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change

 fortum



Remuneration 2016

Remuneration Statement 2016

Dear Shareholders,

2016 was an intensive year for Fortum. In the beginning of the year, we redefined the company's strategy, which continues to focus on clean and efficient power generation, while securing a fair remuneration to our shareholders. Fortum also changed the organisational structure to enable the successful implementation of the new strategy and to utilise the possibilities the changing market environment presents.

The whole energy industry is in an exciting development phase. We are positioning Fortum to be successful also in the future. To achieve that, we are investing in businesses and competencies that are needed in the future. The financial headroom created by the sale of the distribution business in 2014–2015, puts Fortum in a unique position to participate in the European consolidation and restructuring development. The redeployment of funds is guided by our strategy with the aim to maximise cash flow while at the same time safeguarding our long-term competitiveness and profitability. Fair remuneration of all employees is an essential part of securing our future success. We want to ensure that we have the right people with the right skills in the right places, that our employees are committed and performing on a high level and that excellent performance is acknowledged and rewarded.

Our approach is to encourage and reward high performance delivered in line with the strategy, culture and values of our organization. We encourage sustainable long-term performance. With our reward and incentive programmes we seek to attract and retain employees of the highest calibre and to support creation of shareholder value.

Remuneration for the members of the Fortum Executive Management is determined by the Nomination and Remuneration Committee and subject to approval by the Board of Directors. Remuneration for the Board of Directors is proposed by the

Shareholder's Nomination Board and approved by the shareholders at the Annual General Meeting.

Over the year our management and employees have worked hard on delivering the business strategy. The year was challenging for the whole industry due to the low market prices. Fortum's results were further burdened by low hydro production volumes due to low precipitation. However, the financial targets in the short-term incentive (STI) plan were reached since our performance under the prevailing market conditions was good.

Due to satisfactory performance during the earnings period 2013–2015 the 2013–2018 long-term incentive (LTI) plan exceeded the minimum performance criteria and vested at 42%. This resulted in approximately 260,000 shares being awarded to eligible participants in 2016. The performance for the earnings period 2014–2016 was lower but exceeded the minimum performance criteria and the 2014–2019 LTI plan vested at 27%.

During 2016, the Nomination and Remuneration Committee reviewed the structure of LTI arrangement for key employees and executives to ensure that it meets the guidance set out in the latest Government Resolution on State-Ownership Policy, European best practices and that it continues to support the business strategy. As a result of this review an amended LTI programme was approved by the Board of Directors in December. In this programme the approach to performance measures, the release of shares and the share ownership requirement for the Fortum Executive Management have been updated. These changes will take effect from the 2017–2019 LTI plan.

We have also made some changes to the presentation of the Remuneration Statement to improve transparency and usability. The Statement is presented in three parts: (i) our approach to the governance of remuneration at Fortum; (ii) the remuneration policy which sets our remuneration principles and a summary of the remuneration framework for Fortum Executive Management



and (iii) the annual report on remuneration, which sets out how the Board of Directors and Fortum Executive Management were remunerated in the year under review. The Remuneration Statement has been prepared in accordance with the Finnish Corporate Governance Code and we welcome any feedback that you have and will continue to develop our reporting procedures further.

Sari Baldauf

Chairman of the Board of Directors

Chairman of the Nomination and Remuneration Committee

Remuneration Governance

Remuneration at Fortum is directed by the Group's remuneration principles and Fortum's general compensation and benefits practices. This Remuneration Statement has been prepared and issued in accordance with the Finnish Corporate Governance Code 2015.

The Shareholders' Nomination Board, the Annual General Meeting of Shareholders (AGM), the Board of Directors and the Nomination and Remuneration Committee are all involved in the preparations and decision-making regarding remuneration at Fortum.

Remuneration Policy

Remuneration Principles

At Fortum, we strive for a performance-focused culture where our people understand:

- the company, its strategy and performance targets,
- how they as individuals can impact the results,
- the link between business performance and remuneration, and
- the importance of delivering sustainable business results.

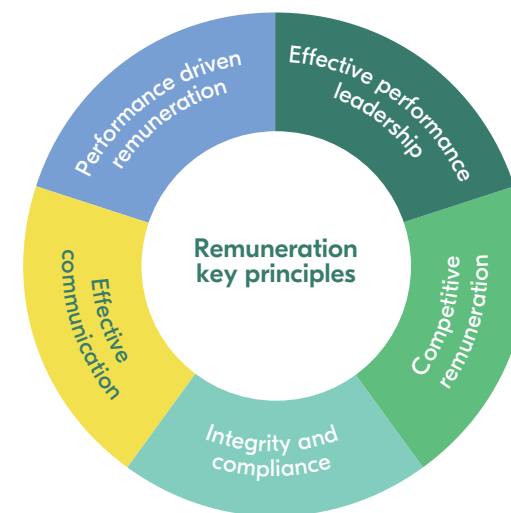
This philosophy underpins our remuneration principles which are designed to encourage and recognise high performance and behaviour in line with Fortum's values.

Terms of employment for President and CEO Pekka Lundmark

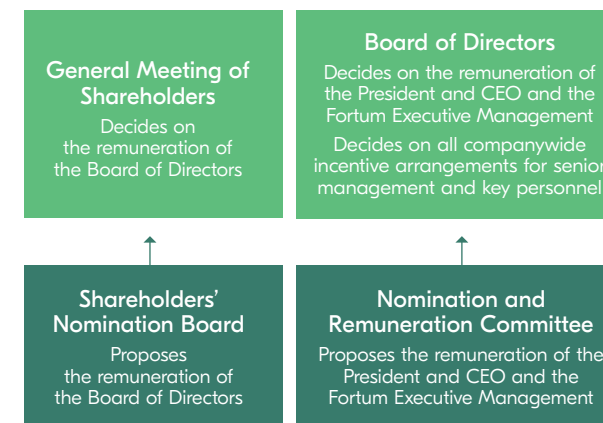
The notice period for both parties is six months. If the company terminates the contract, the President and CEO is entitled to the salary for the notice period and a severance pay equal to 12 months' salary. If the President and CEO's contract is terminated before retirement age, he is also entitled to retain the funds that have accrued in the pension fund.

The current salary of the President and CEO Pekka Lundmark is EUR 80,000/month including free car allowance and phone allowance as fringe benefits.

According to the terms of the STI and LTI programmes the President and CEO participates in the STI programme with a maximum incentive opportunity of 40% of the annual base salary and in the LTI programme starting from the 2014–2019 LTI plan. The LTI awards are calculated on a pro rata basis from 7 September 2015, when Pekka Lundmark started as President and CEO of Fortum.



Remuneration Key Principles	
Effective performance leadership	We motivate our people by setting challenging targets. We encourage initiative taking, active leadership of own and team performance as well as collaboration to enable desired behaviour and achieve business success. We emphasise setting and cascading clear targets aligned with Fortum's strategy as an essential part of good leadership on all levels. We emphasise cross-unit and cross-function collaboration in reaching our business objectives, also reflected in target setting. Rewarding is tightly linked to the overall performance leadership in Fortum.
Performance driven remuneration	We reward concrete achievements in implementing Fortum's strategy and achieving business targets and desired change. We differentiate performance and pay for real achievement. Both low and high performance have consequences.
Competitive remuneration	We take into consideration relevant market and industry practices as well as different business models and their needs when defining the level and nature of compensation and benefits, aiming to be an attractive employer for the relevant persons with needed skills and competences.
Effective communication	To gain full advantage of the compensation and benefits programs, we emphasize clear, transparent and regular communication about the company's as well as the individual's performance, in particular clarifying the link between performance and variable compensation. We invest in developing managers' knowledge of performance and reward practices and programmes.
Integrity and compliance	We run our performance and reward processes and programmes with high integrity and follow local legislation in each country where we operate. We follow the Corporate Governance Code for Finnish listed companies as well as the guidelines regarding remuneration for the management of state-owned companies. We don't accept any kind of compliance breach.



Summary of remuneration of the President and CEO and other members of the Fortum Executive Management

Base salary	Fixed salary including fringe benefits, designed to compensate for the job responsibilities and to reflect the skills, knowledge and experience of the individual.
Short-term incentives	Support achievement of the Group's financial, strategic and sustainability targets. The maximum incentive opportunity is 40% of the executive's annual base salary calculated as 12 × the salary for December of the year in question.
Long-term incentives	Focus performance on what drives business success in the long-term, rewarding long-term, sustainable high performance and ensuring alignment of interests between management and shareholders. Awards are made annually under Fortum's LTI programme with performance measured over a three-year earnings period. If the minimum performance criteria are exceeded, the resulting award, net of tax, is paid in shares which are subject to shareholding guidelines. The combined value, before taxation, of all variable compensation paid in a calendar year cannot exceed 120% of the participant's annual base salary.
Pensions	In addition to the statutory pensions the members of Fortum Executive Management have supplementary pension arrangements. All supplementary pension arrangements since year 2008, including the pension plan for the President and CEO, are defined contribution plans with a maximum premium percentage of 25% of the annual salary. For the members joining the Fortum Executive Management after the end of the year 2016 as well for those current members to whom the premium has been below 20% of the annual salary, the pension premium is 20% of the annual base salary as of 1 January 2017.
Shareholding requirement	Members of the Fortum Executive Management (including the President and CEO) are required to build and maintain a holding in Fortum shares equivalent to 100% of their annual salary. ¹⁾

1) Measured as the gross annual salary

Short-term incentives (STI)

Fortum's STI programme is designed to support the achievement of the company's financial and other relevant targets on an annual basis. All employees are covered by the programme or alternatively by a business specific or a comparable local variable pay arrangement.

The Board of Directors determines the performance criteria and award levels for the Fortum Executive Management. The target incentive opportunity is 20% and the maximum incentive opportunity is 40% of the annual base salary.

The awards for the members of the Fortum Executive Management are based on the achievement of divisional targets, Group financial performance as well as individual targets. The performance criteria used are agreed upon in a performance

discussion held at the beginning of the year. The Board of Directors assesses the performance of the President and CEO and the members of the Fortum Executive Management on a regular basis.

Awards for other employees are based on a combination of Group, divisional, functional and personal targets. The targets are set in annual performance discussions held at the beginning of the year.

Awards under the STI programme are paid solely in cash.

Long-term incentives (LTI)

The purpose of Fortum's long-term incentive programme is to support the delivery of sustainable, long-term performance, align the interests of management with those of shareholders and assist in committing and retaining key individuals.

Fortum's LTI programme provides participants with the opportunity to earn company shares. Subject to the decision of the Board of Directors, a new LTI plan commences annually.

The Board of Directors approves the Fortum management members and key individuals entitled to participate in each annually commencing LTI plan. Participation in the LTI plan precludes the individual from being a member in the Fortum Personnel Fund.

Each LTI plan begins with a three year earnings period, during which participants may earn share rights if the performance criteria set by the Board of Directors are fulfilled.

If the minimum performance criteria are not exceeded, no shares will be awarded. If performance is exceptionally good and the targets approved by the Board of Directors are achieved, the combined gross value of all variable compensation cannot exceed 120% of the person's annual salary in any calendar year.

After the earnings period has ended and the relevant taxes and other employment-related expenses have been deducted, participants are paid the net balance in the form of shares.

For LTI plans commencing in 2013 onwards, any shares awarded to Fortum Executive Management members are subject to a three-year lock-up period in accordance with the State-Ownership Guidelines in force at the time the LTI plan was introduced. Subject to a decision by the Board of Directors, the lock-up period can be reduced to one year for those Fortum Executive Management members whose aggregate ownership of Fortum shares is greater than or equal to their annual salary. For other participants (i.e. below the Fortum Executive Management), the lock-up period is one year. For LTI plans commencing prior to 2013, the lock-up period is three years for all LTI plan participants.

If the value of the shares decreases or increases during the lock-up or retention period, the participant will carry the potential loss or gain.

To reflect the recent changes in the State-Ownership Guidelines, for LTI plans commencing in 2017 and beyond, no lock-up period will be applied for any participants. However, Fortum Executive Management members whose aggregate ownership of Fortum shares does not yet fulfil the shareholding requirement are required to retain at least 50% of the shares received until the required level of shareholding is met.

Remuneration that has been paid out without grounds shall be reclaimed in accordance with the regulations on returning an unjust enrichment and remuneration. A payment which has been influenced by the recipient's unethical conduct, may be recovered based on the terms of the LTI Programme.

Aon Hewitt and PCA Corporate Finance acted as advisers for the Nomination and Remuneration Committee in planning the amended LTI programme valid from 2017 onward.

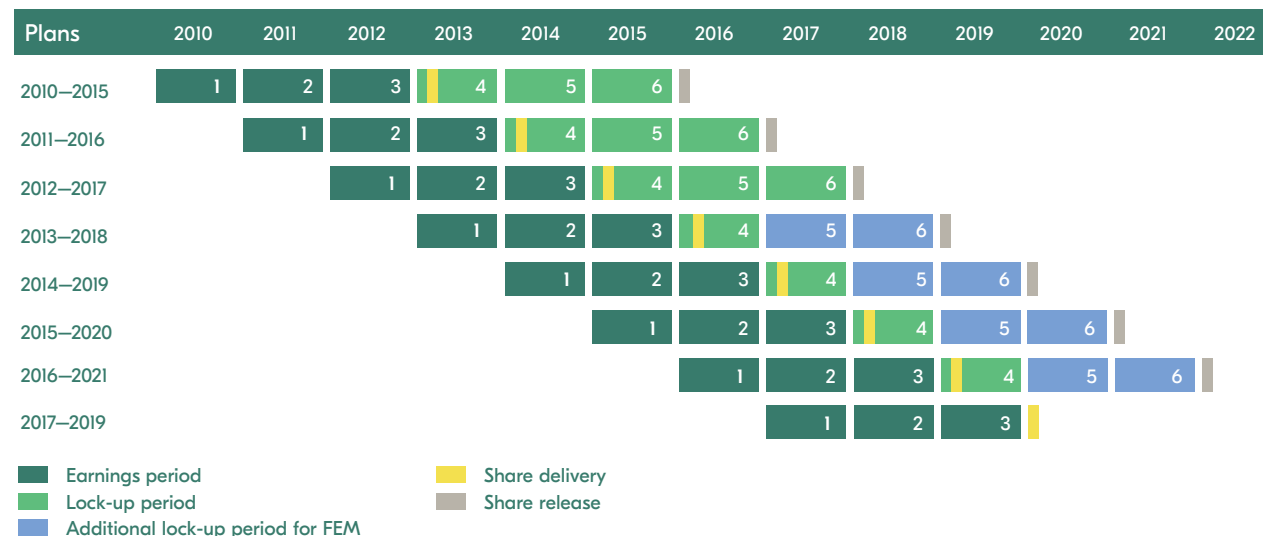
Pensions

Members of the Fortum Executive Management in Finland participate in the Finnish TyEL pension system, which provides a retirement benefit based on earnings in accordance with the prescribed statutory system. Under the Finnish pension system earnings include base pay, annual bonuses and taxable fringe benefits, but gains realised from the LTI plans are not included in that definition. Members of the Fortum Executive Management outside Finland participate in pension systems based on statutory pension arrangements and market practices in their local countries.

In addition to the statutory pensions, the members of the Fortum Executive Management have supplementary pension arrangements. The Group principle is that all new supplementary pension arrangements for the President and CEO as well as the Fortum Executive Management are defined contribution plans.

The retirement age for Fortum's President and CEO is 63, and for the other members of the Fortum Executive Management the retirement age varies between 60 and 65. For the President and CEO and other members of the Fortum Executive Management, the maximum supplementary pension premium is 25% of the annual base salary. For the members joining the Fortum Executive Management after the end of the year 2016 as well as for those current members to whom the premium has been below 20% of the annual salary, the pension premium is 20% of the annual base salary as of 1 January 2017. Members of the Fortum Executive Management, who joined Fortum prior to 1 January 2009, are entitled to a supplementary defined benefit pension plan in which the benefit is 60% or 66% of the final pensionable salary. In these cases, the pension is provided by an insurance company or Fortum's Pension Fund.

Long-term incentive programme



Fees for the Board of Directors

The Annual General Meeting on 5 April 2016 confirmed the following annual fees for the members of the Board of Directors:

Thousands of euros	2016	2015
Chairman	75	75
Deputy Chairman	57	57
Chairman of the Audit and Risk Committee ¹⁾	57	57
Members	40	40

¹⁾ If not Chairman or Deputy Chairman simultaneously

Every member of the Board of Directors receives a fixed yearly fee and additional fees for each meeting attended. The fees in 2016 were the same as in previous years.

A meeting fee of EUR 600 is paid for board and committee meetings. For board members living outside Finland in Europe, the meeting fee is EUR 1,200; for board members living outside Europe, the meeting fee is EUR 1,800. For board and committee meetings held as a telephone conference, the meeting fee is paid as EUR 600 to all members. No fee is paid for decisions made without a separate meeting.

Board members are not in an employment relationship or service contract with Fortum, and they are not given the opportunity to participate in Fortum's STI or LTI programme, nor does Fortum have a pension plan that they can opt to take part in. The compensation for the board members is not tied to the sustainability performance of the Group.

Board members are entitled to travel expense compensation in accordance with the company's travel policy.

Annual Remuneration Report 2016

This part of the report sets out the remuneration payable to the President and CEO and members of the Fortum Executive Management in 2016.

Remuneration of the President and CEO and the Fortum Executive Management

The table below includes the salaries and fringe benefits, STI and LTI programme payments to the President and CEO and to the Fortum Executive Management during the year. The STI payments are based on the 2015 targets and achieved results. The LTI programme includes the shares delivered during the year 2016.

The STI and LTI programme payments to Fortum Executive Management members, including the President and CEO, amounted to a total of EUR 1,957 thousand (EUR 3,479 thousand in 2015), which corresponds to 0.82% (1.32% in 2015) of the total compensation in the Fortum Group. The figures exclude payments to the employees of the divested electricity distribution business. The table also includes payments made to supplementary pension arrangements for the President and CEO and for Fortum Executive Management.

Salary and Fringe Benefits

The base salary levels are set taking into account the nature of the role, local and international market conditions and individual

	President & CEO				Other Members of Fortum Executive Management	
	2016	2015			2016	2015
Thousands of euros	Pekka Lundmark	Pekka Lundmark, (President and CEO since 7 Sep 2015)	Timo Karttinen (Interim President and CEO until 6 Sep 2015)	Tapio Kuula (President and CEO until 31 Jan 2015)		
Salaries and fringe benefits	982	305	372	279	3,581	3,367
Short-term incentive	30	-	n/a	170	233	638
Long-term incentive	-	-	n/a	1,146	1,694	1,526
Supplementary pensions	356	-	n/a	25	560	661
Total	1,368	305	372	1,620	6,068	6,192

experience and performance. The salary for the President & CEO, Pekka Lundmark, was EUR 80,000 per month, including free car allowance and phone allowance as fringe benefits.

Short-term incentives

Short-term incentives for 2015 (paid in 2016)

The STI for 2015 for the members of Fortum Executive Management was based on:

Weighting	Measure *	Outcome
40%	Comparable Operating Profit	Below threshold
40%	Free Cash Flow from operations	Between threshold and target
5%	Major environmental, health & safety (EHS) incidents	Maximum
5%	Lost workday injury frequency	Maximum
5%	Serious accidents	Below threshold
5%	Dow Jones Sustainability Index development	Between target and maximum

*) In addition to these measures a personal multiplier based on the achievement of personal targets is applied.

The STI payments for the Fortum Executive Management were on average 7% of the salary (17% of the maximum). The aggregate STI payment to members of Fortum Executive Management for 2015 performance was EUR 0.26 million (EUR 0.8 million in 2014).

In total, EUR 9.6 million (EUR 13.7 million in 2014) was paid as short-term incentives across the Group for the financial year 2015. The amounts reported exclude payments to the personnel of the divested Swedish electricity distribution business. The amount paid decreased compared to the previous year, mainly due to the lower financial performance of the company.

Short-term incentives for 2016 (payable in 2017)

The STI for 2016 for the members of Fortum Executive Management was based on:

Weighting	Measure	Outcome
40%	Comparable Operating Profit	Between target and maximum
20%	Free Cash Flow	Between target and maximum
5%	Lost workday injury frequency	On target
5%	Serious accidents	Below threshold
30%	Individual targets	Individually assessed

The outcome of the STI performance measures were above the set target level regarding Group financial targets. The other Group level safety target (Lost workday injury frequency) reached the target level whereas the other one (Serious accidents) did not reach the threshold level.

The achieved performance based on the individual targets is evaluated in connection with the individual performance review at the beginning of the year. The accrued incentives for the year 2016 are paid out in April 2017.

Short-term incentives for 2017 (payable in 2018)

As in 2016, the short-term incentive targets for the Fortum Executive Management in 2017 are based on the achievement of divisional targets, Group financial performance as well as individual targets. The STI performance measures and weighting are: 60% Comparable Operating Profit (for division heads 30% Group level and 30% own division), 10% lost workday injury frequency and 30% individual strategic targets.

Long-term incentives

The table sets out the pipeline of recently granted LTI awards, including details of the shares delivered in the reporting period.

In December 2016, the Board of Directors approved the amended LTI programme. The share awards will not be subject to a minimum lock-up period but members of the Fortum Executive Management will be required to retain 50% of the shares until they have achieved their required shareholding level of 100% of the annual salary. For other key employees included in the new LTI plan no lock-up period will be applied. Under the 2017–2019 LTI plan, the Board-approved earnings criteria will be based on earnings per share (50%) and relative total shareholder return (50%) measured relative to the European Utilities Group.

LTI plan	2012–2017	2013–2018	2014–2019	2015–2020	2016–2021
Earnings period	2012–2014	2013–2015	2014–2016	2015–2017	2016–2018
Share delivery year	2015	2016	2017	2018	2019
Measures	A combination of EBITDA, EPS and share price development	A combination of EBITDA, EPS and share price development	50% EPS, 25% TSR & 25% Reputation Index	30% EPS, 30% Return on Net Assets (Group or Divisional), 20% TSR and 20% Group EBITDA	50% EPS & 50% TSR
Payment (% of annual salary)	48%	42%	27%		
Total shares delivered *)	213,072	262,989			
Lock-up Period	3 years	3 years (FEM) (reduced to 1 year if the shareholding requirement is achieved)			
Shares delivered* to members of Fortum Executive Management:					
Pekka Lundmark ¹⁾	-	-			
Alexander Chuvayev ²⁾	21,781	27,897			
Timo Karttinen	4,261	6,399			
Kari Kautinen	2,956	4,014			
Per Langer	3,751	4,677			
Risto Penttinen ³⁾	n/d ⁴⁾	n/d ⁴⁾			
Markus Rauramo	5,029	7,383			
Matti Ruotsala	6,706	7,443			
Arto Rätty ³⁾	-	-			
Sirpa-Helena Sormunen	-	-			
Tiina Tuomela	2,648	3,902			
Former members of the Fortum Executive Management:					
Tapio Kuula ⁵⁾	30,271 ⁵⁾	-			
Helena Aatinen ⁶⁾	2,352	3,188			
Mikael Frisk ⁶⁾	3,926	5,028			
Esa Hyvärinen ⁶⁾	2,384	3,053			

*) after deduction of taxes and tax related expenses

- 1) President and CEO since 7 September 2015. Pekka Lundmark participates in the LTI plans starting from the 2014–2019 LTI plan
- 2) Share rights will be paid in cash instead of shares after the three-year lock-up period due to local legislation
- 3) Member of FEM from 1 April 2016
- 4) Shares delivered before the term in the Fortum Executive Management are not disclosed
- 5) President and CEO until 31 January 2015. Includes the shares Tapio Kuula received from the LTI plans commenced in 2012, 2013 and 2014. The shares are under lock-up until the spring 2018
- 6) Member of FEM until 31 March 2016

Shareholdings for Members of the Fortum Executive Management as of 31 December 2016

The following table shows the shareholdings of the President and CEO and other members of the Fortum Executive Management as of 31 December 2016. Members of the Fortum Executive Management are required to build and maintain a shareholding equivalent to 100% of the annual salary.

		Shareholding
Pekka Lundmark	President and CEO	56,250
Alexander Chuvaev	Executive Vice President, Russia Division	14,713
Timo Karttinen	Chief Financial Officer	87,090
Kari Kautinen	Senior Vice President, M&A and Solar & Wind Development	29,246
Per Langer	Senior Vice President, Technology and New Ventures	29,212
Risto Penttinen	Senior Vice President, Strategy, People and Performance	8,795
Markus Rauramo	Executive Vice President, City Solutions	27,847
Matti Ruotsala	Deputy CEO	46,509
Arto Rätty	Senior Vice President, Corporate Affairs and Communications	0
Sirpa-Helena Sormunen	General Counsel	3,000
Tiina Tuomela	Executive Vice President, Generation	12,991

Fortum Personnel Fund

Fortum employees in Finland, who are not participating in the long-term incentive programme, belong to the Fortum Personnel Fund. The amount paid annually to the Personnel Fund is based on the achievement of annual targets. The payments to the fund in 2016 totalled EUR 0.6 million (2015: EUR 3.7 million).

Remuneration for the Board of Directors in 2015 and 2016

The following table includes the compensation paid to the Board of Directors during 2016 and 2015. The amounts include fixed yearly fees and meeting fees.

Thousands of euros	2016	Board service 2016	2015	Board service 2015
Board members at 31 December 2016				
Sari Baldauf, Chairman	87	1 Jan–31 Dec	86	1 Jan–31 Dec
Kim Ignatius, Deputy Chairman	70	1 Jan–31 Dec	68	1 Jan–31 Dec
Minoo Akhtarzand	61	1 Jan–31 Dec	61	1 Jan–31 Dec
Heinz-Werner Binzel	61	1 Jan–31 Dec	60	1 Jan–31 Dec
Eva Hamilton	56	1 Jan–31 Dec	43	31 Mar–31 Dec
Tapio Kuula	52	1 Jan–31 Dec	38	31 Mar–31 Dec
Veli-Matti Reinikkala	44	5 Apr–31 Dec	-	-
Jyrki Talvitie	70	1 Jan–31 Dec	66	1 Jan–31 Dec
Former board members				
Ilona Ervasti-Vaintola	-	-	13	1 Jan–31 Mar
Christian Ramm-Schmidt	-	-	13	1 Jan–31 Mar
Petteri Taalas	17	1 Jan–5 Apr	51	1 Jan–31 Dec

The following table shows the shareholdings of the Board of Directors as of 31 December 2016.

	Shareholding
Sari Baldauf, Chairman	2,300
Kim Ignatius, Deputy Chairman	2,400
Minoo Akhtarzand	0
Heinz-Werner Binzel	0
Eva Hamilton	40
Tapio Kuula	201,200
Veli-Matti Reinikkala	3,000
Jyrki Talvitie	0