

# Corporate Governance Statement

Corporate governance at Fortum is based on the laws of Finland, the company's Articles of Association and the Finnish Corporate Governance Code, which entered into force in October 2010. This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the company's operating and financial review.

The company complies with the Finnish Corporate Governance Code. In addition, Fortum complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority. Fortum's headquarters is located in Espoo, Finland.

✚ The Corporate Governance Code is available on the website of the Securities Markets Association ([www.cgfinland.fi](http://www.cgfinland.fi)).

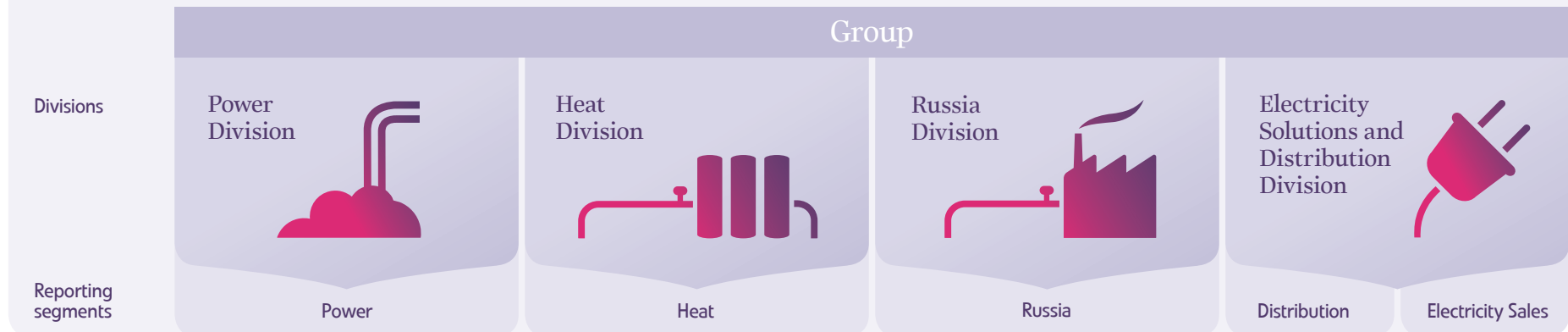
Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Mar-

kets Act as well as the appropriate Financial Supervision Authority's standards and NASDAQ OMX Helsinki Ltd's rules. The company's operating and financial review report and parent company financial statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the operating and financial review report, consolidated financial statements and the parent company financial statements.

## Organisation of the group

The decision-making bodies managing and overseeing the group's administration and operations are the Annual

## FORTUM'S FINANCIAL REPORTING STRUCTURE



General Meeting of Shareholders, the Supervisory Board, the Board of Directors with its two Committees and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of Directors supervises the performance of the company, its management and organisation. The Supervisory Board, the Board of Directors and the Fortum Management Team are separate bodies, and no person serves as a member of more than one of them.

Day-to-day operational responsibility at the group level rests with the President and CEO assisted by the Fortum Management Team, and at division level with each division head assisted by a management team.

### General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives. In accordance with the Articles of Association and Finnish Corporate Governance Code, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than three months and no less than three weeks before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. However, the notice shall

be delivered at least nine days before the record date of the General Meeting of Shareholders, as referred to in the Section 2, Sub-section 2 Chapter 4, of the Companies Act.

The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors or Supervisory Board finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

### Shareholders' Nomination Committee

By decision of Fortum's Annual General Meeting 2010, a Shareholders' Nomination Committee was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Nomination Committee consists of the representatives of the three main shareholders and, in addition, as expert member the Chairman of the Board of Directors.

The three shareholders whose shares represent the largest number of the votes of all shares in the company on the 1st day of November preceding the Annual General Meeting will have the right to appoint the members representing the shareholders. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder. The largest shareholders

will be determined on the basis of the ownership information registered in the book-entry system. In case an owner is required under the Securities Markets Act to report certain changes in ownership (when flagging by shareholder is required), for example when the ownership is distributed among various funds, the ownership will be counted as one holding, if the owner so requests, by notifying the Board of Directors in writing no later than on 29 October.

The Nomination Committee is convened by the Chairman of the Board of Directors, and the Committee will choose a Chairman from among its own members. The Committee shall give its proposal to the Board of Directors of the company at the latest by 1 February preceding the Annual General Meeting.

In November 2010, the following persons have been appointed to Fortum Shareholders' Nomination Committee: Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department; Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company, and Mikko Koivusalo, Investments Director, Varma Mutual Pension Insurance Company. The Chairman of Fortum's Board of Directors, Matti Lehti, serves as the Committee's expert member.

In its meeting on 1 February 2011, the Shareholders' Nomination Committee decided to propose to the Annual General Meeting, which will be held

### THE DUTIES OF THE ANNUAL GENERAL MEETING INCLUDE:

- › Adopt the financial statements and the consolidated financial statements
- › Decide on the treatment of the distributable funds
- › Elect the members of the Supervisory Board and the Board of Directors
- › Decide on the discharge from liability for the Supervisory Board, the Board of Directors and the President and CEO
- › Decide on the remuneration of the Supervisory Board, the Board of Directors and the remuneration for the auditor
- › Elect the auditor.

### THE MAIN TASKS OF THE SUPERVISORY BOARD ARE TO:

- › Oversee the company's administration by the Board of Directors
- › Submit its statement on the financial statements, operating and financial review and the auditor's report to the Annual General Meeting
- › Discuss proposals by the Board of Directors in matters concerning a substantial reduction or expansion of company's operation or an essential change to company's organisation.

31 March 2011, that Sari Baldauf be elected as Chairman and Christian Ramm-Schmidt as Deputy Chairman, and that members Esko Aho, Ilona Ervasti-Vaintola and Joshua Larson be re-elected. Matti Lehti and Birgitta Johansson-Hedberg have stated that they are no longer available for election. The Shareholders' Nomination Committee proposes that Minoo Akhtarzand and Heinz-Werner Binzel be elected as new members of the Board of Directors.

### Supervisory Board

The Supervisory Board is responsible for overseeing that the shareholders' interests are safeguarded.

The members of the Supervisory Board, its Chairman and Deputy Chairman are elected at the Annual General Meeting for a one-year term of office. A person who has reached the age of 68 years may not be elected as a member of the Supervisory Board. The Supervisory Board comprises a minimum of six and

a maximum of 12 members; in February 2011 there were 10 members. The Supervisory Board meetings are also attended by three employee representatives who are not members of the Supervisory Board. More than half of the Supervisory Board's members must be present to constitute a quorum. In 2010, the Supervisory Board met 6 times.

### Board of Directors

The Board of Directors is responsible

for the administration of the Group and for ensuring that the business complies with the relevant laws and regulations, including the Finnish Companies Act, Fortum's Articles of Association, the instructions given by the General Meeting of Shareholders and the guidelines issued by the Supervisory Board. 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

#### FORTUM'S SUPERVISORY BOARD IN 2010

Name	Born	Education	Occupation	Attendance in the meetings
Chairman Markku Laukkanen	1950	MSc (Soc.Sc)	Member of Parliament	5/6
Deputy Chairman Sanna Perkiö	1962	PhD	Member of Parliament	4/6
Martti Alakoski	1953		Union Chairman	5/6
Tarja Filatov	1963		Member of Parliament	4/6
Sampsa Kataja	1972	LL.M	Member of Parliament	5/6
Kimmo Kiljunen	1951	PhD (Pol.Sc)	Member of Parliament	6/6
Katri Komi	1968	MSc (Agriculture and Forestry)	Member of Parliament	4/6
Panu Laturi	1972	MSc (Pol.Sc)	Secretary General, Green League of Finland	6/6
Juha Mieto	1949		Member of Parliament	5/6
Jukka Mäkelä <sup>1)</sup>	1960	MSc (Eng)	Member of Parliament	4/4
Helena Pesola	1947	MSc (Soc.Sc)	Director, KELA	6/6

<sup>1)</sup> Jukka Mäkelä has resigned from his duties on Fortum's Supervisory Board as of 19 October 2010. He then started in his new position as the mayor of the City of Espoo.

The employee representatives on Fortum's Supervisory Board were Jouni Koskinen, Kari Ylikauppila and Sebastian Elg.

#### FORTUM'S BOARD OF DIRECTORS 2010

Name	Born	Education	Occupation	Attendance in the Board meetings	Attendance in the Board Committee meetings
Chairman Matti Lehti	1947	PhD (Econ.)	Non-executive director	11/11	The Nomination and Remuneration Committee, 5/5
Deputy Chairman Sari Baldauf	1955	MSc (Econ.)	Non-executive director	11/11	The Nomination and Remuneration Committee, 5/5
Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation Non-executive director	11/11	The Nomination and Remuneration Committee, 5/5
Ilona Ervasti-Vaintola	1951	LL. M, Trained on the bench	Group Chief Counsel, Principal Attorney, Secretary of the Board of Directors of Sampo Plc, Member of the Group Executive Committee Non-executive director	11/11	The Nomination and Remuneration Committee <sup>1)</sup> , 4/4, The Audit and Risk Committee, 1/1 <sup>2)</sup>
Birgitta Johansson-Hedberg	1947	Bachelor of Art, Master of Psychology	Non-executive director	11/11	The Audit and Risk Committee, 5/6
Joshua Larson <sup>1)</sup>	1966	Master of International Affairs, Bachelor in Russian language	Private investor and consultant Non-executive director	7/7	The Audit and Risk Committee, 5/5
Christian Ramm-Schmidt	1946	B. Sc (Econ.)	Senior Partner of Merasco Capital Ltd. Non-executive director	11/11	The Audit and Risk Committee, 6/6

<sup>1)</sup> New member as of 25 March 2010

<sup>2)</sup> Member until 25 March 2010

## THE MAIN TASKS OF THE BOARD OF DIRECTORS:

- › Strategic development and steering of the company's business and fields of activity
- › Ensuring that the business complies with the relevant rules and regulation, the company's Articles of Association and guidelines given by the Supervisory Board
- › Defining the dividend policy
- › Ensuring that the accounting and financial administration are arranged appropriately
- › Appointing the top management
- › Reviewing the central risks and instructing the President and CEO concerning the risks
- › Confirming the annual business plan
- › Deciding performance targets for the company and the management
- › Approving interim reports, consolidated financial statements, and operating and financial review and parent company financial statements
- › Taking care of the duties of the company's Board of Directors specified in the Companies Act and in the Articles of Association
- › Deciding on major investments, divestments and business arrangements
- › Electing members to the Board Committees
- › Reporting on the remuneration of the company management at the Annual General Meeting, as appropriate.

## ASSESSMENT OF THE BOARD OF DIRECTORS' WORK:

- › The Board of Directors conducts an annual self-assessment.

## ANNUAL SELF-ASSESSMENT

- › The Board convenes according to a previously agreed schedule to discuss specified themes and other issues whenever considered necessary
- › The Chairman decides on the agenda based on proposals by the other members of the Board, the President and CEO, and the secretary to the Board
- › The Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- › The Board deals with the reports of the Board committees and the President and CEO
- › Materials shall be delivered to the members five days before meetings.

of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person who has reached the age of 68 cannot be elected to the Board of Directors.

In 2010, the Board of Directors met 11 times. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, business plan, financial position, performance target setting as well as risk management and policy and financial reporting. Main items also included investments and divestments as well as Russian operations. The Board also dealt with issues relating to sustainable business development and management performance and remuneration.

The members of the Board of Directors are all, with the exception of Ilona Ervasti-Vaintola (dependent on the company, interlocking control relationship), independent of the company and its significant shareholders. The President and CEO, the Chief Financial Officer and the General Counsel (being the secretary to the Board) attend Board meetings. Other Fortum Management Team members attend as required to provide information to the Board or upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion and to be decided upon at the Board of Directors' meetings.

The Board of Directors has approved a working order to govern its work.

✚ *The main contents of the Board of Directors' working order are presented on the left.*

The Board of Directors conducts an annual self-assessment in order to

further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of discussions, as well as the members' ability to contribute to an independent judgement.

## The Board Committees

The Board of Directors has appointed an Audit and Risk Committee as well as a Nomination and Remuneration Committee, both with at least three members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. All the members of the Board of Directors have the right to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees. The Board has approved written charters for the committees.

✚ *The main contents of the charters for the Board Committees are outlined on page 152.*

## The Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in fulfilling its supervisory responsibilities in accordance with the tasks specified for audit committees in the Finnish Corporate Governance Code.

The Audit and Risk Committee annually reviews its charter, approves the internal audit charter and the internal audit plan and carries out a self-assessment of its work. Furthermore, the Committee meets the external auditors regularly to discuss the audit plan, audit reports and audit findings.

#### THE TASKS IN THE CHARTER OF AUDIT AND RISK COMMITTEE INCLUDE:

- › Monitoring the reporting process of financial statements
- › Supervising the financial reporting process
- › Monitoring the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- › Reviewing the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- › Monitoring the statutory audit of the financial statements and consolidated financial statements
- › Evaluating the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited
- › Preparing through the Board a proposal for resolution on the election of the auditor for the shareholders' consideration at the Annual General Meeting
- › Reviewing the Corporate Governance Statement
- › Monitoring the financial position of the company
- › Approving the operating instructions for internal audit
- › Reviewing the plans and reports of the internal audit function
- › Being in contact with the auditor and reviewing the reports that the auditor prepares for the Committee.

#### THE TASKS IN THE CHARTER OF NOMINATION AND REMUNERATION COMMITTEE INCLUDE:

- › Discussing, assessing and giving proposals on the Group's, and its management's, pay structures and bonus and incentive systems
- › Monitoring the functioning of the bonus systems to ensure that the management's bonus systems will advance the achievement of the company's objectives and are based on personal performance
- › Evaluating the performance and the remuneration of the President and CEO and executives reporting directly to the President and CEO
- › As far as nomination and remuneration questions are concerned preparing nomination and remuneration issues and proposals to the Board concerning the President and CEO and the management directly reporting to the President and CEO
- › Assisting the Board in reporting on remuneration at the Annual General Meeting, as necessary.

The Audit and Risk Committee reports on its work to the Board of Directors regularly after each meeting.

After the Annual General Meeting in March 2010, the Board elected among itself Birgitta Johansson-Hedberg as the Chairman and as members Joshua Larson and Christian Ramm-Schmidt to the Audit and Risk Committee. Ilona Ervasti-Vaintola was a member until the Annual General Meeting 2010.

The Committee met six times in 2010. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corporate Controller and General Counsel as the Secretary to the Committee as well as other parties invited by the Committee.

The main items during the year included reviewing the interim reports, the financial statements, internal audit and risk management reports and policies as well as the corporate governance statement, monitoring of certain important projects and issues, preparing a recommendation for the election of the external auditor, as well as regulatory compliance.

#### *The Nomination and Remuneration Committee*

After the Annual General Meeting in March 2010, the board elected among itself Matti Lehti as the Chairman and as members Esko Aho, Sari Baldauf and Ilona Ervasti-Vaintola, to the Nomination

and Remuneration Committee. The Committee met five times during 2010. Other regular participants at the Committee meetings were the President and CEO, Senior Vice President, Corporate Human Resources, and General Counsel as the secretary to the Committee.

The Nomination and Remuneration Committee reports on its work to the Board of Directors regularly after each meeting.

The main items during the year included the top management performance evaluations and compensation issues, including incentive programme and performance target-setting for the management.

#### **President and CEO**

The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. Tapio Kuula, MSc (Eng), MSc (Econ), born 1957, has been the President and CEO since May 2009.

The President and CEO is supported by the Fortum Management Team. The performance of the President and CEO is evaluated annually by the Board of Directors. The evaluation is based on objective criteria that include the performance of the company and the achievement of goals previously set for the President and CEO by the Board's Nomination and Remuneration Committee.



Fortum Management Team and operational organisation

The Fortum Management Team currently consists of nine members, including the President and CEO to whom the members of the Management Team report. The General Counsel acts as the Secretary to the Management Team. The Management Team meets regularly on a monthly basis. In addition, there are meetings dealing with strategy and business planning, as well as performance reviews and people issues such as management reviews.

The Fortum Management Team sets the strategic targets, prepares the Group's annual business plans, follows up on the results, plans and decides on investments, mergers, acquisitions and divestments within authorisation. Each member of the Management Team is responsible for the key day-to-day operations and the implementation of operational decisions in their respective organisations.

The business divisions of Fortum are Power, Heat, Russia, and Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, physical operation and trading as well as expert services for power producers. Heat Division consists of combined heat and power generation, district heating and cooling activities and business to business heating solutions. Russia Division consists of power and heat generation and sales in Russia. It includes OAO

Fortum and Fortum's over 25% holding in TGC-1. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales and distribution activities. The division consists of two business areas: Distribution and Electricity Sales. The staff functions are Finance, Corporate Relations and Sustainability, Corporate Human Resources, Corporate Strategy and R&D.

### Internal audit

Fortum's Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Furthermore, it evaluates the effectiveness and efficiency of various business processes, the adequacy of risk management, and, e.g., compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit form the basis for its work.

Corporate Internal Audit is independent of the divisions and other units at Fortum. It reports to the Audit and Risk Committee of the Board of Directors and administratively to the CFO. The purpose, authority and responsibility of Corporate Internal Audit is formally defined in its charter. The charter and the annual audit plan are approved by the Audit and Risk Committee.

### External audit

The company has one auditor, which shall be an audit firm certified by the

Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election.

Fortum Corporation's Annual General Meeting on 25 March 2010 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Jukka Vattulainen having the principal responsibility.

### Internal control and risk management systems

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defines the Fortum risk management process. The Fortum risk management process is also embedded in the internal control framework, and the process level internal control structure has been created by using a risk-based approach. The same approach is also used for the financial reporting process. Fortum's internal control framework includes main elements from the framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

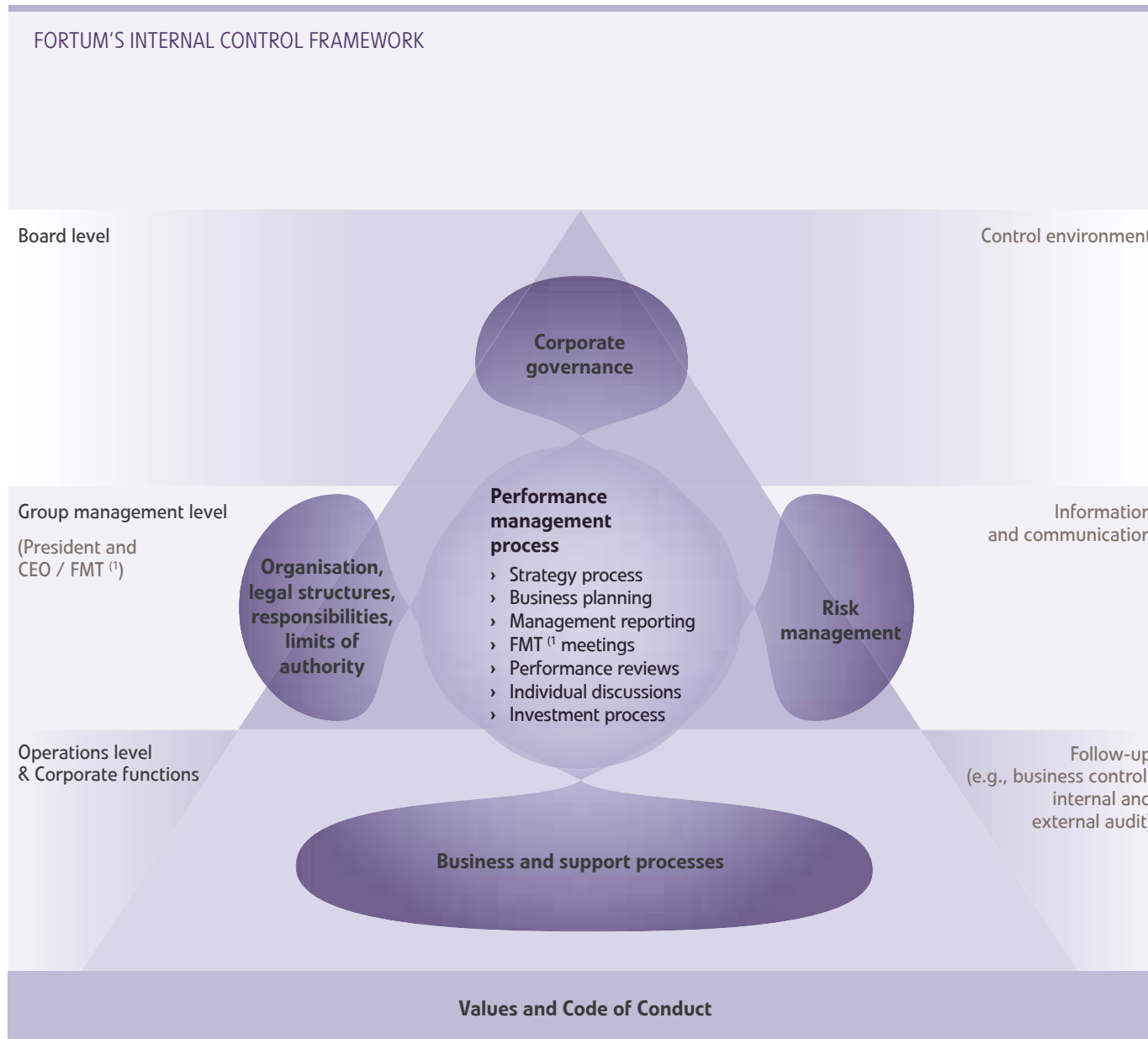
➔ Read more about Fortum's risk management process and largest risks on pages 51–56 and 81–89.

### Control environment

Fortum has an internal control framework supporting the execution of the strategy and ensuring regulatory compliance. The values and Code of Conduct set the foundation for the internal control framework. The framework consists of group-level structures, corporate-level processes as well as business and support process-level controls. The Audit and Risk Committee, appointed by the Board of Directors, has oversight over risk management within the Group. Corporate Risk Management, an independent function headed by the Chief Risk Officer, in the CFO's Office is responsible for reporting risk exposures on weekly and monthly basis to the CFO and the President and CEO as well as regularly to the Audit and Risk Committee. It is also responsible for maintaining the company's risk management framework. In the financial reporting process, the ownership of the overall control structure is in the Corporate Accounting and Control unit headed by the Corporate Controller as part of the CFO's office.

### Risk assessment

As part of the Fortum risk management process, also risks related to financial reporting are identified and analysed annually. Additionally, all new risks are analysed and repaired as they have been identified. Business risks are reported thoroughly in connection with the planning process and the follow-up is



integrated to operational management through regular reporting. The control risk assessment has been the basis for creating the process-level internal control framework and the same applies to the control points to prevent errors in the financial reporting process. The results of the control risk assessment and the process level controls have been reported to the Audit and Risk Committee. The control framework has been changed during 2010 to reflect the needs of the new organisation and for the purpose of ensuring that a project has been established to systematically go through the controls in different organisations.

**Control activities**

Fortum's organisation is decentralised and a substantial degree of authority and responsibility has been delegated to the divisions in form of control responsibilities even though some areas like commodity market risk control has been more centralised in the organisation. Each division has its own staff and other resources. Control activities are applied in the business processes and, from a financial reporting perspective, they ensure that potential errors or deviations are prevented, discovered and corrected. The Fortum policy structure ensures that governance around all activities exists.

In financial reporting, the Controller's manual sets the standards. The Corporate Accounting and Control

1) Fortum Management Team

unit defines the design of the control points, and internal controls cover the end-to-end financial reporting process. However, the part of the organisation responsible for performing the controls is also responsible for the effectiveness of the controls. There are transaction process level controls and periodic controls. The periodic controls are linked to the monthly and annual reporting process and include reconciliations and analytical reviews to ensure the correctness of financial reporting.

**Information and communication**

The Controller’s manual including Accounting manuals, Investment manual and reporting instructions as well as policies are stored on intranet sites accessible by all people involved in the financial reporting process. Processes and related documentation have been developed in many areas during 2010. Additionally, Corporate Accounting and Control and Risk Management functions regularly arrange meetings in which information around the processes and

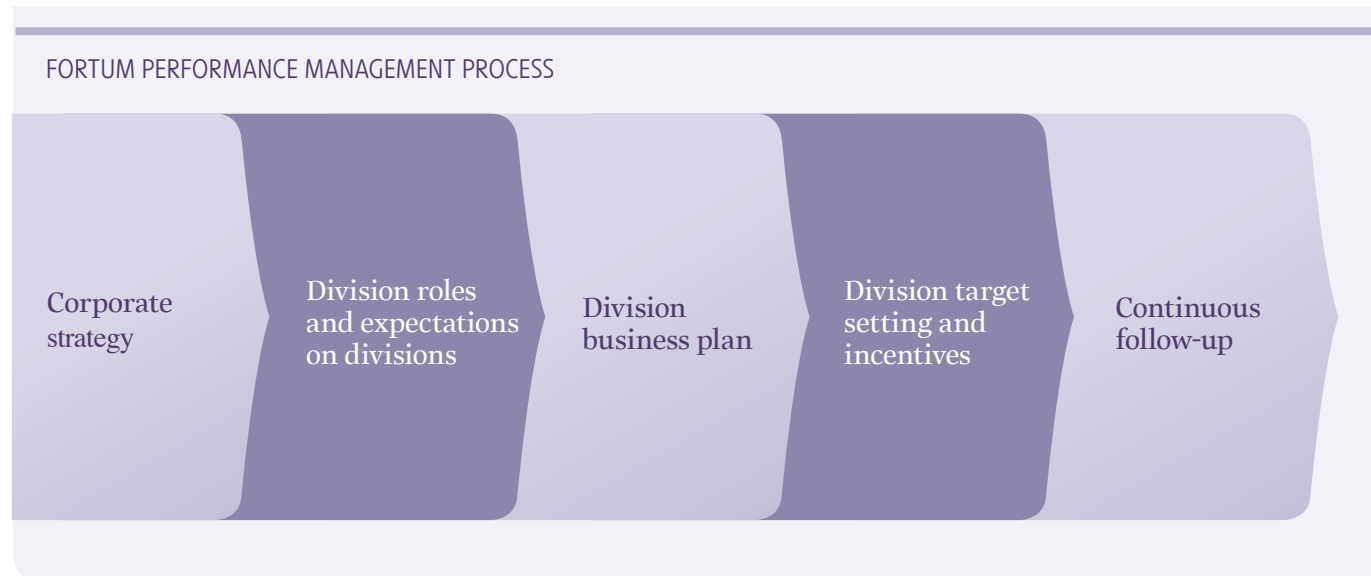
practices is shared to ensure uniform application of the processes. Investor Relations and Financial Communications together with Accounting and Control maintain the instructions for releasing financial information.

**Follow-up**

Financial results are followed up in the monthly reporting. In addition, the quarterly Performance Review meetings with Group and division management are embedded in the Fortum Perfor-

mance Management process. Financial performance is ultimately reviewed by the Audit and Risk Committee and Board of Directors.

The Performance Reviews have a monitoring role also in ensuring that the internal controls are functioning. As part of the Fortum internal control framework, all divisions are accountable for assessing the effectiveness of the controls they are responsible for. For the financial reporting process, division- and corporate-level controller teams are responsible for this assessment. Additionally, Corporate Risk Management also has monthly meetings covering control issues with divisions’ risk control units. Also Corporate Internal Audit’s agenda includes areas related to financial reporting, and internal controls are always reviewed in these audits. In addition, control maturities are followed up with regular assessments.



[WWW.FORTUM.COM/GOVERNANCE](http://WWW.FORTUM.COM/GOVERNANCE)  
 Read more about Fortum’s corporate governance online.