



REMUNERATION STATEMENT 2017

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Remuneration statement 2017

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REMUNERATION STATEMENT 2017

Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 31 January 2018.

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 www.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 annually. Significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits and performance bonuses 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 financial benefits of the Group Management Board members other than those responsible for lines of business, 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 monitors the implementation of the remuneration schemes of the President and CEO and the other Group Management Board members.



Main principles of remuneration

Remuneration schemes

The remuneration of the members of the Board of Directors and its Committees comprises annual fees decided by the General Meeting and potential other financial benefits. The remuneration of the members of the Board and its Committees is paid in cash. The Board members did not have share compensation or share-based compensation plans in 2017, nor do they participate in the other compensation plans or pension plans of the Company.

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 incentive scheme), a share scheme (long-term commitment and incentive scheme) and management's retirement benefits.

Commitment and incentive schemes

Performance bonus scheme (short-term commitment and incentive scheme) in 2017

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 performance bonus criteria for all members of the Group Management Board comprise the Group's comparable operating profit, return on capital employed (%) (at group and division level), and business-specific sales or market share indicator. In addition, each member of the Group Management Board has individual targets. The performance bonus criteria and their weights vary depending on 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 so 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 the recipient is guilty of such acts.

Share-based commitment and incentive scheme 2017–2020 (long-term commitment and incentive scheme)

In February 2017, Kesko's Board of Directors decided on a new long-term share-based commitment and



incentive scheme for top management for 2017-2020. 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. Once the transfer restriction of each share plan ends, the recipient of the shares is free to use them, provided that the person is still employed by Kesko Group.

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 people to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives 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 PSP consists of rolling four-year share plans, each with a two-year performance period followed by a two-year commitment period. The Board of Directors of

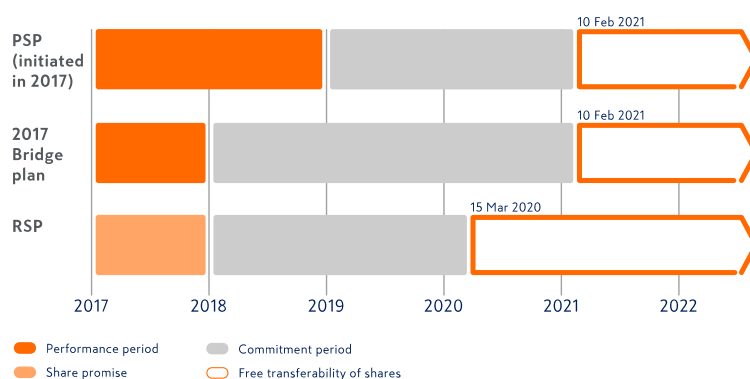
Kesko Corporation decides annually whether to initiate a new plan. The PSP that began at the start of 2017 consists of a two-year performance period (1 Jan. 2017-31 Dec. 2018) followed by a two-year commitment period (1 Jan. 2019-10 Feb. 2021).

The transitional 2017 Bridge Plan has a one-year performance period, followed by a three-year commitment period. Apart from that, the rules are the same as for the PSP. The Bridge Plan that began at the start of 2017 consists of a one-year performance period (1 Jan. 2017-31 Dec. 2017) followed by a three-year commitment period (1 Jan. 2018-10 Feb. 2021).

RSP (restricted share pool) is a secondary share plan for special situations, to be decided upon separately. It has a fixed share allocation decided on an individual level, and a commitment period that ends three years after the plan is initiated.

Kesko applies a share ownership recommendation policy 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.

Kesko's share-based compensation plans 2017





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 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.

The Annual General Meeting of 3 April 2017 resolved to leave Kesko Board members' remuneration unchanged.

Commitment, incentive and remuneration for members of Board of Directors and its Committees

| | Description | 2017 | 2016 |
|--|--|---|---|
| Remuneration | Remuneration/person | - Chairman €80,000 - Deputy Chairman €50,000 - Member €37,000 | - Chairman €80,000 - Deputy Chairman €50,000 - Member €37,000 |
| Share awards | None | - | - |
| Meeting fees | A meeting fee of €500 per meeting is paid for a Board meeting and its Committee's meeting, with the exception that the Chairman of a Committee who is not the Chairman or the Deputy Chairman of the Board is paid €1,000 per Committee meeting. | - | - |
| Insurance | None | - | - |
| Fringe benefits | None | - | - |
| Reimbursements of travel expenses and daily allowances | Daily allowances 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 2017 (€)*

| | Annual remuneration | Meeting fees | | | Total |
|-----------------------|---------------------|---------------|-----------------|------------------------|----------------|
| | | Board | Audit Committee | Remuneration Committee | |
| Esa Kiiskinen (Ch.) | 80,000 | 6,000 | | 1,500 | 87,500 |
| Mikael Aro (Dep. Ch.) | 50,000 | 6,000 | 2,500 | 1,500 | 60,000 |
| Jannica Fagerholm | 37,000 | 6,000 | 5,000 | | 48,000 |
| Matti Kyytsönen | 37,000 | 6,000 | 2,500 | | 45,500 |
| Matti Naumanen | 37,000 | 6,000 | | | 43,000 |
| Anu Nissinen | 37,000 | 6,000 | | 1,500 | 44,500 |
| Toni Pokela | 37,000 | 6,000 | | | 43,000 |
| Total | 315,000 | 42,000 | 10,000 | 4,500 | 371,500 |

* Reported on a cash basis.



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 Chairman of the Group Management Board since 1 January 2015.

Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2016 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2017 to the salaries and fringe benefits for 2016.

Salaries, bonuses and fringe benefits for the President and CEO

| Description | 2017 | 2016 |
|---|-------------------|-------------------|
| Fixed monetary salary | €934,500 | €873,600 |
| The maximum amount of performance bonus is a sum corresponding to 8 months' monetary salary | €490,000 | €420,000 |
| Share awards | €1,398,030 | €857,255 |
| Car and mobile phone benefits | €26,907 | €23,160 |
| Total | €2,849,437 | €2,174,015 |

In 2017, €1,398,030, or a total of 16,086 shares (maximum amount 21,000 shares), was paid as share award based on the 2016 performance period. The commitment period for share awards granted for the 2016 performance period will end on 31 Dec. 2019.

In 2016, €857,255, or a total of 11,214 shares (maximum amount 21,000 shares), was paid based on the 2015 performance period.

The euro value of the share awards paid in 2017 and 2016 has been calculated using the trade-weighted average share price on the date of assignment. The share awards paid have been net share awards, in addition to which a cash component has been paid to cover the taxes and tax-like charges. The share award

euro amounts depicted in the table comprise the combined total of the net value of the shares and the cash component.

For the 2017 performance period, the President and CEO will be paid a share award corresponding to 17,746 shares by the end of April 2018 (Board decision on 31 Jan. 2018). The share award to be paid is a gross share award, from which the applicable withholding tax is deducted and the remaining net amount is paid in shares. The maximum amount of share award to be paid for the 2017 performance period was determined at a total of 38,000 shares. The commitment period for share awards granted for the 2017 performance period will end on 10 Feb. 2021.

Retirement benefit for President and CEO

| | 2017 | 2016 |
|------------------------|---|---|
| Voluntary pension plan | Payments to voluntary pension plan totalled €1,350,000. | Payments to voluntary pension plan totalled €1,070,000. |

The amount of old-age pension 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.



Termination benefit for President and CEO

The period of notice for the President and CEO 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.

In addition, a health insurance, life insurance and leisure travel insurance have been taken out for Helander.



Other Group Management Board members

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits and the performance bonuses to 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 financial benefits of the Group Management Board members other than those responsible for lines of business, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

In addition to President and CEO Helander, Group Management Board members in 2017 were:

- **Jorma Rauhala**, Executive Vice President, building and technical trade division, deputy to President and CEO
- **Ari Akseli**, Executive Vice President, grocery trade division (as of 15 November 2017)
- **Johan Friman**, Executive Vice President, President of VV-Auto Group
- **Jukka Erlund**, Executive Vice President, Chief Financial Officer

- **Matti Mettälä**, Executive Vice President, Human Resources
- **Anne Leppälä-Nilsson**, Executive Vice President, Group General Counsel
- **Lauri Peltola**, Executive Vice President, Corporate responsibility, communications and stakeholder relations
- **Anni Ronkainen**, Executive Vice President, Chief Digital Officer

Jorma Rauhala was appointed President of Kesko's building and technical trade division and deputy to Kesko's President and CEO on 15 November 2017. Previously, Rauhala acted as President of Kesko's grocery trade division. Rauhala's predecessor **Terho Kalliokoski's** membership on the Group Management Board ended on 15 November 2017. **Ari Akseli** was appointed President of Kesko's grocery trade division on 15 November 2017. **Anne Leppälä-Nilsson** retired on 31 December 2017. As her replacement, **Mika Majoinen** was appointed Group General Counsel and a member of the Group Management Board as of 1 January 2018. **Lauri Peltola's** membership on the Group Management Board ended on 31 October 2017.

Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2016 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2017 to the salaries and fringe benefits for 2016.

Salaries, bonuses and fringe benefits for other Management Board members (excluding Helander)

| Description | 2017 | 2016 |
|--|-------------------|-------------------|
| Fixed monetary salary | €2,153,076 | €2,012,999 |
| The maximum amount of performance bonus is a sum corresponding to 4 to 5 months' monetary salary | €353,375 | €369,250 |
| Share awards | €3,528,362 | €2,149,128 |
| Car and mobile phone benefits | €150,334 | €151,977 |
| Total | €6,185,147 | €4,683,354 |

In 2017, €3,528,362, or a total of 40,598 shares (maximum amount 53,000 shares), was paid to Group Management Board (excl. the President and CEO) as share award based on the 2016 performance period. The commitment period for share awards granted for the 2016 performance period will end on 31 Dec. 2019.

In 2016, €2,149,128, or a total of 28,302 shares (maximum amount 53,000 shares), was paid based on the 2015 performance period.

The euro value of the share awards paid in 2017 and 2016 has been calculated using the trade-weighted



average share price on the date of assignment. The share awards paid have been net share awards, in addition to which a cash component has been paid to cover the taxes and tax-like charges. The share award euro amounts depicted in the table comprise the combined total of the net value of the shares and the cash component.

For the 2017 performance period, the Group Management Board (excl. President and CEO) will be paid a share award corresponding to 35,586 shares by the end of April 2018 (Board decision on 31 Jan. 2018). The share award to be paid is a gross share award, from which the applicable withholding tax is deducted and the remaining net amount is paid in shares. The maximum amount of share award to be paid for the 2017 performance period was determined at a total of 76,200 shares. The commitment period for share awards granted for the 2017 performance period will end on 10 Feb. 2021.

Retirement benefits and termination benefits for Group Management Board members (excluding Helander)

The old-age pension age of Management Board members who are members of Kesko Pension Fund is 62-63 years. The retirement age of other members according to their service contracts is 63 years, unless the Company and the director agree on extending the contract beyond the retirement age.

The amount of old-age pension for Management Group members who are members of Kesko Pension Fund is 66% of pensionable earnings for the ten (10) calendar

years preceding retirement. The retirement benefits of the other Management Board members are determined based on the Finnish Employees' Pensions Act (TyEL). Those Management Board members who are not members of Kesko Pension Fund are provided with a defined contribution supplementary pension.

In 2017, three 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. Other Management Board members are provided with a defined contribution supplementary pension.

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 period of notice is 6 months if the service contract is terminated by the Company, and 6 months if the director resigns. If the Company terminates the contract for a reason other than a material breach of contract by the director, and the director does not retire on an old-age pension or some other pension, the director is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 6-18 months' monetary salary and fringe benefits.



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 a total maximum of 1,000,000 own B shares held by the Company as treasury shares (Share issue authorisation 2016). The authorisation cancelled an earlier share issue authorisation with similar content. Based on the authorisation, own B shares held by the Company as treasury shares 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. Shares can also be issued in a directed issue, departing from the shareholder's pre-emptive right, for a weighty financial reason of the Company, 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 as treasury shares 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 authority to make decisions concerning any other matters related to the 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 2016). 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 for 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 makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation expired on 30 September 2017.

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

On 1 February 2017, the Board of Directors decided, based on the issue authorisation in force and the fulfilment of the performance criteria of the 2016 performance period of Kesko's previous 2014-2016 share plan, to grant own B shares held by the Company as treasury shares to the persons included in the target group of the 2016 performance period. This transfer of a total of 192,822 own B shares was announced in a stock exchange release on 15 March 2017. Based on 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 could be granted within a period of three years based on the fulfilment of the performance criteria. The Board decided on the performance criteria and the target group separately for each performance period. During 2017, a total of 9,850 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan 2014-2016 were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. The returns during 2017 were communicated in stock exchange releases on 12 May, 18 September and 28 December 2017. The 2014-2016 share-based compensation plan has ended.