
Fortum's Annual Report 2014

Fortum is an energy company highly committed to sustainability. We strive to respond to the needs of our customers by generating, selling and distributing low-carbon electricity and heat and by offering energy-sector expert services.

12 Employee benefits

EUR million	2014	2013
Wages and salaries	298	336
Pensions		
Defined contribution plans	32	33
Defined benefit plans	7	6
Social security costs	52	59
Share-based remunerations	8	7
Other employee costs	15	19
Total	413	460

The compensation package for Fortum employees consists of a combination of salaries, fringe benefits, short-term incentives, profit sharing paid to the Personnel Fund and share-based long-term incentives. The majority of Fortum employees are included in a performance bonus system. The long-term incentive schemes are intended for senior executives and other management of the Fortum Group.

The remuneration policy is determined by the Board of Directors. The Nomination and Remuneration Committee discusses, assesses and makes recommendations and proposals to the Board of Directors on the remuneration policy, pay structures, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues.

[For further information on pensions see Note 32 Pension obligations.](#)

12.1 Short term incentives

Fortum's short-term incentive scheme, i.e. bonus system, supports the realisation of the Group's financial performance targets, sustainability targets, values and structural changes. The system ensures that the performance targets of individual employees align with the targets of the division and the Group. All Fortum employees, with the exception of certain personnel groups in Poland and Russia, are covered by the bonus system.

The criteria used in determining the size of the bonus for senior management (the President and CEO and other members of the Fortum Executive Management Team) are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Remuneration Committee. The size of each senior executive's bonus is dependent on the Group's financial performance, as well as on their own success in reaching personal goals. The performance bonus criteria may also include indicators related to sustainability targets. The maximum bonus level for the senior management is 40% of the executive's annual salary including fringe benefits.

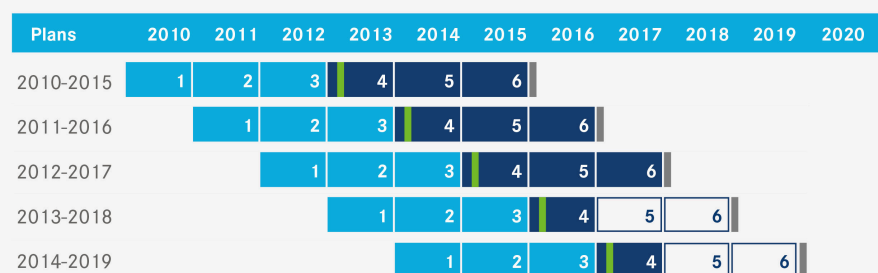
For executives with division responsibilities, the bonus system reflects the performance of their division together with the Group's financial performance. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year. The performance of the President and CEO is evaluated annually by the Board of Directors.

12.2 Long-term incentives

At present, approximately 120 managers, all of whom have been elected by the Board of Directors, are participants in at least one of the five on-going annual LTI plans (plans 2010-2015, 2011-2016, 2012-2017, 2013-2018 and 2014-2019).

The expense recorded as employee costs for the period was EUR 8 million (2013: 7). The LTI liability including social charges at the end of the year 2014 was EUR 9 million (2013: 8), including EUR 1 million (2013: 1) recorded in equity.

Share bonus system



- Earning period (year)
- And □ Lock-up period (year)
- Share delivery
- Share release

Shares granted

	Plan 2011-2016	Plan 2010-2015	Plan 2009-2013
Grant date	14.2.2014	13.2.2013	8.2.2012
Grant price, EUR	16.62	13.90	18.16
Number of shares granted	101,753	187,493	165,132
Number of shares subsequently forfeited or released from lock-up	-9,667	-19,107	-165,132
Number of shares under lock-up at the end of the year 2014	92,086	168,386	0
Fortum share price at the end of the grant year, EUR	17.97	16.63	14.15

In addition to the shares granted above, share rights have been granted to participants that will receive cash payments instead of shares after the lock-up period. The gross amount of share rights outstanding at the end of the year 2014 for plan 2011-2016 was 63,402 share rights and for plan 2010-2015 99,228 share rights.

In addition 16,423 shares were delivered for plan 2008-2012 in 2014.

12.3 Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since year 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Persons included in Fortum's long-term incentive schemes are not eligible to be members of this fund. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for five months. An employee is entitled to make withdrawals right from the beginning of the membership. The membership in the fund terminates when the member has received his/her share of the fund in full.

The profit-sharing received by the fund is distributed equally between the members. Each employee's share is divided into a tied amount and an amount available for withdrawal. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year.

The amount available for withdrawal (maximum 15% of the tied amount) is decided each year by the council of the fund and it is paid to members who want to exercise their withdrawal rights.

The fund's latest financial year ended at 30 April 2014 and the fund then had a total of 2,635 members (2013: 2,722). At the end of April 2014 Fortum contributed EUR 0.4 million (2013: 2.8) to the personnel fund as an annual profit-sharing bonus based on the financial results of 2013. The combined amount of members' shares in the fund was EUR 22 million (2013: 23).

The contribution to the personnel fund is expensed as it is earned.

12.4 The President and CEO and the management team remuneration

The Fortum Executive Management Team (FEM) consists of twelve members (previously nine members), including the President and CEO. The following table presents the total remuneration of the President and CEO and the Fortum Executive Management Team and takes into account the changes in FEM during the year. The expenses are shown on accrual basis.

[Additional information about cash based remuneration is available in section Remuneration.](#)

Management remuneration

EUR thousands	2014		2013	
	The President and CEO	Other FEM members	The President and CEO ¹⁾	Other FEM members ²⁾
Salaries and fringe benefits	1,005	3,321	795	2,860
Performance bonuses ³⁾	127	511	22	197
Share-based remuneration	235	1,018	448	1,122
Pensions (statutory)	188	594	137	494
Pensions (voluntary)	255	803	204	695
Social security expenses	57	219	48	337
Total	1,867	6,465	1,654	5,705

1) Amount is impacted by the sick leave during 2013.

2) Including compensation of EUR 80,000 paid to former CFO Rauramo for assuming the duties of the President and CEO during March-November 2013.

3) Performance bonuses are based on estimated amounts.

The annual contribution for the President and CEO's pension arrangement is 25% of the annual salary. The annual salary consists of a base salary, fringe benefits and bonus. The President and CEO Tapio Kuula's retirement age is 63. In case his assignment is terminated before the retirement age, the President and CEO is entitled to retain the benefits accrued in the arrangement for his benefit.

For other management team members the retirement age is 60 - 65 depending on the arrangement. The pension paid is maximum 66% or 60% of the remuneration upon retirement. In the first case they are defined benefit pension plans and are provided by Fortum's pension fund. In the latter, pensions are either defined benefit or defined contribution schemes and insured by an insurance company.

A pension liability of EUR 2,514 thousand (2013: 1,566) related to the defined benefit plans for management team members has been recognised in the balance sheet. The additional pension arrangement for the President and CEO is a defined contribution pension plan and thus no liability has been recognised in the balance sheet.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to salary of the notice period (6 months) and to severance pay equal to 18 months' salary. Other FEM members' termination compensation is equal to 12 to 24 months' salary.

[Additional information about the terms and conditions of the remuneration of the President and CEO is available online at \[www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pa\]\(http://www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pa\) and in section Remuneration.](http://www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pa)

Number of shares delivered to the management

The table below shows the number of shares delivered during 2014 and 2013 to the President and CEO and other FEM members under the LTI arrangements. Shares delivered under the plans are subject to a lock-up period under which they cannot be sold or transferred to a third party.

	2014 ²⁾	2013
FEM members at 31 December 2014		
Tapio Kuula	15,187	35,152
Helena Aatinen	909	519
Alexander Chuvayev ¹⁾	13,793	35,783
Mikael Frisk	6,463	10,079
Esa Hyvärinen (member of the FEM as of 1 March 2014)	1,382	n/a
Timo Karttinen	6,639	9,563
Kari Kautinen (member of the FEM as of 1 March 2014)	1,739	n/a
Per Langer	5,517	8,550
Markus Rauramo	1,679	756
Matti Ruotsala	3,463	12,395
Sirpa-Helena Sormunen (member of the FEM as of 1 September 2014)	0	n/a
Tiina Tuomela (member of the FEM as of 1 March 2014)	1,156	n/a
Kaarina Ståhlberg (member of the FEM until 31 March 2014)	210	n/a
Total	58,137	112,797

1) Share rights will be paid in cash instead of shares after the three-year lock-up period due to local legislation.

2) Share delivery based on share plans 2008-2012 and 2011-2016.

12.5 Board of Directors and management shareholding

On 31 December 2014, the members of the Board of Directors owned a total of 10,950 shares (2013: 10,950), which corresponds to 0.00% (2013: 0.00%) of the company's shares and voting rights.

Number of shares held by members of the Board of Directors

	2014	2013
Board members at 31 December 2014		
Sari Baldauf, Chairman	2,300	2,300
Kim Ignatius, Deputy Chairman (from 8 April 2014)	2,400	2,400
Mino Akhtarzand	-	-
Heinz-Werner Binzel	-	-
Ilona Ervasti-Vaintola	4,000	4,000
Christian Ramm-Schmidt (Deputy Chairman until 8 April 2014)	2,250	2,250
Petteri Taalas (member of the Board from 8 April 2014)	-	n/a
Jyrki Talvitie (member of the Board from 8 April 2014)	-	n/a
Total	10,950	10,950

The President and CEO and other members of the Fortum Executive Management Team owned a total of 430,457 shares (2013: 346,106) which corresponds to approximately 0.05% (2013: 0.04%) of the company's shares and voting rights.

Number of shares held by members of the Fortum Executive Management Team

	2014	2013
FEM members at 31 December 2014		
Tapio Kuula	168,742	153,555
Helena Aatinen	1,528	619
Alexander Chuvaev	14,713	12,093
Mikael Frisk	46,591	42,128
Esa Hyvärinen (member of the FEM from 1 March 2014)	15,156	n/a
Timo Karttinen	76,430	69,791
Kari Kautinen (member of the FEM from 1 March 2014)	22,276	n/a
Per Langer	30,784	25,267
Markus Rauramo	15,435	13,756
Matti Ruotsala	32,360	28,897
Sirpa-Helena Sormunen (member of the FEM from 1 September 2014)	-	n/a
Tiina Tuomela (member of the FEM from 1 March 2014)	6,442	n/a
Total	430,457	346,106

12.6 Board remuneration

The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. At the 2014 Annual General Meeting eight members were elected.

The Annual General meeting confirms the yearly compensation for the Board of Directors. Board members are not offered any long-term incentive benefits or participation in other incentive schemes. There are no pension arrangements for the Board members. Social security costs EUR 12 thousand (2013: 13) have been recorded for the fees in accordance with local legislation in respective countries.

Fees for the Board of Directors

EUR thousands	2014	2013
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.

In addition, a fee of EUR 600 is paid for each Board and Board Committee meeting. The fee is doubled for Board members living outside of Finland in Europe, and tripled for Board members living outside of Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy.

Compensation for the Board of Directors

EUR thousands	2014	2013
Board members at 31 December 2014		
Sari Baldauf, Chairman	83	84
Kim Ignatius, Deputy Chairman (from 8 April 2014)	67	67
Mino Akhtarzand	57	58
Heinz-Werner Binzel	60	60
Ilona Ervasti-Vaintola	48	49
Christian Ramm-Schmidt (Deputy Chairman until 8 April 2014)	53	66
Petteri Taalas (member of the Board from 8 April 2014)	37	-
Jyrki Talvitie (member of the Board from 8 April 2014)	53	-
Former Board member		
Joshua Larson (member of the Board until 8 April 2014)	19	71
Total	477	455