



# REMUNERATION POLICY FOR GOVERNING BODIES OF STOCKMANN

23 February 2023



## Contents

<b>1 Introduction .....</b>	<b>3</b>
<b>2 Remuneration principles .....</b>	<b>4</b>
<b>3 Remuneration Governance .....</b>	<b>5</b>
3.1 Decision-making process of Board remuneration .....	6
3.2 Decision-making process of CEO remuneration.....	6
<b>4 Remuneration of the Board of Directors .....</b>	<b>6</b>
<b>5 Remuneration of the CEO .....</b>	<b>8</b>
5.1 Notice period and severance pay .....	11
<b>6 Discretionary changes and malus and clawback of remuneration.....</b>	<b>11</b>
<b>7 Conditions for temporary deviations from the remuneration policy .....</b>	<b>12</b>





## 1 INTRODUCTION

Stockmann Plc's Remuneration Policy for Governing Bodies (later defined as "Remuneration Policy" or "the Policy") outlines the terms and conditions and the decision-making process for the remuneration of the Board of Directors and CEO.

The purpose of this Remuneration Policy is to set out Stockmann's remuneration principles and to give our shareholders and stakeholders a clear view on how remuneration of the governing bodies at Stockmann is managed, and how the different remuneration elements relate to the company's strategy.

To ensure that Stockmann plc's Remuneration policy will advance current strategies and long-term financial success of the company, the Board of Directors of the company will present the Annual General Meeting ('AGM'), convening in spring 2023, with updated principles for the remuneration of the Board and the CEO. The remuneration policy has been prepared by the Personnel and Compensation Committee and approved by the Board of Directors. The remuneration of the Board is decided by the Annual General Meeting based on the proposal prepared by the Shareholders' Nomination Board. The Board of Directors review the remuneration of the CEO yearly. All the remuneration elements are benchmarked against market practice of similar size and type CEO roles.

The objective of the remuneration is to promote short- and long-term financial success, shareholder value and performance culture at Stockmann and enhance Stockmann's competitiveness in attracting, engaging, and retaining required talent. The purpose of our remuneration is to

- support with achieving business strategy goals, promote actions that are aligned with the interests of our shareholders, and support behaviour that is consistent with our values. Our remuneration is developed based on the needs and strategic priorities of the business.
- reward performance that meets our targets and to improve focus on our business objectives and strategy execution.
- attract, retain, and motivate by providing compensation that reward performance in delivering business results. Our monetary compensation is sufficiently competitive to be able to compete for talent.
- be transparent, consistent, easy to understand, non-discriminatory, sustainable and in-line with good governance.

Main changes in the Remuneration policy presented are as following:

- CEO's short term incentive opportunity is capped, at maximum, at an amount equalling the annual base salary. Target level is set to 50% of maximum.
- CEO's long-term incentive opportunity for each scheme cycle is capped, at maximum, at the amount equalling two times the annual base salary at grant. Target level is set to 50% of maximum.
- In addition to statutory pension, CEO can be a part of supplementary defined contribution pension plans.
- Severance payment for the CEO may be agreed to a total maximum of 12 months' base salary in addition to the six months' salary paid for the notice period upon the termination of the CEO's service by the company

The Policy has been prepared and issued in accordance with the Finnish Corporate Governance Code 2020 and the EU's Second Shareholder Rights Directive 'SRD II'.

The policy will be reviewed and presented to Annual General Meeting of Shareholders (later defined as "AGM") every 4 years or whenever substantial changes are made to it. We appreciate open dialogue and welcome feedback from our shareholders concerning the Remuneration Policy and Stockmann's remuneration practices.

Local legislation will be applied if there are discrepancies between this Policy and local legislation. Stockmann respects valid employment contracts and terms and conditions for its Governing Bodies. More information about remuneration and incentive plans can be found at [www.stockmanngroup.com](http://www.stockmanngroup.com).



## PRINCIPLES



## FOUNDATION

Job architecture / Grading structure / Overall performance evaluation / Target setting / Market benchmark data

Figure 1 Stockmann's remuneration strategy

## 2 REMUNERATION PRINCIPLES

Stockmann's remuneration principles apply in all countries to all employees of the company. These principles guide remuneration and the development of related practices, including for the CEO.

Key remuneration principles for Stockmann are alignment with business strategy, performance, competitiveness, and transparency – these principles also drive the development of our incentive plans.

Theme	The purpose of our remuneration is to...
<b>Alignment with business strategy</b>	support with achieving business strategy goals, promote actions that are aligned with the interests of our shareholders, and support behaviour that is consistent with our values. Our remuneration is developed based on the needs and strategic priorities of the business.
<b>Performance</b>	reward performance that meets our targets and to improve focus on our business objectives and strategy execution.
<b>Competitiveness</b>	attract, retain, and motivate by providing compensation that reward performance in delivering business results. Our monetary compensation is sufficiently competitive to be able compete for talent.
<b>Transparency</b>	be transparent, consistent, easy to understand, non-discriminatory, sustainable and in-line with good governance.



To evaluate and ensure the competitiveness and internal consistency of remuneration, Stockmann uses a job grading system for senior management. Stockmann's job grades are linked to job evaluation systems widely used within the external market, and in so doing, both internal consistency as well as external competitiveness can be monitored and ensured.

### 3 REMUNERATION GOVERNANCE

To ensure alignment and transparency of the remuneration related decisions for Board of Directors and the CEO, approval is given by the governing corporate body that is responsible for the appointment of the said governing body and cascading of the target setting is followed across all levels at Stockmann. This process ensures that there are no conflicts of interests and that no one is part of the decision-making process of their own remuneration.

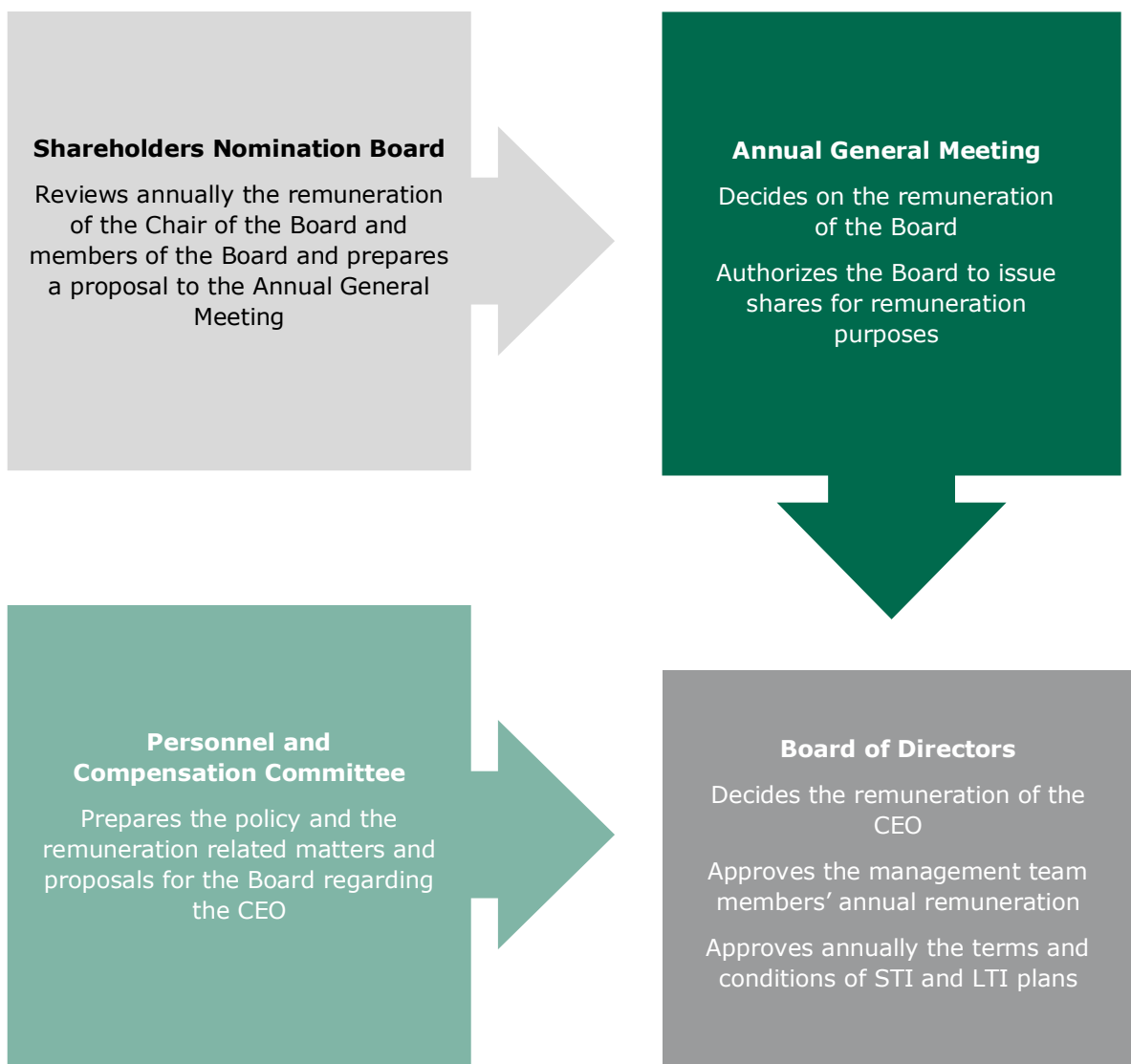


Figure 2 Decision-making process in remuneration related matters



### 3.1 Decision-making process of Board remuneration

The remuneration of the Board is decided by the Annual General Meeting based on the proposal prepared by the Shareholders' Nomination Board. In preparatory work the Shareholders' Nomination Board may also use external experts to determine the level of remuneration.

In order to avoid any conflicts of interest, the Chair of the Board of Directors, who acts as a member of the Shareholders' Nomination Board, does not take part in the preparation or decision-making or otherwise participate in the handling of such matters in the Shareholders' Nomination Board that relate to remuneration to be paid to the Board of Directors.

These decision-making processes guarantee that decisions are fair and unbiased.

### 3.2 Decision-making process of CEO remuneration

The Board of Directors decides on the remuneration for the CEO based on the proposal prepared by the Personnel and Compensation Committee.

In order to avoid any conflicts of interest, the Personnel and Compensation Committee shall consist of non-executive Board members only. The Committee also has the power in its sole discretion to retain external advisors to assist the Committee in evaluating executive compensation.

The Board of Directors review the remuneration of the CEO yearly. All the remuneration elements are benchmarked against market practice of similar size and type CEO roles.

The decisions relating to the structure of incentive plans and setting targets and maximum are concluded by the Board of Directors. Other decisions relating to the remuneration of all employees is the responsibility of the leadership team. However, the Board of Directors monitor the company's personnel matters and remuneration on a regular basis.

The distribution of shares, options, or share entitlement is determined by the Annual General Meeting. The Annual General Meeting can authorize the Board of Directors to decide on the issuance of the shares as remuneration.

Any deviation from the policy is considered as an exception and must be approved by the Board of Directors.

## 4 REMUNERATION OF THE BOARD OF DIRECTORS

The Annual General Meeting is ultimately responsible for remuneration matters related to the Board of Directors and decides the following year's remuneration at every AGM based on a proposal made by the Shareholders' Nomination Board.

Prior to making its proposal, the Shareholders' Nomination Board annually analyses and reviews the remuneration for the Chair and for the members of the Board of Directors against companies of similar size and complexity to Stockmann to ensure that the Board remuneration is at competitive market level and Stockmann can attract and retain the members of the Board of Directors with relevant skills, industry knowledge and international experience to oversee the company strategy and maximize shareholder value.

The Board of Directors' remuneration shall be designed to support this goal and is aligned with Stockmann's Remuneration Principles, as appropriate.



Shareholders' Nomination Board prepares a proposal for the Annual General Meeting, while considering previous factors.

The key principles for the review and proposal for the Stockmann's Board Remuneration, is to:

- Be **competitive** to attract and retain professionals representing a diverse and relevant mix of skills and experience
- Be **transparent** in disclosure of the Board's Remuneration
- **Align** the interests of the Board of Directors with those of the shareholders
- Be **responsive** to provide fees which are considered relevant to market practices, time commitment, and responsibilities of the roles.

The elements that are used to remunerate Stockmann's Board of Directors:

Element	Description	Policy
<b>Annual fee</b>	The annual fee is intended to be sufficient to attract and retain high-calibre individuals.	Annual fees can be paid as a combination of Stockmann's shares and cash. Meeting fees are paid in cash.
<b>Meeting fees</b>	Meeting fees are awarded to Board members for each Board and committee meeting attended.	The remuneration of the Board of Directors shall follow market practice and the fees may vary based on position, workload, responsibility, and travel required.

Board members will be reimbursed for necessary travel according to the Stockmann's travel policy. Chair and vice-chair will be reimbursed for reasonable administrative costs relating to their role.

None of the Board members shall be employed by the company or any company belonging to the company's group or acts as an advisor thereof. Thus, Board members are not eligible for any employment relationship related salaries, remuneration or financial or other benefits not related to their position as a Board member nor are they eligible for any pension scheme. The Board members shall not participate in the same remuneration arrangements with the executive management or other personnel or any incentive plans in order to ensure independence of the Board of Directors.

An annual review of the Board of Directors' fees is conducted against relevant benchmarks for international retail companies and Finnish peers, taking into consideration the duties and responsibilities of the Board and its Committees. Fees will be reviewed annually but not necessarily proposed to be increased annually.

The fees are proposed to be set at a level that is market aligned and that reflects the qualifications and competences required in view of Stockmann's size and complexity, responsibilities involved and the amount of time the Board members are expected to allocate in order to discharge their obligations as Board members.

Fees may vary based on position, workload, and responsibility.

The Annual General Meeting may at its discretion decide to utilize other fees or for fees to be paid in shares and/or cash.



## 5 REMUNERATION OF THE CEO

The remuneration for the CEO consists of fixed and variable performance related pay, which have been displayed below. The objective is to have a good balance of rewarding elements, and to guarantee a market competitive level of fixed remuneration supported with short- ("STI") and long-term ("LTI") incentive schemes aimed at driving company performance and providing appropriate reward.

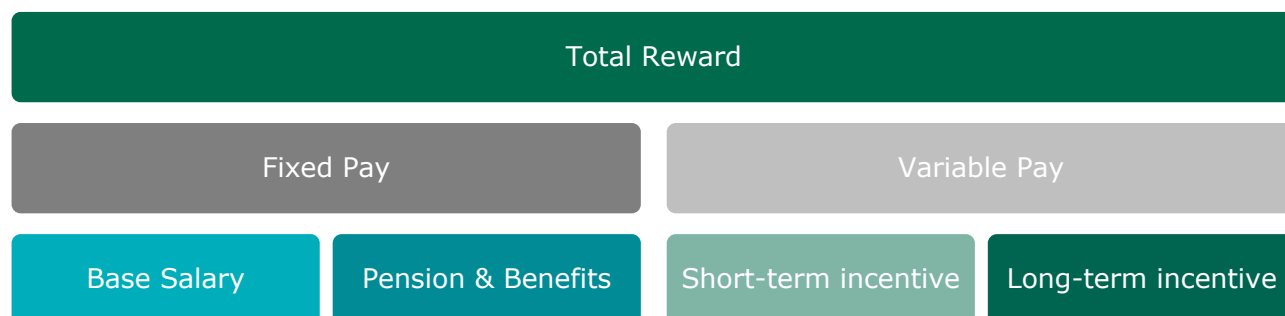


Figure 3 CEO remuneration elements

The variable pay outcomes are determined based on predefined performance criteria. Maximum opportunities have been also pre-determined for variable pay elements. When the performance criteria are met at the target level, the pay-out is half of the maximum. Board of Directors may also elect to have caps on the actual incentive pay-outs.

Base salary		
<b>Objective</b> To attract and retain the necessary experience with a market aligned base salary.	<b>Description</b> Base salary reflects the role's depth and complexity, and is dependent on the experience, knowledge and performance expected in the role	<b>Pay-for-performance</b> The competitiveness is reviewed yearly considering the individuals' performance and market conditions. Base salary is reviewed by the same principles as all employees.
Benefits		
<b>Objective</b> Retain and support recruitment with benefits that are aligned with market practice.	<b>Description</b> CEO might be entitled to life, accident, travel, and management liability insurances or similar insurances. CEO is entitled to typical benefits, such as i.e., car and mobile phone.	<b>Pay-for-performance</b> Not applicable





Pension		
<b>Objective</b> Retain and support recruitment with a pension plan that is aligned with market practice	<b>Description</b> CEO can be a part of domestic statutory and supplementary defined contribution pension plans. CEO's pension age follows the domestic statutory practice if not otherwise agreed in the service agreement with Stockmann.	<b>Pay-for-performance</b> Paid short-term incentives may affect payments into statutory pension plans.
Short-term incentive (STI)		
<b>Objective</b> Reward achieving and exceeding short-term strategic, financial, and personal targets.	<b>Description</b> Incentive is paid in cash based on the achievement of pre-determined targets. Targets are set and reviewed based on Stockmann's performance management approach. The STI metrics may consist but are not limited to of a mix of financial metrics (e.g. EBIT, revenue) either group or divisional level as well as e.g. operational, safety and sustainability related metrics, key development projects and other targets deemed relevant by the Board. Malus and clawback terms from the remuneration policy are applied to the STI if needed.	<b>Pay-for-performance</b> Board of Directors decide annually the weights and targets of the short-term incentive plan. The performance period is typically one financial year. The targets have been derived from Stockmann's long-term targets and objectives.
Long-term incentive (LTI)		
<b>Objective</b> Reward achieving and exceeding long-term strategic and financial targets.	<b>Description</b> Incentive is paid in shares based on the achievement of pre-determined targets. Targets are set and reviewed by Board of Directors based on Stockmann's performance management approach. The LTI metrics may consist of but are not limited to of a mix of financial and share performance metrics. The KPIs can consist of business aims for Group or Divisions; as well as include e.g. sustainability related metrics or other targets deemed relevant by the Board. Malus and clawback terms from the remuneration policy are applied to the LTI if needed.	<b>Pay-for-performance</b> Board of Directors decide annually the weights and targets of the long-term incentive plan. The performance period is typically three years. The targets have been derived from Stockmann's long-term targets and objectives.
Severance payment		
<b>Objective</b>	<b>Description</b>	<b>Pay-for-performance</b>



In compliance with good governance and market practice	CEO is entitled to severance pay, as described below, if the determination is not solely derived from the CEO contract.	Not applicable
--	---	----------------

**The base salary** is defined based on the position's requirements and the individual's level of relevant experience, skills, and competences for the position. The base salary is set to be competitive in the relevant market. The base salary is reviewed annually, taking into consideration the performance of the company and the individual, along with the existing market conditions. The review does not necessarily lead to a salary increase. Statutory increases are being applied as required based on the applicable regulation.

CEO can be a part of domestic statutory and supplementary **pension plans** that are defined contribution type of pension plans. The retirement age is based on the retirement scheme of the national social security system to which the person in question belongs.

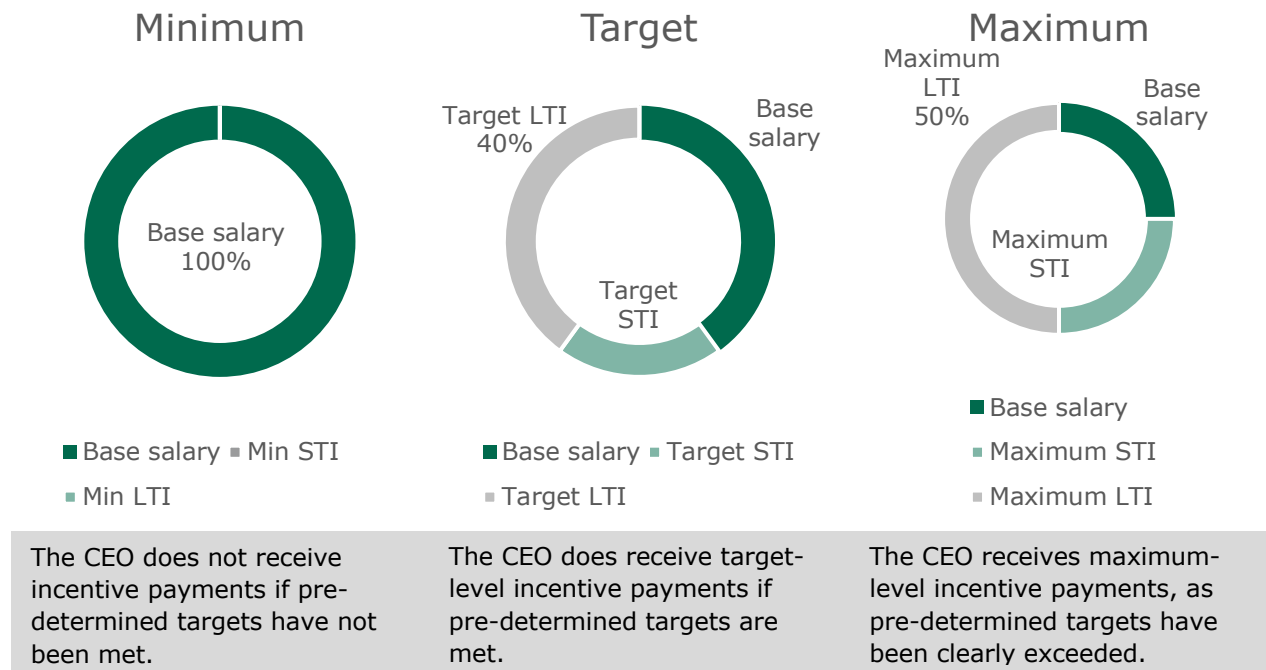
Stockmann's **benefit arrangements** are aimed at ensuring the health of our personnel. Various insurance policies, such as medical, disability, life and travel, are provided to mitigate risk in unpredictable life events. Stockmann may provide a company car to the CEO - considering the company's environmental responsibility and its seeking of more environment-friendly solutions, low emission cars are recommended.

In a situation where the CEO is recruited from a country other than the country of employment, Stockmann may provide additional benefits, such as accommodation, relocation support, family related benefits, and taxation services that are necessary in the relevant market.

The **short-term incentive scheme** is designed to provide incentives for the achievement of, and reward for, delivery of the short-term business plan. Targets for the short-term incentive plan are set on a sliding scale (min/target/max) or as on/off. The pay-out realization at maximum level requires exceptional performance from the whole company. The short-term incentive opportunity is capped, at maximum, at an amount equalling the annual base salary.

The **long-term incentive scheme** is designed to align the interests of participants with those of Stockmann's shareholders. The long-term incentive scheme is issued on annual basis, and each scheme has a three-year performance period. Pay-out is based on the achievement of strategic priorities and performance KPIs set by the Board of Directors. For the CEO, the long-term incentive opportunity for each scheme cycle is capped, at maximum, at the amount equalling two times the annual base salary at grant.

At the minimum, CEO is entitled the base salary, if no incentive targets have been achieved. The incentive opportunity for the CEO equal to three times of annual base salary (see picture below). The Board of Directors reviews and decides incentive outcomes before the incentive pay-out. The earned incentives are paid annually after the financial statement has been approved.



### 5.1 Notice period and severance pay

The service agreement for the CEO is indefinite term. The Board of Directors determine the potential notice period and severance pay. The notice period of the CEO contract is determined so that it is in line with the market practices existing at the time of entering into the contract.

The agreement expires without notice upon retirement of the CEO. The agreement can be terminated by either party. The term of notice by both, Stockmann and the CEO, is six months. During the notice period, the CEO is entitled to normal salary payments. Severance payment for the CEO may be agreed to a total maximum of 12 months' base salary in addition to the six months' salary paid for the notice period.

The severance payment shall be paid as a lump sum at the end of the contract. On top of the severance payment, CEO is entitled to annual leave payment and compensation for non-used leave days, that have been accumulated based on company policy.

## 6 DISCRETIONARY CHANGES AND MALUS AND CLAWBACK OF REMUNERATION

The Board of Directors could make discretionary changes to the remuneration model in declared exceptional situations. Discretionary changes are applied with caution and presented accordingly in the remuneration report when made.

Exceptional situations that allow the cancellation partly or fully of planned incentive payment or clawback of paid incentives, that are related to the following situations:

- manipulation of incentive programs metrics or target levels
- breaking the related laws or policies of Stockmann or other unethical behaviour
- revision to the Stockmann annual report that affects the amount of the incentive

If the incentive payment reflects a situation that is fully unexpected or Board of Directors consider that incentives pay-outs are not aligned with performance, the incentive payment can be increased or decreased based on applied terms and conditions.



## 7 CONDITIONS FOR TEMPORARY DEVIATIONS FROM THE REMUNERATION POLICY

Temporary deviations can be made if these are in the best interests of the company's long-term success. The reasons for the temporary deviation will be carefully considered and prepared by the Personnel and Compensation Committee, following an approval by the Board of Directors. The temporary deviation period shall be considered not to exceed 18 months. If the deviation has continued in such a way that it cannot be considered temporary, a new remuneration policy will be presented at the next Annual General Meeting. The possible situations to be acceptable for a temporary deviation are:

- recruitment of the CEO and nomination of the interim CEO
- change of ownership or corporate structure
- a significant change in business strategy, financial position, or market conditions
- changes in regulation
- other exceptional circumstances affecting the company where the deviation is required to serve the long-term interest and sustainability of the company

Stockmann's remuneration practices aim to create rewarding total compensation that can be used to attract, motivate, and commit competent executives to the necessary roles. In every decision concerning the remuneration of a new executive, the Board of Directors considers the interests of the company and its shareholders, prevailing market practice and the competitiveness required for remuneration.

To the extent that the deviation concerns the CEO, the Chair and Vice Chair of the Board of Directors shall the Board prepare a proposal for the deviation and the Board of Directors shall approve it. To the extent that the deviation concerns the Board of Directors, on the recommendation of the Personnel and Compensation Committee, the Board of Directors prepares a proposal for a deviation and the deviation must be approved by the General Meeting. Minor technical changes can be made to the remuneration policy without the amended remuneration policy being presented to the General Meeting.