



Join the  
change

Remuneration

2017

# Remuneration Statement 2017

Dear Shareholders,

Fortum has determinedly executed the strategy that was designed and introduced in spring 2016 to ensure the company's successful growth and continued profitability as Europe transitions towards clean energy. The most visible steps include our investment in Uniper, the restructuring of our Hafslund ownership, the acquisition of Ekokem, and our sizeable investments into new renewable and low carbon production such as wind, solar, biomass and waste-to-energy power plants.

At the same time, we are strengthening our corporate culture to ensure that the company is ready to meet the challenges brought upon the rapidly changing operating environment. For a company undergoing change it is of utmost importance that we have leaders and employees who are highly motivated and consistently performing very well. During the year we introduced Open Leadership as the main framework for developing our people and leadership culture. Our refreshed values, our leadership principles, as well as fair and transparent remuneration are key enablers to the success and continuous improvement of our company.

At Fortum we expect a lot from our people and in turn reward the high performance they deliver in line with our strategy, culture and values. We emphasise clear measurable targets aligned with Fortum's strategy and our reward and incentive programmes are designed to attract and retain high calibre employees and to support the creation of shareholder value.

The criteria for Fortum's short-term incentive plan are set annually by the Board of Directors and is based on the company's financial and operational performance. 2017 was a good year for Fortum as our strategy implementation proceeded well and the financial results improved clearly. Accordingly, the financial targets in the short-term incentive plan were reached. However, the performance in our key safety indicator Lost workday injury frequency was not on a satisfactory level and we have further increased our efforts to reach best practice safety levels in all units.



The criteria for Fortum's long-term incentive plans are set by the Board of Directors at the beginning of each plan. The performance during the earnings period 2014–2016 was satisfactory and the 2014–2019 long-term incentive plan exceeded the minimum performance criteria and vested at 27%. This resulted in approximately 150,000 shares being awarded to eligible participants in 2017. The performance for the earnings period 2015–2017 also exceeded the minimum performance criteria and the 2015–2020 LTI plan vested at 26% on average.

Fortum's continued success relies to a great extent on the dedication and hard work of our people. We want to be a company where people grow, thrive and exceed our – and their own – expectations. We trust that this is the best way to reach sustainable long-term success.

**Matti Lievonen**  
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 as well as guidance set out in the Government Resolution on State-Ownership Policy. 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

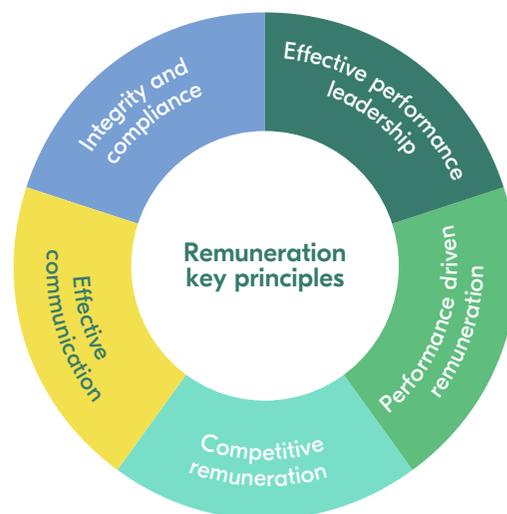
At Fortum, we strive for a performance-focused culture where our people understand:

- 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.

Fortum follows a total compensation approach where all remuneration elements are taken into account when setting and reviewing salaries; base salaries, short- and long-term incentive opportunities as well as different benefits.

Key Remuneration Principles	
<b>Effective performance leadership</b>	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.
<b>Performance driven remuneration</b>	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.
<b>Competitive remuneration</b>	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.
<b>Effective communication</b>	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.
<b>Integrity and compliance</b>	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

<b>Base salary</b>	Fixed salary including fringe benefits, designed to compensate for the job responsibilities and to reflect the skills, knowledge and experience of the individual.
<b>Short-term incentives</b>	Support achievement of the Group's financial, strategic and sustainability targets. The maximum incentive opportunity is 40% of the executive's annual base salary of the year in question.
<b>Long-term incentives</b>	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.
<b>Pensions</b>	In addition to the statutory pensions, the members of Fortum Executive Management have supplementary pension arrangements. All supplementary pension arrangements since 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 members joining the Fortum Executive Management after the end of 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.
<b>Shareholding requirement</b>	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. <sup>1)</sup>

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 awards are based on the achievement of Group financial performance, divisional targets, and individual targets. The target incentive opportunity is 20% and the maximum incentive opportunity is 40% of the annual base salary. 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.

In addition to the STI programme, other variable pay mechanisms may be used to reward employees for limited specific purposes, e.g. projects with significant importance and impact on Fortum level or to reward for extraordinary commitment and effort. The use of such mechanisms are approved according to the principles and within the lines set out in the Fortum Remuneration Policy.

### 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. Under the LTI programme and subject to the decision of the Board of Directors, a new LTI plan commences annually.

The Board of Directors approves participation of the Fortum Executive Management members in each annually commencing LTI plan. Subject to a decision by the Board of Directors the President and CEO is authorised to decide on individual participants and potential maximum awards for other participants than the Fortum Executive Management in accordance with the nomination guidelines approved by the Board of Directors. 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 changes in the State-Ownership Guidelines in 2016, for LTI plans commencing in 2017 and beyond, the share awards will not be subject to a minimum lock-up period. 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.

The Board of Directors has the right to revise the targets set in the incentive plans, deviate from the payment based on achievement of the set earnings criteria, or to discontinue any ongoing incentive plan. 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.

The Nomination and Remuneration Committee is using independent advisors in support of its work.

## 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. In the Finnish pension system earnings are based on base pay, annual bonuses and taxable fringe benefits, but gains realised from the LTI plans are not included. 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. Finnish members of the Fortum Executive Management, who joined Fortum prior to 1 January 2009, are entitled to a supplementary defined benefit pension plan. This currently applies to only one member of the Fortum Executive Management and in this case, the pension is provided by Fortum's Pension Fund.

## Terms of employment for President and CEO Pekka Lundmark

The President and CEO is entitled to a base salary 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.

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.

## Fees for the Board of Directors

The Annual General Meeting on 4 April 2017 confirmed the following annual fees for the members of the Board of Directors:

Thousands of euros	2017	2016
Chairman	75	75
Deputy Chairman	57	57
Chairman of the Audit and Risk Committee <sup>1)</sup>	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 2017 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 2017

This part of the report sets out the remuneration payable to the President and CEO and members of the Fortum Executive Management in 2017.

### Remuneration of the President and CEO and the Fortum Executive Management

The table below includes the salaries and fringe benefits as well as 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 2016 targets and achieved results. The LTI payments includes the shares delivered during the year 2017.

The STI and LTI programme payments to Fortum Executive Management members, including the President and CEO, amounted to a total of EUR 2,246 thousand (EUR 1,957 thousand in 2016), which corresponds to 0.73% (0.82% in 2016) of the total compensation in the Fortum Group. The table also includes payments made to supplementary pension arrangements for the President and CEO and for Fortum Executive Management.

Thousands of euros	President & CEO Pekka Lundmark		Other Members of Fortum Executive Management	
	2017	2016	2017	2016
Salaries and fringe benefits	998	982	3,387	3,581
Short-term incentive	271	30	962	233
Long-term incentive	136	-	877	1,694
Supplementary pensions	229	356	636	560
<b>Total</b>	<b>1,634</b>	<b>1,368</b>	<b>5,862</b>	<b>6,068</b>

The figures include actual payments and shares delivered during 2017. The amounts differ from those presented in the consolidated financial statements (► Note 10.4). The financial statements include costs accrued for the year 2017, part of which will be paid later.

### 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 experience and performance. The salary for the President and 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 2016 (paid 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 STI payments for the Fortum Executive Management were on average 28% of the salary (70% of the maximum). The aggregate STI payment to members of Fortum Executive Management for 2016 performance was EUR 1.23 million (EUR 0.26 million for 2015).

In total, EUR 16.6 million (EUR 9.6 million for 2015) was paid as short-term incentives across the Group for the financial year 2016. The amount paid increased compared to the previous year, mainly due to better realisation of the set financial targets.

#### Short-term incentives for 2017 (payable in 2018)

The STI for 2017 for the members of Fortum Executive Management was based on:

Weighting	Measure	Outcome
60%	Comparable Operating Profit	Between target and maximum
10%	Lost workday injury frequency	Below threshold
30%	Individual targets	Individually assessed

The outcome of the Group level Comparable Operating Profit was above the set target level. The Group level Lost workday injury frequency 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 2017 are paid out in April 2018.

### Short-term incentives for 2018 (payable in 2019)

As in 2017, the short-term incentive targets for the Fortum Executive Management in 2018 are based on the achievement of divisional targets, Group financial performance as well as individual targets. The STI performance measures and weighting are: 40% Comparable Operating Profit, 20% Operational Free Cash Flow, 10% lost workday injury frequency and 30% individual 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.

LTI plan	2013–2018	2014–2019	2015–2020	2016–2021	2017–2019
Earnings period	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019
Share delivery year	2016	2017	2018	2019	2020
Number of participants (31 December 2017)	76	85	98	105	90
Number of shares delivered <sup>1)</sup>	241,699	153,956	-	-	-
Measures	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	50% EPS & 50% TSR
Payment (% of annual salary)	42%	27%	26%		
<b>Shares delivered to members of Fortum Executive Management: <sup>2)</sup></b>					
Pekka Lundmark <sup>3)</sup>	-	4,463			
Alexander Chuvayev <sup>4)</sup>	27,897	15,480			
Kari Kautinen	4,014	2,274			
Per Langer	4,677	2,358			
Risto Penttinen <sup>5)</sup>	n/d <sup>6)</sup>	1,793			
Markus Rauramo	7,383	4,185			
Arto Rätty <sup>5)</sup>	-	-			
Mikael Rönblad <sup>7)</sup>	-	-			
Sirpa-Helena Sormunen	-	1,777			
Tiina Tuomela	3,902	2,563			
<b>Former members of the Fortum Executive Management:</b>					
Helena Aatinen <sup>8)</sup>	3,188	n/d <sup>6)</sup>			
Mikael Frisk <sup>8)</sup>	5,028	n/d <sup>6)</sup>			
Esa Hyvärinen <sup>8)</sup>	3,053	n/d <sup>6)</sup>			
Timo Karttinen <sup>9)</sup>	6,399	3,626			
Matti Ruotsala <sup>10)</sup>	7,443	4,176			

1) For the 2013–2018 and 2014–2019 LTI plans, the number of shares delivered after deduction of taxes and tax related expenses. For the 2015–2020, 2016–2021, and 2017–2019 LTI plans the shares will be delivered after the three year earnings period, subject to the achievement of the earnings criteria

2) After deduction of taxes and tax related expenses

3) President and CEO since 7 September 2015. Pekka Lundmark participates in the LTI plans starting from the 2014–2019 LTI plan

4) Due to local legislation, share rights will be paid in cash instead of shares after the three-year lock-up period

5) Member of FEM from 1 April 2016

6) Shares delivered before or after the term in the Fortum Executive Management are not disclosed

7) Member of FEM from 15 May 2017

8) Member of FEM until 31 March 2016

9) Member of FEM until 28 February 2017

10) Member of FEM until 31 October 2017

The Board of Directors approved the amended LTI programme in December 2016. 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 are based on earnings per share (50%) and relative total shareholder return (50%) measured against the European Utilities Group. Under the plan, the maximum gross number of shares to be delivered after the earnings period in 2020 is 580,120 shares (based on participant status on 31 December 2017). In December 2017, the Board of Directors approved the same earnings criteria, i.e. earnings per share (50%) and relative total shareholder return (50%) for the 2018–2020 LTI plan.

### Shareholdings for Members of the Fortum Executive Management as of 31 December 2017

The following table shows the shareholdings of the President and CEO and other members of the Fortum Executive Management as of 31 December 2017. 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	60,713
Alexander Chuvayev	Executive Vice President, Russia Division	14,713
Kari Kautinen	Senior Vice President, M&A and Solar & Wind Development	30,720
Per Langer	Executive Vice President, City Solutions	31,570
Risto Penttinen	Senior Vice President, Strategy, People and Performance	10,588
Markus Rauramo	Chief Financial Officer	32,032
Arto Rätty	Senior Vice President, Corporate Affairs and Communications	0
Mikael Rönnblad	Executive Vice President, Consumer Solutions	0
Sirpa-Helena Sormunen	General Counsel	4,777
Tiina Tuomela	Executive Vice President, Generation	15,554

### 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 2017 totalled EUR 2.8 million (2016: EUR 0.6 million).

### Remuneration for the Board of Directors in 2016 and 2017

The following table includes the compensation paid to the Board of Directors during 2016 and 2017. The amounts include fixed yearly fees and meeting fees.

Thousands of euros	2017	Board service 2017	2016	Board service 2016
<b>Board members at 31 December 2017</b>				
Sari Baldauf, Chairman	84	1 Jan–31 Dec	87	1 Jan–31 Dec
Matti Lievonen, Deputy Chairman	49	4 Apr–31 Dec	-	-
Heinz-Werner Binzel	57	1 Jan–31 Dec	61	1 Jan–31 Dec
Eva Hamilton	54	1 Jan–31 Dec	56	1 Jan–31 Dec
Kim Ignatius, Chairman of the Audit and Risk Committee	67	1 Jan–31 Dec	70	1 Jan–31 Dec
Anja McAlister	47	4 Apr–31 Dec	-	-
Veli-Matti Reinikkala	58	1 Jan–31 Dec	44	5 Apr–31 Dec
<b>Former board members</b>				
Minoo Akhtarzand	16	1 Jan–4 Apr	61	1 Jan–31 Dec
Tapio Kuula <sup>1)</sup>	43	1 Jan–7 Nov	52	1 Jan–31 Dec
Petteri Taalas	-	-	17	1 Jan–5 Apr
Jyrki Talvitie	17	1 Jan–4 Apr	70	1 Jan–31 Dec

1) In November 2017, Tapio Kuula passed away

The following table shows the shareholdings of the Board of Directors as of 31 December 2017.

		Shareholding
Sari Baldauf, Chairman		2,300
Matti Lievonen, Deputy Chairman		1,500
Heinz-Werner Binzel		0
Eva Hamilton		40
Kim Ignatius, Chairman of the Audit and Risk Committee		2,400
Anja McAlister		0
Veli-Matti Reinikkala		3,000