

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 was published in 2008. This Corporate Governance Statement has been prepared pursuant to Recommendation 51 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.

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 company complies with the Finnish Corporate Governance Code with the exceptions that Ilona Ervasti-Vaintola, a member of the Audit and Risk Committee, has become non-independent from the company during the autumn 2009 (interlocking control relationship) and Fortum's Board of Directors' Nomination and Remuneration Committee is not involved in the nomination process of members to the Board of Directors.

For this, the Annual General Meeting has established a Shareholders' Nomination Committee.

📌 The Corporate Governance Code is available on the website of the Securities Markets Association (www.cgfinland.fi).

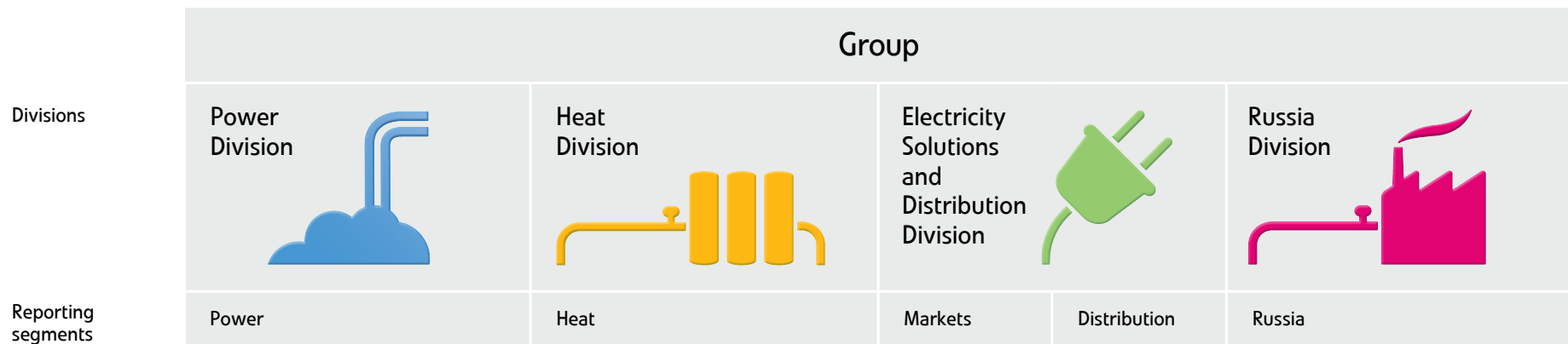
Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act as well as the appropriate Financial Supervision Authority's standards and NASDAQ OMX Helsinki Ltd's rules. 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 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 super-

Fortum's financial reporting structure



vises 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 two months and no less than 21 days before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors.

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 2009, a Shareholders' Nomination Committee was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders and, in addition, two expert members: the Chairman of the Board of Directors and one other representative, who is elected by the Board of Directors among its members and who is independent of the significant shareholders. The three shareholders, whose share of the total votes of all shares in the company were the largest as of 2 November 2009 were entitled to appoint the members representing the shareholders on the Committee. Should a shareholder not have wished to use its right to nominate, this right would have been passed on to the next biggest shareholder. The largest shareholders were determined on the basis of the ownership information registered in the book-entry system.

In November 2009, the following persons were appointed to Fortum's Shareholders' Nomination Committee: Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department, Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company and Jorma Huuhtanen, Director General, Social Insurance Institution. Matti Lehti, the Chairman of Fortum's Board of Direc-

tors, served as the Committee's expert member. In addition, Sari Baldauf, Deputy Chairman of Fortum's Board of Directors, has been nominated by the Board as an expert member to the Committee.

In its meeting on 1 February 2010, the Shareholders' Nomination Committee decided to propose to the Annual General Meeting, which is scheduled to be held 25 March 2010, that the following persons be elected to the Board of Directors: Matti Lehti as chairman, Sari Baldauf as deputy chairman, and as members Esko Aho, Ilona Ervasti-Vaintola, Birgitta Johansson-Hedberg, Christian Ramm-Schmidt and Joshua Larson.

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 2010 there were 11 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 2009, the

The duties of the Annual General Meeting are, among other things, to:

- ▶ 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 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.

Supervisory Board met 5 times. Average attendance at these meetings was 83.5%.

The employee representatives on Fortum's Supervisory Board were Jouni Koskinen, Tapio Lamminen (replaced by Kari Ylikauppila as of 1 September 2009) and Sebastian Elg. The current employee representatives' term continues until the end of 2010.

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 responsibilities of the Board of Directors are outlined in the Board of Director's working order. 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. 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 2009, the Board of Directors met 11 times, of which 2 were teleconfer-

ences. Average Director attendance at all Board meetings was 95.4%. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, financial position as well as risks and financial reporting. Main items also included the appointment of the new President and CEO, the new operational organisation, the Loviisa 3 application and other nuclear power matters, OAO Fortum integration in Russia and investments in new power and heat business as well as divestment matters. Over the year, the Board closely followed the development of the electricity market in the Nordic countries, Europe and

Russia as well as the implementation of the new operational organisation for Fortum group. The Board also continued to address 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), 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

At the 2009 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office:

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

At the 2009 Annual General Meeting, the following six persons were elected to the Board of Directors:

Name	Born	Education	Occupation
Chairman Matti Lehti	1947	PhD (Econ.)	Non-executive director
Deputy Chairman Sari Baldauf	1955	MSc (Econ.)	Non-executive director
Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation
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
Birgitta Johansson-Hedberg	1947	Bachelor of Art, Master of Psychology	Non-executive director
Christian Ramm-Schmidt	1946	B. Sc (Econ.)	Senior Partner of Merasco Capital Ltd.

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
- ▶ 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.

Assessment of the Board of Directors' work:

- ▶ Annual self-assessment.

Procedures of Board meetings:

- ▶ 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.

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 Director's working order

The Board of Directors has approved a working order to govern its work. The main contents of the working order are presented in the table to the left.

Assessment of the Board of Directors

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 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 these rules are outlined on the next page.

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

After the Annual General Meeting in April 2009, the Board elected among itself Birgitta Johansson-Hedberg as the chairman and as members Ilona Ervasti-Vaintola and Christian Ramm-Schmidt to the Audit and Risk Committee.

The Committee met 5 times in 2009. Average Director attendance at all meetings was 93.3%. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corpo-

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 pertaining 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
- ▶ Preparing nomination issues and proposals to the Board, as far as nomination questions are concerned, concerning the President and CEO and the management directly reporting to the President and CEO
- ▶ Evaluating the performance of the President and CEO and executives reporting directly to the President and CEO.

rate 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, such as the integration of OAO Fortum in Russia, preparing a recommendation for the election of the external auditor, as well as regulatory compliance and development of internal controls.

The Nomination and Remuneration Committee

After the Annual General Meeting in April 2009, the board elected among itself Matti Lehti as the chairman and as members Esko Aho and Sari Baldauf to the Nomination and Remuneration Committee. The Committee met 6 times during 2009. Director attendance at all meetings was 94.4%. 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 appointment of the Presi-

dent and CEO, new operational organisation for Fortum group as well as top management performance evaluations and compensation issues, including performance target-setting for the Fortum Management Team.

President and CEO

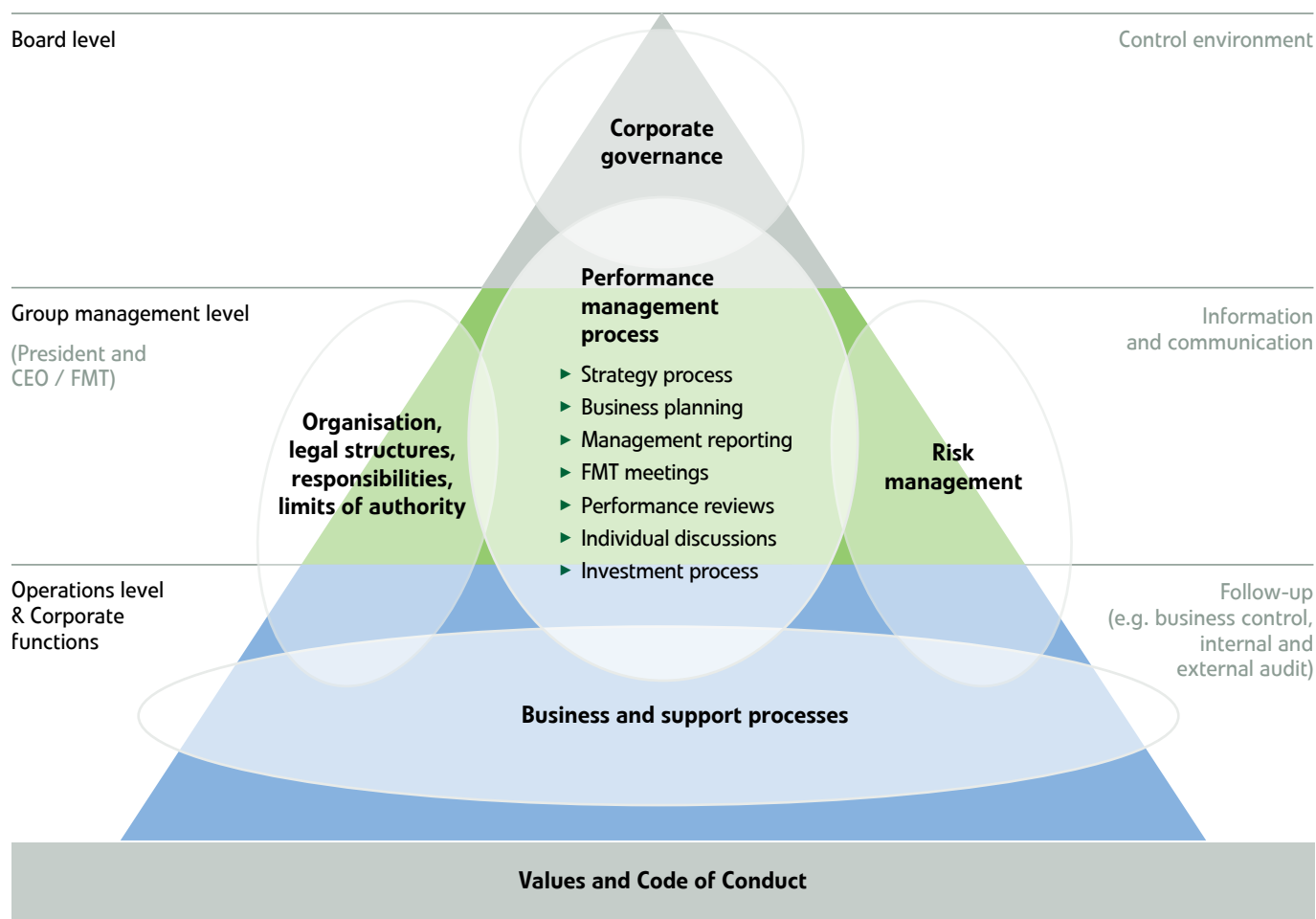
The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. MSc (Eng), MSc (Econ) Tapio Kuula, (born 1957) has acted as the President and CEO since May 2009.

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

Fortum's internal control framework



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.

Fortum reorganised its business structure around four divisions and four staff functions in order to increase the organisation's efficiency, performance accountability and simplicity. The change entered into force on 1 October 2009.

The new divisions are Power, Heat, Russia, and Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, physical operation and trading, operation, maintenance and development of power plants as well as expert services for power producers. Heat Division consists of combined heat and power generation, district heating activities and business to business heating solutions. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales, solutions and distribution activities. The division consists of two business areas: Distribution and Markets. 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.

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 7 April 2009 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Mikael Paul having the principal responsibility.

Internal control and risk management systems pertaining to financial reporting

System of risk management and internal controls

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 Organizations of the Treadway Commission (COSO).

➤ *Read more about Fortum's risk management process and largest risks on pages 98–102 and 126–134.*

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 CFO's Office is responsible for reporting risk exposures on weekly and monthly basis to the CFO and the President and CEO and regularly to the Audit and Risk Committee and 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. 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 not been changed during 2009 but the implementation responsibilities are looked as part of the reorganisation.

Control activities

Fortum's organisation is still 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 new 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 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. These 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. Additionally, Corporate Accounting and Control and Risk Management functions regularly arrange meetings in which informa-

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

Follow-up
Financial results are followed up in the monthly reporting. In addition to that, the quarterly Performance Review meetings with Group and division management are embedded in the Fortum Performance Management process to review the financial performance and 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. In addition, Internal Audit performs audits of the financial reporting process.

The actual control maturities are followed up in form of self-assessment process and for some areas a cross-testing of controls have been introduced during 2009.

Fortum performance management process

