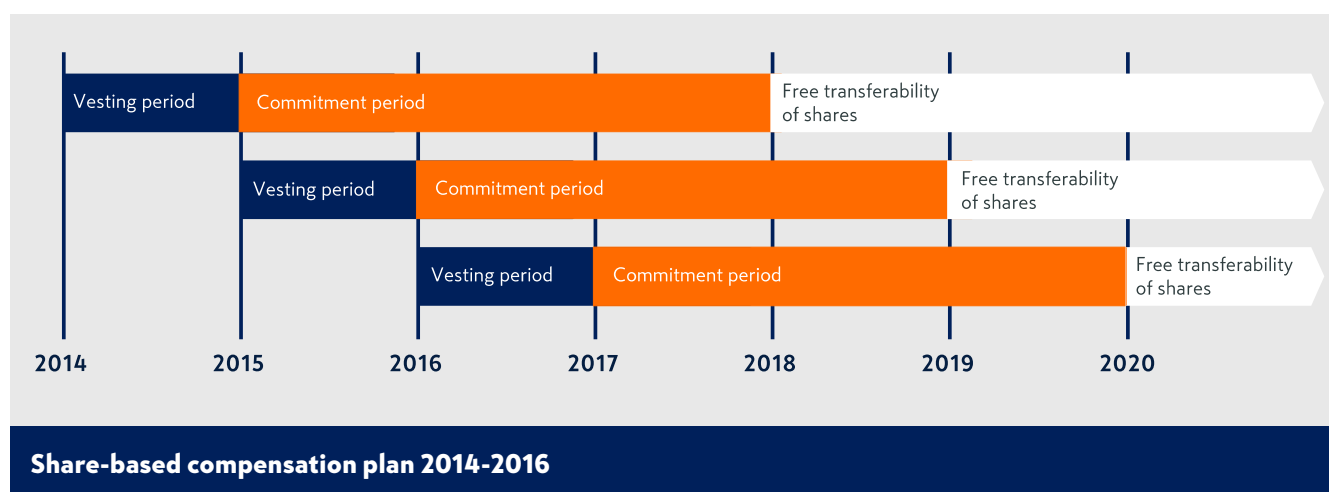
obligation, or some of them. If the grantee retires during the commitment period, he/she is entitled to keep the shares and other securities already received.

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

Even if the criteria are met, the Board always has discretion over whether to pay a share award to any given recipient in full, in part or not at all.

At its discretion, the Board may decide not to pay a performance bonus, or decide 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 he/she is guilty of such acts.

The plan does not contain terms or conditions that would limit the grantees' income from the shares.







# Remuneration report

## Board of Directors and its Committees

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko's Board of Directors and its Committees' members annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members do not have share compensation or share-based compensation plans. Nor do they participate in the other compensation plans or pension plans of the Company. Significant shareholders prepare the proposals concerning the Board of Directors, including the proposal for the number of Board members, their remuneration and, as necessary, for the Board members to the General Meeting.

The Annual General Meeting of 4 April 2016 resolved to leave the Kesko Board members' remuneration unchanged and in 2016, it was as follows:

### Annual remuneration:

- Chair of the Board €80,000
- Deputy Chair of the Board €50,000
- member of the Board €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 are paid and the reimbursements of travel expenses are paid to the Board and Committee 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 2016 (€)\*

	Annual remuneration	Meeting fees			Total
		Board	Audit Committee	Remuneration Committee	
Annual remuneration	80,000	5,500		2,000	87,500
Mikael Aro (vpj)	50,000	5,500	3,000	2,000	60,500
Jannica Fagerholm**	27,603	3,500	3,000		34,103
Matti Kyytsönen	37,000	5,500	3,000		45,500
Matti Naumanen**	27,603	3,500			31,103
Anu Nissinen	37,000	5,500		2,000	44,500
Toni Pokela	37,000	5,500			42,500
Tomi Korpisaari***	6,167	1,000			7,167
Kaarina Ståhlberg***	6,167	1,500	3,000		10,667
<b>Total</b>	<b>308,540</b>	<b>37,000</b>	<b>12,000</b>	<b>6,000</b>	<b>363,540</b>

\* Reported on a cash basis.

\*\* Board member since 4 April 2016.

\*\*\* Board member until 29 February 2016.

### Valid authorisations of the Board of Directors concerning remuneration and their use

Kesko's Annual General Meeting of 4 April 2016 authorised the Board to decide on the transfer of own B shares held by the Company in treasury (share issue authorisation 2016). The authorisation cancelled an earlier share issue authorisation with similar content.

Based on the authorisation, the own B shares held by the Company in treasury can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the Company shares, regardless of whether they own A or B shares. The shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, if the Company has a weighty financial reason for it, such as using the shares to develop the Company's capital structure, to finance possible acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's

commitment and incentive scheme. Own B shares held by the Company in treasury can be transferred 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 authorisation to make decisions concerning any other matters related to share issues. The amount possibly paid for the Company's own shares is recorded in the reserve of unrestricted equity. The authorisation is valid until 30 June 2020.

The Annual General Meeting of 4 April 2016 also approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 own B shares of the Company (authorisation to acquire own shares). B shares are acquired otherwise than in proportion to the shareholdings of shareholders with the Company's distributable unrestricted equity at the B



share market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the date of acquisition. The shares are acquired and paid in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. B shares are 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. The Board of Directors makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation is valid until 30 September 2017.

In addition to the above authorisations, the Board of Directors has the share issue authorisation decided by the General Meeting of 13 April 2015, which cannot, however, be used for remuneration purposes.

On 3 February 2016, the Board of Directors decided to grant own B shares held by the company as treasury shares, to the persons included in the target group of the 2015 vesting period based on the fulfilment of the

## President and CEO

President and CEO Mikko Helander's personal remuneration, other financial benefits, performance bonus scheme criteria and performance bonuses paid 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, is in force between the Company and the President and CEO. Helander has been the Company's President and CEO and the Chair of the Group Management Board since 1 January 2015.

On 16 December 2014, Kesko Corporation's Board of Directors decided to transfer 8,791 own B shares held by the Company as treasury shares to Mikko Helander,

vesting criteria of the 2015 vesting period of the Kesko's three-year share-based compensation plan. This granting of a total of 137,054 own B shares was announced in a stock exchange release on 17 March 2016 and the transfer of 2,670 own B shares was announced in a stock exchange release on 27 April 2016. Under the 2014-2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the company as treasury shares can be granted within a period of three years based on the fulfilment of the vesting criteria. The vesting criteria and the target group are decided by the Board separately for each vesting period. The share-based compensation plan was announced in a stock exchange release on 4 February 2014. A total of 8,256 shares granted based on the fulfilment of the vesting criteria of share-based compensation plans (share-based compensation plans for years 2011-2013 and 2014-2016) had been returned to the Company during the period January-December in accordance with the terms and conditions of the share-based compensation plans. The share returns in 2016 were announced in a stock exchange release on 17 March 2016, 31 March 2016, 27 April 2016, 30 May 2016 and 15 November 2016.

the Company's President and CEO as of 1 January 2015. The share transfer was based on the managing director's service contract signed with Mikko Helander and the transferred shares are part of the agreed total compensation. The shares transferred to Helander carried a restriction period until 1 October 2016, during which the shares were not allowed to be assigned.

### Salaries, fringe benefits, performance bonus

The salaries, fringe benefits and performance bonuses paid to Helander and his other financial benefits in 2015-2016 are presented in the following tables.





### Salaries, performance bonuses and fringe benefits in 2015–2016 (€)

	2016	2015
Fixed monetary salary	873,600	856,800
Performance bonuses*	420,000	140,000**
Fringe benefits	23160	21,725
<b>Total</b>	<b>1,316,760</b>	<b>1,018,525</b>

\* Performance bonus paid based on the profit for the previous year.

\*\* Service contract since 1 October 2014.

### Share-based compensation plan 2015–2016

Share award (pcs)	2016	2015
Maximum	21,000	21,000
Granted	16 086*	11,214
Commitment period (expiry date)	31 Dec. 2019	31 Dec. 2018

\* The Board's decision in February 2017. Shares for the vesting period 2016 will be granted in March - April 2017 in accordance with the terms and conditions of the plan.



## Retirement benefits

President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees' Pensions Act (TyEL). The pensionable salary is determined based on his fixed monetary salary, performance bonuses and fringe benefits for the last ten (10) years. The supplementary pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €1.0 million and the related pension asset was €0.6 million as at 31 December 2016. The pension cost of the President and CEO's statutory pension provision was €0.2 million.

## Health and life insurance

A health insurance and a life insurance have been taken out for Helander.

## Period of notice and termination benefit

Helander's period of notice 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 managing director, and the managing director does not retire on an old-age pension or some other pension, the managing director 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.

## Group Management Board

### Group Management Board members' salaries, performance bonuses and fringe benefits in 2015–2016 (€) \*

	Fixed monetary salary		Performance bonuses		Fringe benefits		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Mikko Helander, Ch.	873,600	856,800	420,000	140,000	23,160	21,725	1,316,760	1,018,525
Group Management Board**	2,012,999	1,777,640	369,250	371,750	151,977	126,478	2,534,226	2,275,868
<b>Total</b>	<b>2,886,599</b>	<b>2,634,440</b>	<b>789,250</b>	<b>511,750</b>	<b>175,137</b>	<b>148,203</b>	<b>3,850,986</b>	<b>3,294,393</b>

\* Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2015 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2015 to the salaries and fringe benefits for 2016.

\*\* Excluding President and CEO Helander.



### Share-based payments to Group Management Board members in 2014–2016 (pcs)

	2016		2015		2014	
	Maximum	To be granted**	Maximum	Granted	Maximum	Granted
Mikko Helander, Ch.	21,000	16,086	21,000	11,214	-***	-***
Group Management Board*	53,000	40,598	53,000	28,302	48,000	16,812
<b>Total</b>	<b>74,000</b>	<b>56,684</b>	<b>74,000</b>	<b>39,516</b>	<b>48,000</b>	<b>16,812</b>

\* Excluding President and CEO Helander.

\*\* The Board's decision in February 2017. The shares for the 2016 vesting period will be granted in March–April 2017 in accordance with the terms and conditions of the plan.

\*\*\* Service contract since 1 October 2014.

Vesting period	2016	2015	2014
End of commitment period	43830	31 Dec 2018	31 Dec 2017

On 16 December 2014, Kesko Corporation's Board of Directors decided to transfer 8,791 own B shares held by the Company as treasury shares to Mikko Helander, the Company's President and CEO as of 1 January 2015. The share transfer was based on the managing director's service contract signed with Mikko Helander and the transferred shares are part of the agreed total compensation. The shares transferred to Helander carried a restriction period until 1 October 2016, during which the shares were not allowed to be assigned.

#### Retirement benefits in 2016

The statutory pension provision of the members of the Group Management Board is provided through a pension insurance company. In 2016, four Group Management Board members were members of Kesko

Pension Fund and their supplementary pensions are determined based on its rules and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. The retirement benefits of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in Finland (TyEL, the Employees' Pensions Act). The retirement benefits of President and CEO Helander are reported in more detail in the section on him. Kesko has not paid pension insurance contributions incurred on executives' memberships of Kesko Pension Fund for several years, nor in 2016, as the Fund's investment earnings covered the payable supplementary pensions and changes in the pension liability.



## Group Management Board members' retirement benefits, periods of notice and termination benefits in 2016\*

	Old-age pension age (years)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit**
Mikko Helander	63	60	6/12 mo***	12-mo salary
Jorma Rauhala	62	66	6 mo	6-mo salary
Terho Kalliokoski	62	66	6 mo	12-mo salary
Pekka Lahti	62	66	6 mo	18-mo salary
Jukka Erlund	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Matti Mettälä	62	66	6 mo	12-mo salary
Anne Leppälä-Nilsson	in accordance with TyEL****	in accordance with TyEL****	6 mo	18-mo salary
Lauri Peltola	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary
Anni Ronkainen	in accordance with TyEL****	in accordance with TyEL****	6 mo	6-mo salary

\* As at 31 December 2016.

\*\* If given notice by the employer. Termination benefit includes monetary salary and fringe benefits.

\*\*\* The period of notice is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if the President and CEO resigns.

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