



Fortum Remuneration Policy for Governing Bodies

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Fortum Remuneration Policy for Governing Bodies

1. Introduction

Fortum's Remuneration Policy for Governing Bodies ("Policy") sets out the company's Remuneration Policy for the President and CEO (and for any Deputy CEO should such a Deputy CEO be appointed) and for the Board of Directors. The Policy will be presented to the Annual General Meeting (AGM) 2024 for an advisory resolution. This Policy will replace the previous Remuneration Policy for Governing Bodies presented for an advisory resolution to Fortum AGM 2020.

This Policy has been developed in accordance with the requirements set forth by the amended EU Shareholders' Rights Directive, which was implemented in Finland mainly into the Companies Act, Securities Markets Act, Decree of the Ministry of Finance on the Remuneration Policy and remuneration report on a share issuer, and also by the respective national Finnish legislation, the Finnish Corporate Governance Code as well as in accordance with the guidance set out in the Government Resolution on State-Ownership Policy. The Policy shall be in effect until AGM 2028, unless the Board of Directors considers that material changes are necessary and therefore brings it for an advisory resolution to an earlier AGM.

Changes to the 2024 Remuneration Policy compared to the 2020 Remuneration Policy are outlined in the appendix.

2. Remuneration governance

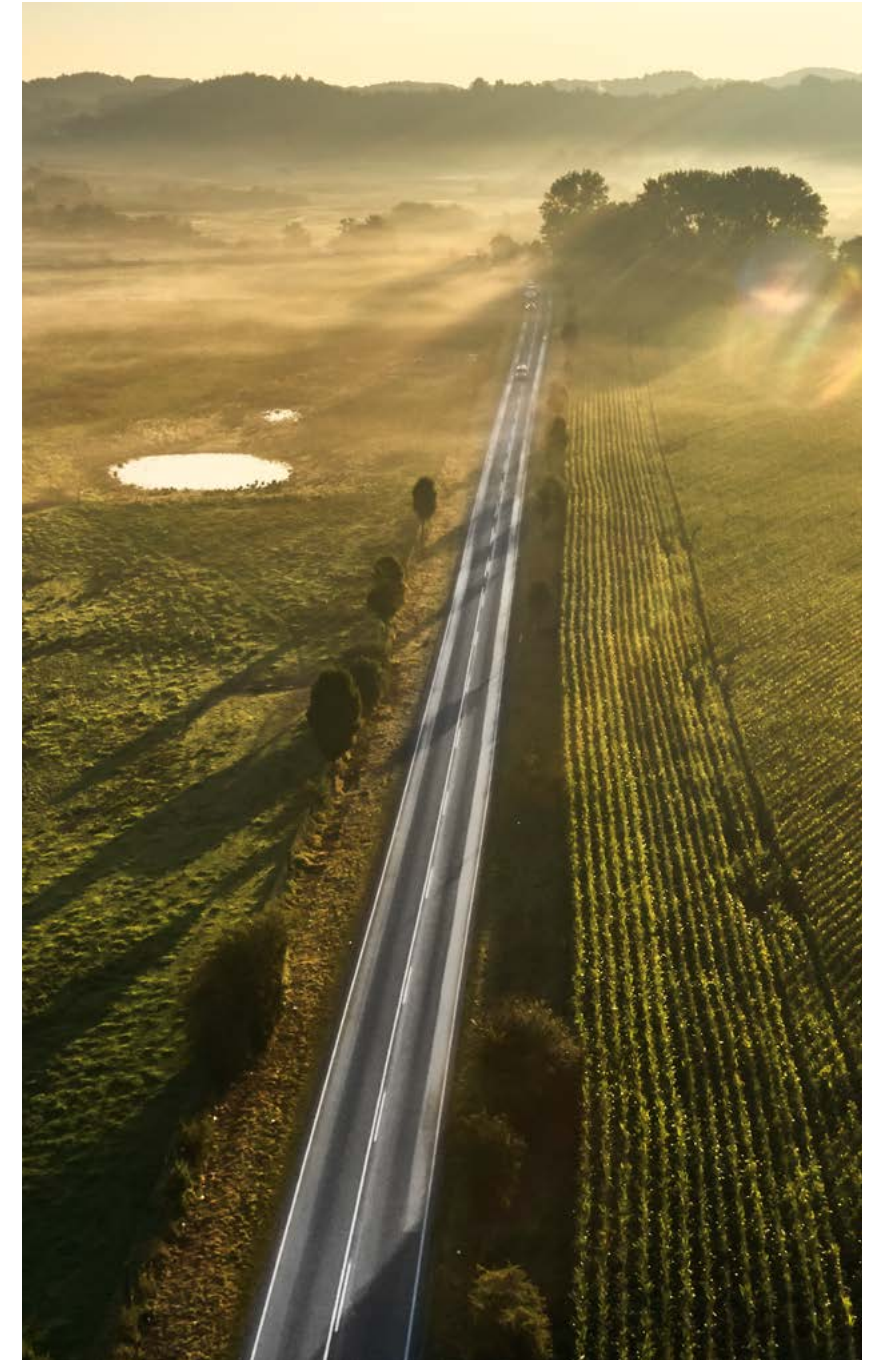
Fortum manages remuneration through well-defined processes ensuring that no individual is involved in the decision-making related to their own remuneration. The General Meeting of Shareholders, the Shareholders' Nomination Board, the Board of Directors, and the Nomination and Remuneration Committee* of the Board of Directors are all involved in the preparations and decision-making regarding remuneration at Fortum.

In accordance with the Finnish Corporate Governance Code, 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 to the AGM at least every four years and the Remuneration Report annually.

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 are 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 and the majority of the members of the Nomination and Remuneration Committee shall be independent of the Company. The Nomination and Remuneration Committee has the power in its sole discretion to retain external advisors to assist 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.

**) Edited on 2 April 2024: At its meeting held after the Annual General Meeting 2024, Fortum's Board of Directors resolved to change the name of the Nomination and Remuneration Committee to People and Remuneration Committee.*





3. Remuneration principles and considerations

This Policy provides a structure that aligns the remuneration for the President and CEO with the successful implementation of Fortum’s strategy and its strategic priorities to deliver reliable clean energy, drive decarbonisation in industries and transform and develop. Our ethical and sustainable business practices are a core part of our daily operations and our remuneration principles presented in the adjacent table are contributing to the long-term success of the company.

At Fortum, we strive for a performance 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 have been designed to encourage and recognise high performance and behaviour in line with Fortum’s values and leadership principles. In general, the same remuneration principles and practices are applied to the President and CEO as to the other personnel. However, taking the demands and the responsibilities of the President and CEO role into account, the remuneration of the President and CEO also includes elements that differ from those of other personnel. There is a separate Remuneration Policy in place for the other personnel.

Remuneration structures are designed with appropriate consideration of the views and interests of Fortum’s stakeholders. This means listening to our shareholders and representative bodies, investors and proxy advisors, regulators, the government, customers and employees and ensuring that their views are appropriately represented when making decisions regarding remuneration.

Fortum’s remuneration principles

Effective leadership	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 to achieve business success. We emphasise cross-unit and cross-function collaboration in reaching the business objectives.
Performance-driven remuneration	We reward for concrete achievements in implementing Fortum’s strategy and in achieving business targets and the desired change. We distinguish between low and high performance and pay for real achievements.
Competitive remuneration	We take relevant market and industry practices as well as different business needs into consideration while aiming at market level remuneration and being an attractive employer when acquiring and retaining relevant skills and competences.
Transparency	We emphasise clear, transparent, and timely communication of the company’s performance, in particular clarifying the link between performance and variable compensation.
Sustainability and governance	<p>Our Remuneration Policy supports the execution of our strategy designed to deliver our purpose and anchored to ambitious sustainability targets, and it takes into account all our stakeholders (customers, employees, shareholders, regulators, the government and the society at large). In line with this, ESG measures have a considerable weighting under our STI and LTI plans.</p> <p>We run performance and remuneration programmes with high integrity and following local legislation and rules. We do not accept any kind of breaches of compliance.</p>

4. Remuneration elements for the President and CEO

When determining the remuneration for the President and CEO, Fortum follows a total compensation approach where all of the remuneration elements are taken into account when setting and reviewing the compensation: fixed compensation, short- and long-term incentive opportunities, as well as benefits.

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. The aim is to target the total remuneration at the market level. Variable remuneration elements (the STI and LTI) with pay-out cap are approved annually by the Board of Directors taking into account the views of Fortum’s significant shareholders and are available on Fortum’s website. The actual remuneration details, including the STI and LTI pay-outs together with caps applied are also disclosed in the annual Remuneration Report. Additionally, the terms of the service agreement of the current President and CEO are disclosed on Fortum’s website.

Remuneration element	Purpose and link to strategy	Description and application
Fixed compensation	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 considers various factors when determining any change in fixed compensation, including individual contribution, business performance, role scope, employee pay across Fortum.</p> <p>When setting the total remuneration for the President and CEO, alignment with market benchmark data from Nordic and Finnish listed companies of similar size and, where necessary, European companies operating in relevant sector is considered.</p>
Pension	Provides a retirement benefit in addition to the statutory pensions, in line with local market practices.	<p>The pension arrangements shall reflect the relevant market practice. The President and CEO may participate in the pension programmes reflecting the market practice in the country of service.</p> <p>The details of the current pension arrangement are reported in the Remuneration Report.</p>
Short-term incentives (STI)	Support achievement of the Group’s annual financial, strategic, and sustainability targets.	<p>Performance measures, weightings, and targets for the selected measures are set annually by the Board of Directors to ensure that they continue to support the company strategy. These can vary from year to year to reflect the business priorities, and they typically include a balance of Group’s financial, environmental, social and governance, as well as joint Leadership Team/individual strategic performance measures. In any given year, a significant portion of the award is based on financial measures.</p> <p>After the year-end, the Board of Directors reviews the performance and determines the extent to which each of the targets has been achieved, in order to determine the final pay-out level. The possible STI award is paid in cash.</p> <p>The performance measures and their respective targets (if not considered commercially sensitive) are disclosed retrospectively together with the confirmed achievement of each measure in the Remuneration Report.</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 the shareholders, and to ensure that the outcome is a fair reflection of the company performance.</p> <p>The pay-out cap is set for combined variable compensation before taxation, based on an annual decision by the Board of Directors. The actual cap applied in any given year is disclosed in the Remuneration Report.</p>



Remuneration element	Purpose and link to strategy	Description and application
Long-term incentives (LTI)	Support the delivery of Group's sustainable long-term performance, align the interests of management with those of shareholders, and support in committing and retaining key individuals.	<p>The LTI is allocated based on a maximum number of shares that can be earned in case all of the performance criteria set are achieved at their maximum level.</p> <p>The LTI award 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 that they continue to support the company strategy.</p> <p>Performance measures typically include financial, share-price related, and sustainability measures and may also include other strategic measures. A significant portion of the LTI award in any given year is based on financial and share-price related performance 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 has been achieved, in order to determine the final pay-out level.</p> <p>The performance measures and their respective targets (if not considered commercially sensitive) are disclosed retrospectively together with the confirmed achievements of each measure in the Remuneration Report.</p> <p>The Board of Directors has discretion to adjust the formulaic LTI outcome in changed circumstances to improve the alignment of pay with value creation for the shareholders, and to ensure that the outcome is a fair reflection of the company performance.</p> <p>The pay-out cap is set for combined variable compensation before taxation, based on an annual decision by the Board of Directors. The actual cap applied in any given year is disclosed in the Remuneration Report.</p>
Other benefits and programmes	Provide a competitive level of benefits. Support employee recruitment, engagement, and retention.	<p>Benefits are provided in line with appropriate levels indicated by local market practice in the country of service and can vary year by year.</p> <p>Other benefits may include insurance for permanent total disability and critical illness, life, business travel and directors' and officers' liability insurances, and voluntary participation in the sickness fund (in Finland).</p> <p>Additional benefits and allowances may be offered in certain circumstances, such as in case of 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 employees at any given point, such as the share savings programme, project and recognition awards, retention awards paid in cash or shares, insurance benefits, seniority or birthday remembrance.</p>
Malus and clawback provisions	Ensure that payments are based on real achievements.	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.
Shareholding requirement	Ensures alignment of the interests of the President and CEO with those of the shareholders.	The President and CEO is required to build up 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 of share-based remuneration must be retained until shareholding of 100% of gross fixed compensation is met.



5. Service agreements 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 service.

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

The notice period of the managing director service agreement is determined so that it is in line with the market practice existing at the time of entering into the agreement. The notice period for both parties is typically 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 agreement. If the company terminates the agreement, the President and CEO is entitled to the fixed compensation for the notice period and a severance pay equal to 6 months' fixed compensation. No severance compensation is paid if the agreement is terminated by the President and CEO.

The treatment of incentive awards is dependent on the circumstances of departure. For bad leavers, unvested awards will be forfeited. For good leavers, awards typically will continue to vest on their normal vesting date, subject to the achievement of the performance measures. These awards are typically 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 is conducted within the limits of the Policy presented to the AGM every four years. However, the Board of Directors may, upon the recommendation of the Nomination and Remuneration Committee, temporarily deviate from the Policy in whole or in part in its full discretion, in the circumstances described below:

- upon change of the President and CEO and the Deputy CEO (if applicable),
- appointment of interim President and CEO or Deputy CEO,
- upon material changes in Fortum Group structure, organisation, ownership, and business (for example, merger, demerger, acquisition), which could require adjustments to STI and LTI plans or other remuneration elements to ensure the continuity of management,
- upon material change in the Group's financial position, strategy, or governance structure,
- upon change of the relevant legislation,
- upon other significant and justified reason for adjusting the remuneration of the incumbent President and CEO or Deputy CEO (if applicable), 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.

In case any deviation from the Policy is applied, the company will disclose such a deviation in the Remuneration Report for the Governing Bodies for the year in question. If the company considers the deviating from the Policy to have continued to the point that it can no longer be deemed temporary, the company will prepare a new Remuneration Policy to be presented at the next possible AGM.

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 the remuneration for a new President and CEO or Deputy CEO, the Board of Directors will upon the recommendation of the Nomination and Remuneration Committee consider the requirements of the role, the needs of the business, the relevant skills and experience of the individual, as well as the relevant external market for talent.

Where an individual is recruited externally for the President and CEO or Deputy CEO position, 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 minimise the use of any new hire arrangements and to 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 make one-off awards to compensate the candidate for remuneration which the candidate had held prior to joining Fortum, but which had lapsed upon the candidate leaving their previous employer, or as an incentive to join Fortum. The rationale and details of any such arrangement made either in shares or cash is disclosed in the Remuneration Report.

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

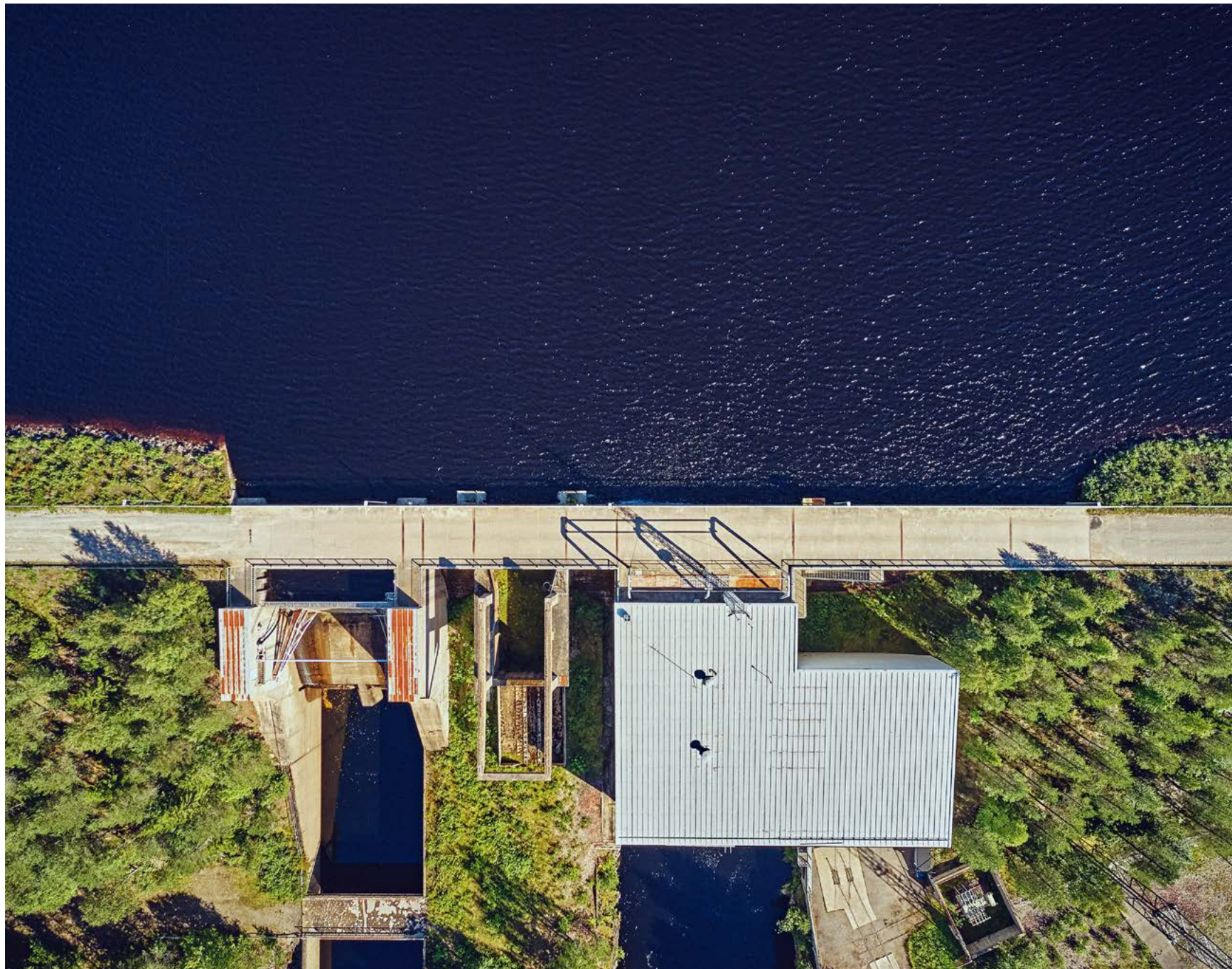
Where necessary, additional benefits such as, relocation support, expatriate allowance, tax equalisation, and other benefits which reflect the local market practice and relevant legislation, may also be provided.

8. Remuneration Policy for the Board of Directors

Fortum has a permanent Shareholders' Nomination Board established in 2013, the members of which are appointed annually by the company's three largest shareholders. One of the tasks of the Shareholders' Nomination Board is to prepare and present to the AGM and, if necessary, to an Extraordinary General Meeting ("EGM") 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 based on the proposal made by the Shareholders' Nomination Board. This Policy does not limit the shareholders' power to decide on the remuneration at the AGM or at an EGM.

Prior to submitting its proposal by the end of January each year, the Shareholders' Nomination Board reviews the remuneration for the Chair, Deputy Chair 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 levels are in line with the Finnish and relevant international market and that Fortum continues to be able to attract and retain Board members with relevant skills, industry knowledge, and international experience to oversee and decide on the company strategy.

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. The 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.



APPENDIX

Material changes in the 2024 Remuneration Policy

The 2024 Remuneration Policy for the Governing Bodies has been approved by the Board of Directors at the recommendation of the Nomination and Remuneration Committee, covering the principles for the Board of Directors, the President and CEO and any potential Deputy CEO. The Policy will be presented to the Annual General Meeting 2024 to be held on 25 March 2024, for the shareholders' advisory vote.

The 2024 Policy has been developed in accordance with the requirements of the Finnish Companies Act, the Securities Markets Act, the Decree of the Ministry of Finance on Remuneration Policy and remuneration report on a share issuer, and by the respective national Finnish legislation, the Finnish Corporate Governance Code, as well as the guidance set out in the Government Resolution on State-Ownership Policy.

The material changes in the 2024 Policy compared to the previous Remuneration Policy for the governing bodies approved at the Annual General Meeting 2020 are, as follows:

- The remuneration principles have been updated to provide further clarity on the link between the President and CEO's remuneration and Fortum's business strategy and sustainability agenda, the broader employee population and other stakeholders.
- The STI principles have been updated to allow for broader introduction of ESG measures, in line with Fortum's sustainability agenda and current practice under the short-term incentive plan.
- Flexibility has been introduced to include strategic performance measures under the LTI plan. While this allows for the Board of Directors to implement performance measures that incentivise the President and CEO in line with the business priorities of Fortum, a significant portion of the LTI award in any given year will be based on the financial and share-price related performance measures.
- The section 'Deviations from Remuneration Policy' has been updated to further clarify in which circumstances the Board of Directors has the discretion to deviate from the Remuneration Policy. The proposed provisions are in accordance with the Finnish and European market practice.
- Further clarifications have been provided and the language has been updated to further improve the disclosure and readability of the Remuneration Policy for the Governing Bodies.

FORTUM REMUNERATION POLICY FOR GOVERNING BODIES

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