

5 February 2020

Reviewed by, Date  
Nomination and Remuneration Committee,  
4 February 2020

Approved by, Date  
Board of Directors,  
5 February 2020

Valid from: 17 March 2020

## **FORTUM REMUNERATION POLICY FOR GOVERNING BODIES**

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## 1 INTRODUCTION

The following sections set out Fortum’s Remuneration Policy (“Policy”) for the President and CEO (and for any Deputy CEO should such a Deputy CEO be appointed) and for the Board of Directors. It will be presented to the Annual General Meeting (AGM) 2020, and the AGM’s resolution on the matter will be advisory.

This Policy has been developed in accordance with the requirements set forth by the amended EU Shareholders’ Rights Directive, which has been implemented in Finland mainly into the Limited Liability Companies Act, Securities Markets Act, Decree of the Ministry of Finance on the remuneration policy and remuneration report on a share issuer, and the Finnish Corporate Governance Code 2020 as well as in accordance the guidance set out in the Government Resolution on State-Ownership Policy. This Policy shall be in effect until the 2024 AGM, unless the Board of Directors considers substantial changes to it before that and brings it for an advisory resolution to an earlier AGM.

## 2 REMUNERATION GOVERNANCE

We manage our remuneration through well-defined processes ensuring that no individual is involved in the decision-making related to his/her own remuneration. The Shareholders’ Nomination Board, the General Meeting of Shareholders, the Board of Directors, and the Nomination and Remuneration Committee are all involved in the preparations and decision-making regarding remuneration at Fortum.

In accordance with the Finnish Corporate Governance Code 2020, the Nomination and Remuneration Committee prepares the Remuneration Policy and the Remuneration Report for Governing Bodies. The Shareholders’ Nomination Board is involved in preparing the Remuneration Policy for the Board of Directors. The Board of Directors submits the Remuneration Policy at least every four years and Remuneration Report annually, starting in 2021, to the AGM.

Upon the recommendation of the Nomination and Remuneration Committee, the Board of Directors approves annually the compensation of the President and CEO within the confines of the Remuneration Policy for the President and CEO. The composition and duties of the Nomination and Remuneration Committee have been described in detail in the Corporate Governance Statement. In order to avoid any conflicts of interest, the Nomination and Remuneration Committee shall consist of non-executive members only. The Nomination and Remuneration Committee has the power in its sole discretion to retain external advisors in assisting in the evaluation of the executive remuneration.

The remuneration governance, principles and practices applied to the Board of Directors are described in the Board Remuneration Policy section.

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### 3 REMUNERATION PRINCIPLES AND CONSIDERATIONS

The Policy provides a remuneration structure that aligns the compensation for the President and CEO with the successful delivery of Fortum’s long-term strategy in accordance with its remuneration and leadership principles outlined below, thus reinforcing ethical and sustainable business practices as a core part of our daily operations and thereby contributing to the long-term success of the company.

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

- the company’s 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 policy builds on our remuneration principles, which are designed to encourage and recognise high performance and behaviour in line with Fortum’s values and leadership principles. Fortum follows a total compensation approach where all remuneration elements are taken into account when setting and reviewing the compensation; fixed compensation, short- and long-term incentive opportunities, as well as benefits.

<b>Fortum’s Remuneration Principles</b>	
<b>Effective leadership</b>	We motivate our people by setting clear and challenging targets aligned with Fortum’s strategy. We encourage taking initiative, active leadership of own and team performance, as well as collaboration to enable the desired behaviour and achieve business success. We emphasise cross-unit and cross-function collaboration in reaching business objectives.
<b>Performance-driven remuneration</b>	We reward concrete achievements in implementing Fortum’s strategy and achieving business targets and the desired change. We distinguish between low and high performance and pay for real achievements.
<b>Competitive remuneration</b>	We take into consideration relevant market and industry practices as well as different business needs when defining the level and nature of remuneration, while aiming at being an attractive employer when acquiring and retaining relevant skills and competences.
<b>Effective communication</b>	We emphasise clear, transparent, and timely communication of the company’s as well as the individual’s performance, in particular clarifying the link between performance and variable compensation.

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<b>Integrity and compliance</b>	We run performance and remuneration programmes with high integrity and following local rules and legislation. We don't accept any kind of compliance breach.
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In addition to the alignment with long-term strategy and remuneration principles, the Nomination and Remuneration Committee of the Board of Directors considers the perspective and input from multiple internal and external stakeholders.

The Nomination and Remuneration Committee is regularly updated on the pay principles and practices used across the Fortum Group, in order to take these into account in setting the policy for the President and CEO. The Committee regularly consults with the Senior Vice President, Strategy, People, and Performance to be mindful of employee pay, employee conditions, and engagement across the broader employee population.

The Nomination and Remuneration Committee also engages regularly with shareholders on pay and broader matters to hear their views on Fortum's remuneration practices, programmes, and associated disclosures and reflect on their feedback.

#### 4 REMUNERATION ELEMENTS FOR THE PRESIDENT AND CEO

The remuneration of the President and CEO may consist of fixed compensation (base salary and fringe benefits), pension, and other benefits or programmes, and of variable elements such as short-term and long-term incentives. Variable elements (STI and LTI pay-outs) may be subject to a maximum cap at pay-out based on an annual decision by the Board of Directors to apply the recommended maximum cap in accordance with the Government Resolution on State-Ownership Policy or any other applicable legislation for the given year. Actual STI and LTI pay-outs together with any cap applied will be disclosed in the annual Remuneration Report.

Element	Purpose and link to strategy	Maximum earning opportunity and policy implementation
<b>Fixed compensation</b>	Compensates for the job responsibilities and reflects the skills, knowledge, and experience of the individual.	<p>The fixed compensation is typically reviewed annually.</p> <p>The Board of Directors will consider various factors when determining any fixed compensation change, including individual contribution, business performance, role scope, employee pay across Fortum, and alignment to external market level.</p> <p>In Finland, the fixed compensation includes base salary inclusive of fringe benefits.</p>
<b>Pension</b>	Provides a retirement benefit in addition to the statutory pensions, in line with local market practices.	The pension arrangements reflect the relevant market practice. The President and CEO may participate in the pension programmes reflecting the market practice in the country of employment.

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		<p>Supplementary pension plan is provided for the President and CEO as part of the total remuneration in accordance with the relevant market practice. The current President and CEO is eligible for a defined contribution plan with a maximum premium of 25% of the annual fixed compensation.</p> <p>The retirement age for the current President and CEO is 63.</p>
<p><b>Short-term incentives (STI)</b></p>	<p>Support achievement of the Group's annual financial, strategic, and sustainability targets.</p>	<p>Performance measures, weightings, and targets for the selected measures are set annually by the Board of Directors to ensure they continue to support the strategy. These can vary from year to year to reflect business priorities and typically include a balance of Group's financial performance, safety, and individual strategic targets provided that in any given year, a minimum of 60% of the measures will be based on financial performance measures. Individual targets (if any) are set by the Board of Directors at the beginning of the year.</p> <p>After the year-end, the Board of Directors reviews the performance and determines the extent to which each of the targets have been achieved, in order to determine the final pay-out level.</p> <p>The Board of Directors has discretion to adjust the formulaic STI outcome in changed circumstances to improve the alignment of pay with value creation for shareholders, and to ensure the outcome is a fair reflection of the company performance.</p> <p>The Board of Directors will annually decide on the maximum STI earning opportunity for the President and CEO. Currently the short-term incentive for the President and CEO is 40% of annual fixed compensation at maximum level. The combined value of all variable compensation, before taxation, paid during a calendar year cannot exceed the variable pay cap decided by the Board of Directors for the given year.</p>
<p><b>Long-term incentives (LTI)</b></p>	<p>Support the delivery of sustainable long-term performance, aligns the interests of management with those of shareholders, and supports in committing and retaining key individuals.</p>	<p>The LTI is allocated based on a maximum number of shares that can be earned in case all performance criteria set are achieved at maximum level.</p> <p>The LTI reward is typically paid in the form of performance shares. Fortum's LTI programme consists of annually commencing individual plans with a three-year performance period. Each plan is subject to decision of the Board of Directors.</p> <p>Performance measures, weightings, and targets for these selected measures are set by the Board of Directors to ensure they continue to support strategy. Performance measures typically include, but are not</p>

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		<p>limited to, financial and share-price related, and sustainability measures.</p> <p>Following the end of the performance period the Board of Directors reviews the performance and determines the extent to which each of the targets have been achieved, to determine the final pay-out level.</p> <p>The Board has discretion to adjust the formulaic LTI outcome in changed circumstances to improve the alignment of pay with value creation for shareholders, and to ensure the outcome is a fair reflection of the company performance.</p> <p>The long-term incentive allocation for the President and CEO is currently maximum 100% of annual fixed compensation when commencing the plan. The combined value of all variable compensation, before taxation, paid during a calendar year cannot exceed the variable pay cap decided by the Board of Directors for the given year.</p>
<b>Other benefits and programmes</b>	<p>Provide a competitive level of benefits. Supports employee recruitment, engagement, and retention.</p>	<p>Benefits will be provided in line with appropriate levels indicated by local market practice in the country of employment and may evolve year by year.</p> <p>Other benefits currently include insurance for permanent total disability and critical illness, life insurance, and voluntary participation in the sickness fund (in Finland).</p> <p>Additional benefits and allowances may be offered in certain circumstances such as relocation or international assignment in line with Fortum's international mobility policy.</p> <p>The President and CEO is eligible to participate in programmes which may be offered to Fortum's employees at any given point such as share savings programme, project and recognition awards, retention reward paid in cash or shares, insurance benefits, seniority, or birthday remembrance.</p>
<b>Malus and clawback provisions</b>	<p>Ensure that payments are based on real achievements.</p>	<p>Malus (adjustment before pay-out) and clawback (reclaimed after pay-out) provisions are applied, in case of material misstatement, misconduct, a significant environmental or health and safety issue, reputational damage, failure of risk management, and any other circumstances as determined by the Board of Directors.</p>
<b>Shareholding requirement</b>	<p>Ensures alignment of the interests of the President and CEO with those of shareholders.</p>	<p>The President and CEO is required to build and maintain a holding in Fortum shares equivalent to 100% of the gross fixed compensation; 50% of net shares (after-tax) received at each vesting must be retained until shareholding of 100% of gross fixed compensation is met.</p>

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## 5 SERVICE CONTRACTS AND TERMINATION PROVISIONS

The terms of the managing director service agreement of the President and CEO shall be specified in writing and approved by the Board of Directors. The terms specify the remuneration elements as well as the payments upon termination of employment.

The managing director service agreement of the President and CEO is typically in force until further notice, but it may be in force for a certain fixed period as well. The current President and CEO has a contract valid until further notice.

The notice period of the managing director contract is determined so that it is in line with the market practices existing at the time of entering into the contract. For the current President and CEO, the notice period for both parties is six months.

The severance pay is determined so that it is in line with the market practices existing at the time of entering into the managing director contract. If the company terminates the contract, the current President and CEO is entitled to the fixed compensation for the notice period and a severance pay equal to 12 months' of fixed compensation.

The treatment of incentive awards will depend on the circumstances of departure. For bad leavers, unvested rewards will be forfeited. For good leavers, rewards typically will continue to vest on their normal vesting date, subject to the achievement of performance measures. These rewards will usually be pro-rated based on the length of time served between the start of the performance period and the date of cessation.

## 6 DEVIATIONS FROM THE REMUNERATION POLICY

The remuneration of the President and CEO takes place within the limits of the Policy presented to the AGM. However, the Board of Directors upon recommendation of the Nomination and Remuneration Committee may temporarily deviate from any sections of the Policy based on its full discretion in the circumstances described below:

- upon change of the President and CEO and the Deputy CEO (if applicable) in accordance with the new hire policy,
- upon material changes in Fortum Group structure, organisation, ownership, and business (for example merger, demerger, acquisition, etc.), which may require adjustments to STI and LTI plans or other remuneration elements to ensure continuity of management,
- upon change of the relevant legislation, or
- in any other circumstance where the deviation may be required to serve the long-term interests and sustainability of the Fortum Group as a whole or to assure its viability.

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## **7 PRINCIPLES FOR NEW HIRES**

Fortum's policy on recruitment is to offer a compensation package which is sufficient to attract, retain, and motivate the individual with the right skills for the required role. When determining remuneration for a new President and CEO or Deputy CEO, the Board of Directors upon recommendation of the Nomination and Remuneration Committee will consider the requirements of the role, the needs of the business, the relevant skills and experience of the individual, and the relevant external market for talent.

Where an individual is recruited externally for the President and CEO or Deputy CEO, the Board of Directors will take into account the remuneration package of that individual in their prior role. Generally, the Board of Directors will seek to minimize the use of any new hire arrangements and align the new President and CEO's or Deputy CEO's remuneration to Fortum's Remuneration Policy. On occasions when deemed necessary and on a case-by-case basis, Fortum may compensate the candidate for compensation which the candidate held prior to joining Fortum, but which lapsed upon the candidate leaving their previous employer. The rationale and detail of any such arrangement made either in shares or cash will be disclosed in the Remuneration Report.

Where an individual is appointed to the President and CEO or Deputy CEO as a result of internal promotion or following a corporate transaction (e.g. following an acquisition), the Board of Directors retains the ability to honour any legally binding legacy arrangements agreed prior to the individual's appointment.

Where necessary, additional benefits may also be provided such as, but not limited to, relocation support, expatriate allowance, tax equalisation, and other benefits which reflect local market practice and relevant legislation.

## **8 REMUNERATION POLICY FOR THE BOARD OF DIRECTORS**

The AGM 2013 has established a permanent Shareholders' Nomination Board. The Shareholders' Nomination Board is to prepare and present to the AGM and, if necessary, to an Extraordinary General Meeting a proposal on the remuneration of the Board of Directors. The AGM resolves annually on the remuneration of the members of the Board of Directors. This Remuneration Policy does not limit the shareholders' power to decide on the remuneration at the AGM or at an Extraordinary General Meeting (EGM).

Prior to making its proposal, the Shareholders' Nomination Board annually reviews the remuneration for the Chairman, Deputy Chairman and members of the Board of Directors in comparison to companies of similar size and complexity to Fortum in order to ensure that the Board remuneration is at international and competitive market level and that Fortum is able to attract and retain Board members with relevant skills, industry knowledge, and international experience to oversee and decide the company strategy.

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Based on the results of the afore-mentioned review, the Shareholders' Nomination Board intends during the validity period of this Remuneration Policy to propose a gradual increase in the remuneration of the members of the Board of Directors.

As annually resolved by the AGM, remuneration for the Board of Directors can take various forms, such as cash or a combination of cash and company shares. Details of the actual annual remuneration of the Board of Directors, as resolved by the General Meeting of Shareholders, are reported each year in the Remuneration Report, which is presented to the AGM.