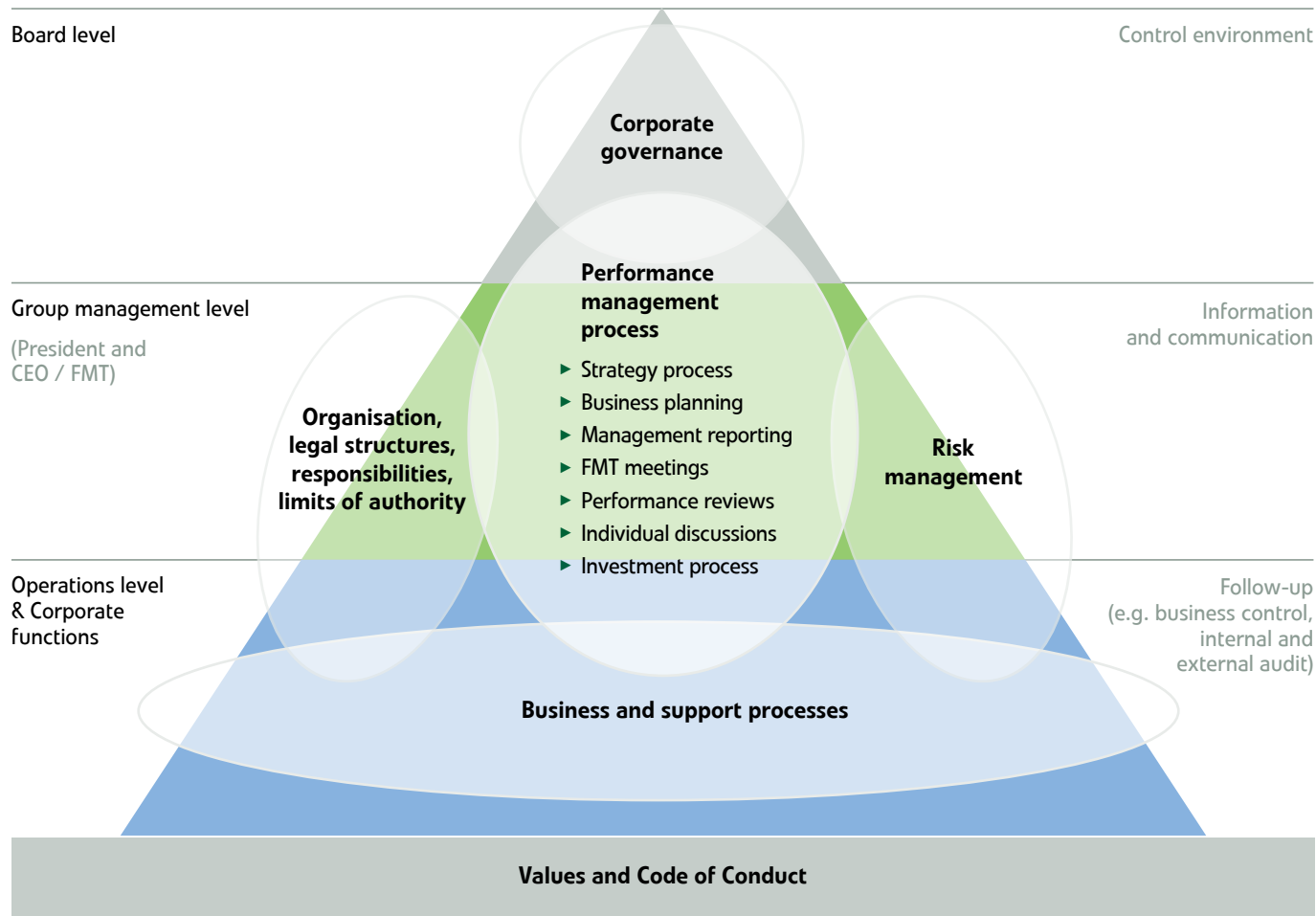


Fortum's internal control framework



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

