

The Fortum logo, consisting of a stylized white 'f' inside a green circle, followed by the word 'fortum' in a white, lowercase, sans-serif font, all set against a green rectangular background.

**fortum**

The text 'Join the change' in a white, sans-serif font, centered within an orange rectangular box.

**Join the  
change**



**Governance 2019**

# Corporate Governance Statement 2019

Fortum Corporation (FORTUM) has been listed on Nasdaq Helsinki since 18 December 1998. Fortum’s industrial sector, according to the Global Industry Classification Standard, is Electric Utilities. The State of Finland is the majority owner in Fortum with 50.76% of the shares as of 31 December 2019.

Corporate governance at Fortum is based on Finnish laws and the company’s Articles of Association. Fortum has fully complied with the Finnish Corporate Governance Code 2015 and fully complies with the new Finnish Corporate Governance Code 2020, which the Securities Market Association adopted on 19 September 2019 and entered into force on 1 January 2020. Fortum complies with the Corporate Governance Code 2020 applying the transitional provisions regarding remuneration reporting. The corporate governance statement is issued separately from the operating and financial review, and it has been reviewed by the Audit and Risk Committee of Fortum’s Board of Directors.

Fortum prepares the consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Finnish Securities Markets Act as well as the appropriate Financial Supervision Authority’s regulations and guidelines and Nasdaq Helsinki’s rules. The company’s operating and financial review and the parent company financial statements are prepared in accordance with the Finnish Companies Act, Accounting Act, Securities Markets Act, and the opinions and guidelines of the Finnish Accounting Board. The auditor’s report covers the consolidated financial statements and the parent company financial statements.

The Finnish Corporate Governance Code 2015 and the new Corporate Governance Code 2020 are both available on the website of the Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

## Governing bodies of Fortum

The decision-making bodies managing and overseeing the Group’s administration and operations are the General Meeting of Shareholders, the Board of Directors with its two Committees; the Audit and Risk

Committee and the Nomination and Remuneration Committee, and the President and CEO, supported by the Fortum Executive Management.

Further, Fortum has an informal Advisory Council consisting of representatives of Fortum’s stakeholder groups as invited by the Board of Directors. The Advisory Council aims at advancing Fortum’s businesses by facilitating a dialogue and exchange of views between Fortum and its stakeholders. In 2019, the Advisory Council consisted of 13 representatives of Fortum’s stakeholder groups including three employee representatives.

As sustainability is an integral part of Fortum’s strategy and operations, the highest decision making on sustainability and climate-related matters falls on the duties of the members of the Board of Directors, who share joint responsibility for these matters. Therefore, Fortum has not established a specific Sustainability Committee for

the decision making on economic, environmental and social matters. The Audit and Risk Committee, members of the Fortum Executive Management, and other senior executives support the Board of Directors in the decision-making in these matters, when necessary.

## General Meeting of Shareholders

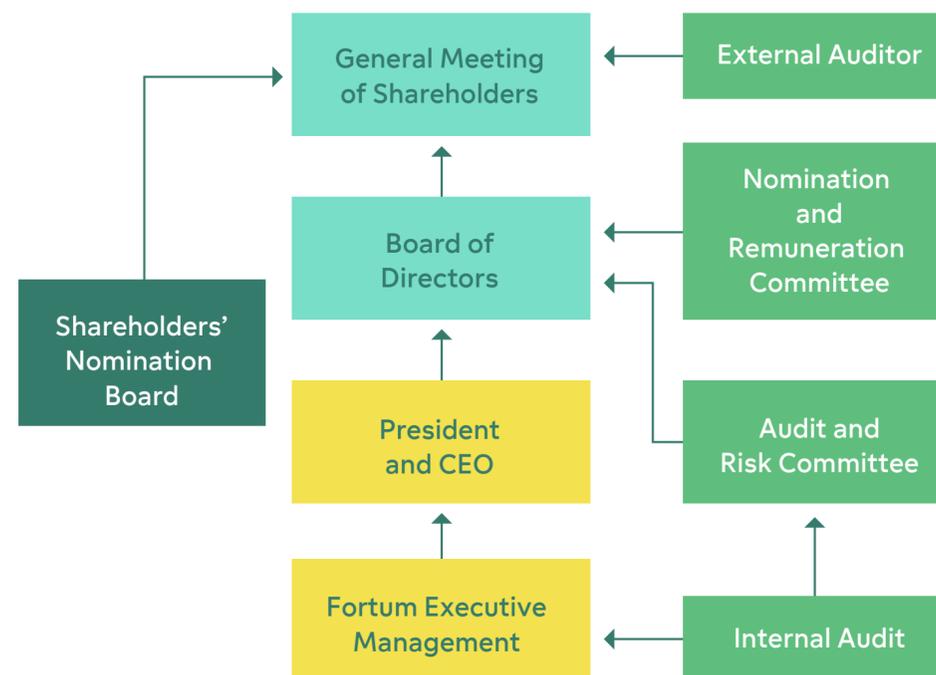
The General Meeting of Shareholders is the highest decision-making body of Fortum. Every shareholder has the right to attend the General Meeting, propose items to be included on the agenda of the General Meeting and exercise his/her power of decision in the matters belonging to the General Meeting by law, as stipulated in the Finnish Companies Act. Each share entitles to one vote. A shareholder who attends the General Meeting of Shareholders also has the right to ask questions about the matters to be discussed at the meeting. Before the end of each financial year, Fortum states the date by which a shareholder must propose items to be included on the agenda of the General Meeting on the Annual General Meeting website.

The decisions at the General Meeting of Shareholders are primarily made by a simple majority of votes. Such decisions include, for example, resolutions on the adoption of the financial statements, payment of dividends, discharging the members of the Board of Directors and the President and CEO from liability, appointment of the Board of Directors and the external auditors, and deciding on their remuneration.

In accordance with Fortum’s Articles of Association and the Finnish Companies Act, 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 on the company’s website or in two newspapers chosen by the Board of Directors. The Annual General Meeting of Shareholders is to be held once a year, in June at the latest.

An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds it necessary or when it is required by law to convene such a meeting.

## Governing bodies of Fortum



### The main duties of Annual General Meeting of shareholders include:

- Adoption of the parent company financial statements and consolidated financial statements
- Resolution on the use of the earnings shown on the balance sheet and the payment of dividends
- Resolutions on the discharge from liability of the members of the Board of Directors and the CEO
- Resolution on the remuneration of the members of the Board of Directors
- Resolution on the number of members of the Board of Directors
- Election of the chairman, deputy chairman and members of the Board of Directors
- Resolution on the remuneration of the external auditor
- Election of the external auditor

### General Meetings in 2019

Fortum's Annual General Meeting 2019 was held at Finlandia hall in Helsinki on 26 March. No Extraordinary General Meetings of Shareholders were held in 2019.

### Shareholders' Nomination Board

The Annual General Meeting on 9 April 2013 established a permanent Shareholders' Nomination Board. The purpose and task of the Shareholders' Nomination Board is to prepare and present to the General Meeting proposals on the remuneration, size and members of the Board of Directors. In addition, the Shareholders' Nomination Board seeks candidates for potential board members.

The Shareholders' Nomination Board consists of four members, three of which are appointed by the company's three largest shareholders, who shall appoint one member each. The Chairman of the Board of Directors serves as the fourth member. The members are nominated annually, and their term of office ends when new members are nominated to replace them. Fortum's three largest shareholders that are entitled to appoint members to the Shareholders' Nomination Board are determined on the basis of the registered holdings as at the first working day of September in the year concerned. In the event that a shareholder does not wish to exercise its right to appoint a representative, it shall pass the right to the next-largest shareholder. The Shareholders' Nomination Board forwards its proposals for the Annual General Meeting to the Board of Directors by 31 January each year.

### Diversity Principles for the Board of Directors

The Shareholders' Nomination Board prepares and applies diversity principles for the Board of Directors in line with the Corporate Governance Code. The principles are applied in preparing the proposal concerning nomination of board members. The diversity principles include, among others, that the board composition shall include expertise from the geographical areas where Fortum conducts its business, the background profession of the board members shall include such competences that support implementation of Fortum's strategy and that enable board members to challenge management decisions and

to exercise an overseeing role. In addition, the board composition shall include both genders. Fortum's target is to comply with the principles issued in the Finnish Government Resolution dated 17 December 2015 on equal gender representation in the boards of listed companies with the aim of the board consisting of at least 40% of women and men each by 2020. The Shareholders Nomination Board reviews the diversity principles and their implementation annually.

Fortum reports on the objectives, actions and progress of the diversity principles in its corporate governance statement. The Shareholders' Nomination Board has applied the diversity principles in preparing the proposal concerning nomination of the board members for the Annual General Meeting 2019 and for the upcoming Annual General Meeting 2020. The Shareholders' Nomination Board deems that the current board composition and the proposed board members for the Annual General Meeting 2020 include all the competences defined in the diversity principles in a well-balanced manner.

The proposal for the board members for the Annual General Meeting 2020 consists of 4 women and 5 men. The current Board of Directors consists of 3 women and 5 men, corresponding to a ratio of 37.5% and 62.5%.

### Shareholders' Nomination Board prior to the Annual General Meeting 2020

In October 2019, the following persons were appointed to the Shareholders' Nomination Board: Kimmo Viertola, b. 1961, M.Sc. (Econ.), Director General of the Ownership Steering Department, Prime Minister's Office; Jouko Pölonen, b. 1970, M.Sc. (Econ.), President and CEO of Ilmarinen Mutual Pension Insurance Company, and Risto Murto, b. 1963, Ph.D. (Econ.), President and CEO of Varma Mutual Pension Insurance Company. The Chairman of the Board of Directors, Matti Lievonon, acts as a member of the Shareholders' Nomination Board. The Nomination Board convened 10 times and the attendance rate was 98%

The Shareholders' Nomination Board did not reach a unanimous proposal, and, consequently, did not make a proposal for the remuneration to be paid to the Board of Directors for their following term of office. The Chairman of the Nomination Board has notified



the Nomination Board and the Company that the State of Finland will make a proposal at the Annual General Meeting for the remuneration as follows: for the chairman, EUR 77,200 per year; for the deputy chairman, EUR 57,500 per year; and for each member, EUR 40,400 per year, as well as for the chairman of the Audit and Risk Committee EUR 57,500 per year if he/she is not at the same time acting as chairman or deputy chairman of the Board of Directors. In addition, for each Board of Directors and Board Committee meeting the meeting fee is EUR 600. For Board of Directors members living outside Finland in Europe, the fee for each meeting is doubled, and for Board of Directors members living outside Europe, the proposed fee for each meeting is tripled. For Board of Directors members living in Finland, the fee for each Board of Directors and Board Committee meeting is doubled for meetings held outside Finland and tripled for meetings held outside Europe. For Board of Directors and Committee meetings held as a telephone conference, the fee is paid as single to all members.

The Shareholders' Nomination Board proposed that the Board of Directors consist of 9 members and that the following persons be elected to the Board of Directors for the upcoming term: Eva Hamilton, Essimari Kairisto, Matti Lievonen (Chairman), Klaus-Dieter Maubach, Anja McAlister, Teppo Paavola, Veli-Matti Reinikkala (Deputy Chairman), Philipp Rösler, and Annette Stube.

### Shareholders' Nomination Board prior to the Annual General Meeting 2019

In October 2018, the following persons were appointed to the Shareholders' Nomination Board: Kimmo Viertola, b. 1961, M.Sc. (Econ.), Director General of the Ownership Steering Department, Prime Minister's Office; Risto Murto, b. 1963, Ph.D. (Econ.), President and CEO of Varma Mutual Pension Insurance Company and Jouko Pölönen, b. 1970, M.Sc. (Econ.), President and CEO of Ilmarinen Mutual Pension Insurance Company. The Chairman of the Board of Directors, Matti Lievonen, acts as a member of the Shareholders' Nomination Board. The Nomination Board convened 4 times and the attendance rate was 100%.

### Board of Directors

The Board of Directors is responsible for the company's strategic development and for supervising and steering the company's business and management. Further, under the Articles of Association and in line with the Companies Act, the Board of Directors represents the company and is responsible for the proper arrangement of the control of the company's accounts and finances. The Board of Directors is also responsible for defining the company's mission and values.

The Board of Directors comprises five to ten members who are elected at the Annual General Meeting for a one-year term of office expiring at the end of the first Annual General Meeting following the election. The Annual General Meeting also elects the Chairman and the Deputy Chairman of the Board of Directors.

The Board of Directors convenes according to a previously agreed schedule to discuss specified themes and issues on its charter. The Chairman of the Board of Directors prepares the agenda for the Board of Directors meeting based on the proposal by the President and CEO. The members of the Board of Directors have the right to suggest specific matters and have them included on the agenda. More than half of the members must be present at the meeting to constitute a quorum. Decisions of the Board of Directors shall be made by a simple majority. The Board of Directors has approved a written charter for its work, the main content of which is disclosed on page 4, including the duties of the Board of Directors.

The President and CEO, the Chief Financial Officer, and the General Counsel, as secretary to the Board of Directors, attend the Board meetings on a regular basis. Other Fortum Executive Management members and senior executives attend as required.

As part of its duties, the Board of Directors conducts an annual self-assessment in order to further develop its work. In accordance with the Finnish Corporate Governance Code, the Board of Directors also annually evaluates which of the directors are independent of the company and which are independent of its significant shareholders.

## The main duties of the Board of Directors include:

### Strategy

- Strategic development and steering of the company's business and fields of activity

### Corporate values, policies

- Confirming the Group's Code of Conduct, operating principles and Group policies, including sustainability, and overseeing their implementation

### Supervision and oversight

- Ensuring that the administration and operations of the company are properly organised
- Ensuring that the accounting, financial administration and the risk management are arranged appropriately

### Financial matters of significance

- Confirming the Group's business plan on an annual basis
- Setting and following up the annual performance targets, including sustainability and climate-related targets, for the company and its management
- Reviewing the interim reports and approving the consolidated financial statements, the parent company financial statements and the operating and financial review
- Defining the dividend policy
- Deciding on major investments, divestments and business arrangements

### Decisions having effect on the corporate organisation

- Confirming the Group's organisational structure at the top management level, and appointing and dismissing the members of the Fortum Executive Management
- Appointing and dismissing the President and CEO; deciding on his/her remuneration
- Appointing the Chairman and Deputy Chairman as well as members of the Fortum Corporation Advisory Council

### Other

- Convening the Annual General Meeting and the Extraordinary General Meeting, when necessary
- Deciding on donations to charities

## Board of Directors in 2019

Until the Annual General Meeting held on 26 March 2019, the Board of Directors comprised the following members: Mr Matti Lievonen (Chairman), Mr Klaus-Dieter Maubach (Deputy Chairman), Mr Heinz-Werner Binzel, Ms Eva Hamilton, Mr Kim Ignatius, Ms Essimari Kairisto, Ms Anja McAlister, and Mr Veli-Matti Reinikkala. The Annual General Meeting on 26 March 2019 re-elected Mr Matti Lievonen as Chairman, Mr Klaus-Dieter Maubach as Deputy Chairman, and Ms Eva Hamilton, Mr Kim Ignatius, Ms Essimari Kairisto, Ms Anja McAlister and Mr Veli-Matti Reinikkala as members. In addition, Mr Marco Ryan and Mr Philipp Rösler were elected as new members. In August, Mr Ryan resigned from the Board following his appointment to the energy company BP. After evaluation, the Shareholders' Nomination Board confirmed the Board of Directors' ability to function with 8 members until the end of the Annual General Meeting 2020.

The Chairman, the Deputy Chairman and the members of the Board of Directors are independent of the company and of the company's significant shareholders. Three members are female and five of the members are male.

The Board of Directors met 10 times, and the attendance rate was 99%. The Board of Directors focused especially on the development and implementation of the company's strategy, business technology and digitalisation, growth options as well as investments and acquisitions, in particular the Uniper transaction. Other focus areas included market outlook and market development, and Fortum's competitiveness in the energy market transition. The Board of Directors conducted the annual self-assessment during the year to further enhance the efficiency of the board work.

## Fortum's Board of Directors on 31 December 2019

### Matti Lievonen

#### Chairman

Born 1958, nationality: Finnish

B.Sc. (Eng.), eMBA, D.Sc. (Tech) h.c.

Independent member of Fortum's Board of Directors since 2017

Chairman of the Nomination and Remuneration Committee

Fortum shareholding 31 Dec 2019: 1,500

**Main occupation:** Executive Officer, Oiltanking GmbH

**Primary work experience:** President & CEO, Neste Corporation 2008–2018;

President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation and number of other senior positions at UPM 1986–2008 and prior to that at ABB, Member of UPM-Kymmene's Executive Board 2002–2008

**Key positions of trust:** Vice Chairman of the Board of Directors of SSAB, Member of the Board of Directors of Solvay SA and Wintershall DEA

### Klaus-Dieter Maubach

#### Deputy Chairman

Born 1962, nationality: German

Ph.D. (Electrical Engineering)

Independent member of Fortum's Board of Directors since 2018

Member of the Nomination and Remuneration Committee

Fortum shareholding 31 Dec 2019: 0

**Main occupation:** Managing Partner, maubach.icp GmbH

**Primary working experience:** CEO of Encavis AG (former Capital Stage AG) 2015–2016; Member of the Management Board and CTO of E.ON SE 2010–2013; CEO of E.ON Energie AG 2007–2010 and Member of the Management Board 2006–2007; CEO of Avacon AG 2003–2006 and Member of the Management Board 2001–2003; CEO and Member of the German Executive Committee of Fortum Group in Elektrizitätswerk Wesertal GmbH 2000–2001, Managing Director 1998–2000 and Corporate head of department 1998; Head of technical planning of Energieversorgung Offenbach AG 1996–1998 and Head of dispatching centre 1995–1996; Research assistant, head of system optimization at University of Wuppertal 1989–1994

**Key positions of trust:** Chairman of the Supervisory Board of Klöpfer & Königer GmbH & Co KG; Member of the Supervisory Board of ABB Deutschland AG; Member of the Board of Directors of Axpo Power AG; Chairman of the Advisory Board and shareholder of SUMTEQ GmbH

### Eva Hamilton

Born 1954, nationality: Swedish

B.A. Journalism, honorary doctorate degree at Mid Sweden University (Mittuniversitetet)

Independent member of Fortum's Board of Directors since 2015

Member of the Nomination and Remuneration Committee

Fortum shareholding 31 Dec 2019: 40

**Main occupation:** Independent consultant

**Primary work experience:** CEO of Sveriges Television (SVT) 2006–2014, Head of SVT Fiction 2004–2006, Head of SVT News 2000–2004, and Head of Foreign Correspondent in Brussels 1993–1996; News Reporter at Aftonbladet 1978–1979, Svenska Dagbladet 1979–1988 and Dagens Industri 1988–1989

**Key positions of trust:** Chairman of the Swedish Film & TV Producers Association; Chairman of the Board of Nexiko Media AB; Member of the Board of LKAB, Stockmann Group, Bonnier Group/Expressen and Arholma Landsort AB

### Kim Ignatius

Born 1956, nationality: Finnish

B.Sc. (Econ.), Helsinki School of Economics and Business Administration

Independent member of Fortum's Board of Directors since 2012

Chairman of the Audit and Risk Committee

Fortum shareholding 31 Dec 2019: 4,000

**Main occupation:** Non-executive Director

**Primary work experience:** Chief Financial Officer in 2008–2016 and Executive Vice President in 2017 of Sanoma Corporation; Executive Vice President and CFO of TeliaSonera AB 2003–2008; Executive Vice President and CFO of Sonera Oyj 2000–2002; Group CFO of Tamro Oyj 1997–2000

**Key positions of trust:** Member of the Board and Chairman of Audit and Remuneration Committees of Rovio Entertainment Corporation; Member of the Board and Audit Committee of Elisa Oyj; Member of the Board and Chairman of the Audit Committee of Yliopiston Apteekki; Member of the Board of Directors' Institute Finland

### Essimari Kairisto

Born 1966, nationality: Finnish and German

Diploma in Business Administration (Germany)

Independent member of Fortum's Board of Directors since 2018

Member of the Audit and Risk Committee

Fortum shareholding 31 Dec 2019: 0

**Main occupation:** Independent consultant

**Primary work experience:** Member of the Executive Board/CFO in 2013–2016 at Hochtief Solutions AG; General Manager Finance/CFO of Sasol O&S Group International 2008–2013; Managing Director and CFO of Sasol Germany GmbH 2007–2013; Managing Director/CFO of Lahmeyer International GmbH 2004–2007; Head of Special Purpose Controlling of RWE Solutions AG 2003–2004; Head of Commercial Services Infrastructure Management of RWE Solutions AG & RWE Industrie-Lösungen GmbH 2002–2003; several management positions in Germany, Norway and US at Schlumberger 1995–2001

**Key positions of trust:** Member of the Supervisory Board, the Board of Partners, and the Audit Committee of Freudenberg Group; Member of the Supervisory Board and Audit, Risk and Compliance Committee of TenneT Holding B.V.; Independent Member of the Board of Directors and Member of the Audit Committee of Applus Services SA

### Anja McAlister

Born 1960, nationality: Finnish

M.Sc., Energy technology, MBA

Independent member of Fortum's Board of Directors since 2017

Member of the Nomination and Remuneration Committee

Fortum shareholding 31 Dec 2019: 0

**Main occupation:** Independent consultant

**Primary work experience:** Executive Vice President, Head of Strategy, Transformation, and HR of Pöyry PLC in 2017 and President of Energy Business Group in 2015–2017; Vice President at Pöyry Management Consulting Oy 2014–2015; Managing Director of Renewa Oy 2013; Senior Vice president, Head of Energy Business at UPM Group 2004–2013; Senior Vice President, Head of the Management Consulting Northern Europe of Electrowatt-Ekono Oy (part of the Pöyry Group) 2000–2004; Industrial Counsellor, Head of Energy Policy and Analyses team of Ministry of Trade and Industry, Finland 1998–2000; Operations Manager and Managing Director of Kymppivoima Oy 1995–1998; Senior Consultant at Energia-Ekono Oy 1993–1995; Technical Manager at Sheffield Heat and Power Ltd., UK 1990–1993; Operations Manager of MW biomass CHP plant of City of Kuopio, Finland 1984–1989

### Veli-Matti Reinikkala

**Born 1957, nationality:** Finnish

**Executive Master of Business Administration**

**Independent member of Fortum's Board of Directors since 2016**

**Member of the Audit and Risk Committee**

**Fortum shareholding 31 Dec 2019:** 3,000

**Main occupation:** Non-executive Director

**Primary work experience:** President of Region Europe in 2015 and Member of the Group Executive Committee of ABB Group in 2006–2015, President of the Process Automation division in 2006–2014, Head of Business Area Process Automation in 2005; Manager of Automation Technologies Division at ABB China 2003–2004; Business Area Manager of ABB Drives & Power Electronics 2002; Manager at ABB Drives 1996–2002; CFO of ABB Industry Oy 1994–1996; various positions in paper and packaging companies in Finland before 1994

**Key positions of trust:** Chairman of the Board of Cramo Plc, Member of the Board of UPM-Kymmene Corporation

### Philipp Rösler

**Born 1973, nationality:** German

**Ph.D., M.Med**

**Independent member of Fortum's Board of Directors since 26 March 2019**

**Member of the Audit and Risk Committee**

**Fortum shareholding 31 Dec 2019:** 0

**Main occupation:** Non-executive Director

**Primary work experience:** Hainan Cihang Charity Foundation, Managing Director; World Economic Forum, Managing Director & Member of the Managing Board 2014–2017; Federal Ministry (Bundesministerium) of Economics and Technology, Deputy Federal Chancellor and Federal Minister 2011–2013; Federal Ministry (Bundesministerium) of Health, Federal Minister of Health

**Key positions of trust:** Member of the Supervisory Board of Siemens Healthineers, and Jacobs University Bremen gGmbH; Member of the Advisory Board of Arabesque S-Ray; Member of the Board of trustees of Bertelsmann Stiftung

### Other members of the Board of Directors in 2019

#### Heinz-Werner Binzel

**Born 1954, nationality:** German

**Ph.D., M.Med**

**Economics and electrical engineering degree**

**Member of the Board of Directors 31 March 2011–26 March 2019**

#### Marco Ryan

**Born 1966, nationality:** British

**B.Sc. (Information Management)**

**Member of the Board of Directors and Audit and Risk Committee**

**26 March 2019–1 August 2019**

## Board Committees

The committees of the Board of Directors are the Audit and Risk Committee and the Nomination and Remuneration Committee. The committees assist the Board of Directors by preparing and reviewing in more detail matters falling within the duties of the Board of Directors.

The Board of Directors appoints members of the Audit and Risk Committee and the Nomination and Remuneration Committee from amongst its members. Each committee shall have at least three members. The members shall have the expertise and experience required by the duties of the respective committee.

The members are appointed for a one-year term of office expiring at the end of the first Annual General Meeting following the election. All the members of the Board of Directors have the right to attend the committee meetings. The Chairman of the committee reports on the committee's work to the Board of Directors regularly after each meeting, and the committee meeting materials and minutes are available to all members of the Board of Directors. The Board of Directors has approved written charters for the committees. The charters are reviewed regularly and updated as needed.

### Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in matters relating to financial reporting and control in accordance with the duties set forth the Finnish Corporate Governance Code. The Board of Directors regularly determines the role and duties of the Audit and Risk Committee in a written charter. The committee monitors the Group's financial statements reporting process, the efficiency of the internal controls, and risk management systems and also monitors and assesses legal compliance and business ethics compliance. The committee approves the internal audit charter and the internal audit plan and its budget. The committee evaluates the independence of the external auditors, reviews the external auditor's audit plan and meets with them regularly to discuss the audit plan, audit reports and findings.

Pursuant to the Finnish Corporate Governance Code, the members of the Audit and Risk Committee shall have the qualifications necessary to perform the responsibilities of the committee, and at least one of the

### The main duties of the Audit and Risk Committee include:

- Monitoring the financial position of the company
- Supervising the financial reporting process
- Monitoring the reporting process of financial statements
- Monitoring the statutory audit of the financial statements and consolidated financial statements
- Preparing for the Board of Directors the proposal for resolution on the election of the auditor
- Evaluating the independence of the statutory auditor, particularly the provision of related services to the company to be audited and pre-approval of non-audit services
- Monitoring the efficiency of the company's internal control, internal audit, compliance 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
- Reviewing annually the Group Risk Policy, material risks, including climate related risks, and uncertainties
- Approving the internal audit charter, the annual audit plan, the budget of the internal audit function and reviewing the internal audit reports
- Monitoring and assessing legal compliance and business ethics compliance
- Establishment of principles concerning the monitoring and assessment of related party transactions
- Monitoring and assessing how agreements and other legal acts between the company and its related parties meet the requirements of the ordinary course of business and arm's-length terms

members shall have expertise specifically in accounting, bookkeeping or auditing. The members shall be independent of the company, and at least one member shall be independent of the company's significant shareholders.

The external auditors, Chief Financial Officer, Head of Internal Audit, Corporate Controller, and General Counsel, as secretary to the committee, attend the committee meetings on a regular basis. Other senior executives attend the meetings as invited by the committee.

The Audit and Risk Committee carries out a self-assessment of its work in order to further develop it.

### Audit and Risk Committee in 2019

After the Annual General Meeting 2019, the Board of Directors elected from amongst its members Kim Ignatius as the Chairman and Essimari Kairisto, Veli-Matti Reinikkala, Marco Ryan (resigned from the Board in August 2019), and Philipp Rösler as members of the Audit and Risk Committee. Until the Annual General Meeting on the committee comprised Kim Ignatius (Chairman), Heinz-Werner Binzel, Essimari Kairisto, and Veli-Matti Reinikkala. The members are all independent of the company and of its significant shareholders. The Audit and Risk Committee met 6 times in 2019 and the attendance rate was 96%.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee assists the Board of Directors in matters related to nomination and remuneration of the company's management. The committee has a written charter in which its duties have been defined. Pursuant to the Finnish Corporate Governance Code, the majority of the members of a remuneration committee shall be independent of the company. The regular participants at the committee meetings are the President and CEO, Senior Vice President of Strategy, People and Performance, and General Counsel as Secretary to the Committee.

The Nomination and Remuneration Committee conducts an annual self-assessment of its work.

### The main duties of the Nomination and Remuneration Committee include:

- Preparing nomination and remuneration issues and proposals to the Board of Directors concerning the President and CEO, the executives reporting directly to the President and CEO as well as the Fortum Executive Management
- Preparing the remuneration policy and remuneration report for the company's governing bodies
- Reviewing and preparing succession plans for the President and CEO and for the members of the Fortum Executive Management
- Evaluating the performance and the remuneration of the President and CEO, the executives reporting directly to the President and CEO as well as the Fortum Executive Management
- Preparing for the Board of Directors recommendations on the Group's and its management's pay structures, bonus, and incentive systems and remuneration policy
- Monitoring the functioning of the bonus systems to ensure that the management's bonus systems will advance the achievement of the company's strategic objectives and that they are based on performance
- Monitoring and ensuring planning and implementation of the talent management processes to ensure and promote competence development to support strategy implementation

## Number of the Board meetings and Board Committee meetings in 2019 and the attendance rate of the members

Member	Board of Directors	Nomination and Remuneration Committee	Audit and Risk Committee
Heinz-Werner Binzel (member until 26 March)	1/1		1/1
Eva Hamilton	10/10	4/5	
Kim Ignatius	10/10		6/6
Essimari Kairisto	10/10		5/6
Matti Lievonen	9/10	5/5	
Klaus-Dieter Maubach	10/10	5/5	
Anja McAlister	10/10	5/5	
Veli-Matti Reinikkala	10/10		6/6
Marco Ryan (26 March–1 August)	5/5		3/3
Philipp Rösler (member since 26 March)	9/9		5/5

### Nomination and Remuneration Committee in 2019

After the Annual General Meeting 2019, the Board of Directors elected from amongst its members Matti Lievonen as the Chairman and Eva Hamilton, Klaus-Dieter Maubach, and Anja McAlister as members of the Nomination and Remuneration Committee. Until the Annual General Meeting, the committee comprised Matti Lievonen as the Chairman and Eva Hamilton, Klaus-Dieter Maubach and Anja McAlister as members. The members are all independent of the company and of its significant shareholders. The committee met 5 times during 2019 and the attendance rate was 95%.

### President and CEO

The Board of Directors nominates the President and CEO. The President and CEO holds the position of Managing Director under the Companies Act and is the Chairman of the Fortum Executive Management. The President and CEO is in charge of the day-to-day management of the Group, in accordance with the Companies Act and the instructions and orders issued by the Board of Directors. Under the Companies Act, the President and CEO is responsible for ensuring that the accounts of the company comply with the applicable laws and that its financial affairs have been arranged in a reliable manner.

### Fortum Executive Management

The President and CEO is supported by the Fortum Executive Management. The Fortum Executive Management assists the President and CEO in implementing the strategic and sustainability targets within the framework approved by the Board of Directors, preparing the Group's business plans, and deciding on investments, mergers, acquisitions and divestments within its authorisation.

The financial and sustainability results are reviewed in the monthly reporting by the Fortum Executive Management. Quarterly Performance Review meetings with the management are embedded in the Fortum Performance Management process.

Fortum's organisation consists of four business divisions: Generation, City Solutions, Consumer Solutions, and Russia. Generation comprises power production in the Nordics. City Solutions develops sustainable solutions for urban areas into a growing business for Fortum. Consumer Solutions comprises electricity and gas retail businesses in the Nordics and Poland, including the customer service, invoicing, and debt collection business. Russia division comprises Fortum's power and heat generation and sales activities in Russia. In addition, the organisation has five staff functions: Finance; Legal; Strategy, People and Performance; Business Technology, as well as Corporate Affairs and Communications.

Each member of the Fortum Executive Management is responsible for the day-to-day operations and the implementation of operational

decisions in his/her respective organisation. The Fortum Executive Management meets on a monthly basis.

The Fortum Executive Management has nine members in addition to the President and CEO. Pekka Lundmark is the President and CEO of Fortum Corporation. The other members are Arun Aggarwal, Alexander Chuvaev, Per Langer, Risto Penttinen, Markus Rauramo, Arto Rätty, Mikael Rönöblad, Sirpa-Helena Sormunen, and Tiina Tuomela.

All the members of the Executive Management report to the President and CEO, apart from the General Counsel who administratively reports to the CFO.

# Fortum Executive Management on 31 December 2019

## Pekka Lundmark

**President and Chief Executive Officer since 2015**

Born 1963, nationality: Finnish

M.Sc. (Eng.)

Member of the Executive Management since 2015

Employed by Fortum since 2015

Fortum shareholding 31 Dec 2019: 92,931

**Previous positions:** President and CEO of Konecranes Plc in 2005–2015 and Group Executive Vice President in 2004–2005; President and CEO of Hackmann Oyj Abp 2002–2004; Managing Partner of Startupfactory Oy 2000–2002; various executive positions at Nokia Corporation 1990–2000

**Key positions of trust:** Chairman of the Board of Confederation of Finnish Industries; Member of the Board of East Office of Finnish Industries, Climate Leadership Council and Finnish Athletics Federation; Chairman of the Board of Fortum Foundation

## Arun Aggarwal

**SVP, Business Technology since 2018**

Born 1969, nationality: American

M.Sc. (Manufacturing Systems Eng.)

Member of the Executive Management since 2018

Employed by Fortum since 2018

Fortum shareholding 31 Dec 2019: 0

**Previous positions:** Executive Advisor at IBM Corporation 2018; Global CIO, Digital Transformation Leader of Cemex Inc. 2015–2017; Executive Advisor at Cemex Inc. 2012–2015; President of The Waterside Group 2006–2015; Director at Bearing Point Inc. (formerly KPMG Consulting) 2001–2005; Senior Manager at KPMG Consulting Inc. 1992–2001

## Alexander Chuvaev

**Executive Vice President, Russia Division and**

**General Director of PAO Fortum since 2009**

Born 1960, nationality: Russian

M.Sc. (Eng.)

Member of the Executive Management since 2009

Employed by Fortum since 2009

Fortum shareholding 31 Dec 2019: 22,053

**Previous positions:** Regional Executive Director of GE Oil & Gas, Russia and CIS 2009; Investment Development Director of SUEK, Russia 2008–2009; Managing Director of JSC Power Machines, Russia 2006–2008; Regional General Manager of GE Oil & Gas, Russia 2006; Chief Operations Officer of JSC OMZ, Russia 2005–2006; Various positions at GE in the USA and Canada 1999–2005; various positions at Solar Turbines Europe S.A. in Europe and the USA 1991–1999

**Key positions of trust:** Deputy Head of the Supervisory Board of Energy Producers Council; Member of the Board & Chairman of Commission on Public Utility of Russian Union of Industrialists and Entrepreneurs; Member of the Board of Directors of TGC-1; Member of Government Commission on the Development of the Electric Power Industry; General Director of Wind Power AM LLC

## Per Langer

**Executive Vice President, City Solutions since 2017**

Born 1969, nationality: Swedish

M.Sc. (Econ.)

Member of the Executive Management since 2009

Employed by Fortum since 1999

Fortum shareholding 31 Dec 2019: 38,248

**Previous positions:** Senior Vice President, Technology and New Ventures of Fortum Corporation 2016–2017; Executive Vice President, Hydro Power and Technology of Fortum Corporation 2014–2016; Executive Vice President, Heat Division of Fortum Power and Heat Oy 2009–2014; President of Heat of Fortum Power and Heat Oy 2007–2009; President of Portfolio Management and Trading

of Fortum Power and Heat Oy 2004–2007; managerial positions at Fortum Oyj 1999–2004; managerial positions at Gullspång Kraft 1997–1999

**Key positions of trust:** Chairman of the Board of Stockholm Exergi AB; Deputy Chairman of the Board of Fortum Oslo Varme AS; Member of the Board of Exeger Sweden AB

## Risto Penttinen

**Senior Vice President, Strategy, People and Performance since 2016**

Born in 1968, nationality: Finnish

M.Sc. (Econ.)

Member of the Executive Management since 2016

Employed by Fortum since 2011

Fortum shareholding 31 Dec 2019: 18,587

**Previous positions:** Vice President, Corporate Strategy of Fortum Corporation 2014–2016; Vice President, Strategic Ventures of Fortum Power Division 2011–2014; Partner at McKinsey & Company 2005–2011; Consultant and Project Leader at McKinsey & Company 1996 and 1997–2005

**Key positions of trust:** Deputy member of the Board of Varma Mutual Pension Insurance Company

## Markus Rauramo

**Chief Financial Officer since 2017**

Born 1968, nationality: Finnish

M.Sc. (Econ. and Pol. Hist.)

Member of the Executive Management since 2012

Employed by Fortum since 2012

Fortum shareholding 31 Dec 2019: 45,272

**Previous positions:** Executive Vice President, City Solutions of Fortum Corporation 2016–2017; Executive Vice President, Heat, Electricity Sales and Solutions of Fortum Corporation 2014–2016; CFO of Fortum Corporation 2012–2014 and acting CEO in 2013; CFO of Stora Enso Oyj 2008–2012; SVP, Group Treasurer of Stora Enso International 2004–2008; VP, Strategy and Investments at

Stora Enso Oyj 2001–2004; VP Head of Funding of Stora Enso Financial Services 1999–2001; several financial tasks at Enso Oyj 1993–1999

**Key positions of trust:** Vice Chairman of the Supervisory Board of Uniper SA; Member of the Board of Wärtsilä Oyj Abp and Teollisuuden Voima Oyj

### Arto Rätty

**Senior Vice President, Corporate Affairs & Communications since 2016**

Born 1955, nationality: Finnish

Lieutenant General (Ret.)

Member of the Executive Management since 2016

Employed by Fortum since 2016

Fortum shareholding 31 Dec 2019: 4,931

**Previous positions:** Permanent Secretary at the Ministry of Defence of Finland 2011–2015; Director of the National Defence Policy Unit 2005–2008; Various positions within Finnish Defence Forces including: Deputy Chief of Staff, Operations at Defence Command 2009–2010, Chief of Staff at Army Command 2008–2009, Brigade Commander, Pori Brigade 2000–2002, Commanding Officer of the Finnish Battalion in KFOR in Kosovo 2000, Deputy Chief of the International Department, Defence Command 1997–2000, Director of the National Defence Courses of the Finnish Government 2003–2004 and Finnish Liaison Officer at NATO HQ and PCC SHAPE in Brussels, Belgium 1994–1997

**Key positions of trust:** Member of the Board of Aalto University Executive Education Oy, Suomi Gas Distribution Holding Oy, TT Foundation, Fortum Art Foundation, Urlus Foundation, and Trustees of Savonlinna Opera Festival; Deputy member of the Board of Fennovoima Oy

### Mikael Rönnblad

**Executive Vice President, Consumer Solutions since 2017**

Born 1969, nationality: Finnish

M.Sc. (Econ.)

Member of the Executive Management since 2017

Employed by Fortum since 2017

Fortum shareholding 31 Dec 2019: 3,435

**Previous positions:** SVP & GM of New Digital Services Businesses and Consumer Customers Executive Board Member of Elisa Corporation 2009–2017; VP, Corporate Strategy and Acquisitions of Elisa Corporation 2004–2009; Director

and Global Head of Nordic Sector of ABN AMRO Global Equities 2000–2004; General Manager and Head of Department at Pannon, Hungary 1999–2000; Manager, Corporate Venturing and International Mobile Operations at Sonera Corporation 1997–2000; Project Director and Assistant Professor (acting) at Hanken Swedish School of Economics 1995–1997; Junior Strategy Consultant at Vectia Ltd 1994–1995; In-house Consultant, Major Accounts Sales at Nokia Corporation 1991–1993

**Key positions of trust:** Chairman of the Board of Nikus Oy Ab

### Sirpa-Helena Sormunen

**General Counsel since 2014**

Born 1959, nationality: Finnish

LL.M, Trained on the bench

Member of the Executive Management since 2014

Employed by Fortum since 2014

Fortum shareholding 31 Dec 2019: 12,668

**Previous positions:** General Counsel of Patria Oyj 2012–2014; several legal and managerial positions at Nokia and Nokia Siemens Networks 2004–2012; Vice President, Head of Legal, Mergers & Acquisitions and Finance of TeliaSonera Finland Oyj 2003–2004; Senior Legal Counsel, Head of Legal, Merger & Acquisitions of Sonera Oyj 2000–2002

**Key positions of trust:** Member of the Board of Directors of Nammo AS, Association of Finnish Fine Arts Foundations, and OPR-Finance Oy, Chairman of the Board of Fortum Art Foundation

### Tiina Tuomela

**Executive Vice President, Generation since 2016**

Born 1966, nationality: Finnish

M.Sc. (Eng.), MBA

Member of the Executive Management since 2014

Employed by Fortum since 1990

Fortum shareholding 31 Dec 2019: 24,877

**Previous positions:** Executive Vice President, Nuclear and Thermal Power Division of Fortum Corporation 2014–2016; Vice President, Finance in Power Division at Fortum Power and Heat Oy 2009–2014; Vice President, Business Control and

Support, Generation at Fortum Power and Heat Oy 2005–2009; several managerial positions at Fortum 1990–2005

**Key positions of trust:** Chairman of the Board of Kemijoki Oy; Member of the Board of Finnish Energy, YIT Corporation and Teollisuuden Voima Oyj

## The main features of the Internal Control and Risk Management Systems

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and aim at ensuring compliance with the applicable laws and regulations.

### Risk management systems

Fortum’s Board of Directors approves the Group Risk Policy that defines the objective, main principles and division of responsibilities for risk management. The Group Risk Policy also includes a description of the main features of the risk management process which is applicable to all processes including financial reporting.

### Internal controls in relation to financial reporting

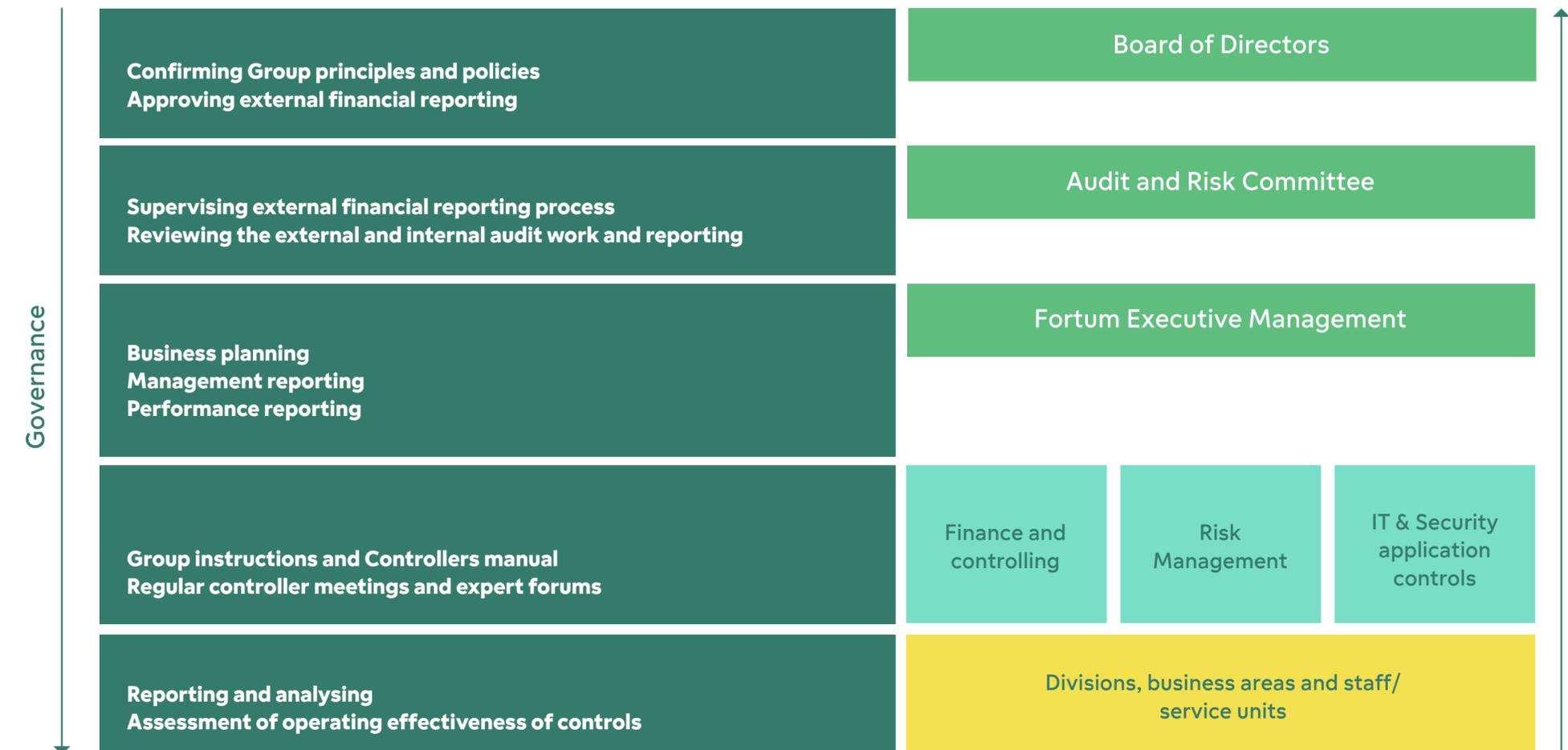
Fortum’s internal control framework is based on the main elements of the framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The controls including financial reporting controls, have been defined based on the main risks in the process. Internal controls are one of the key elements of Compliance Programme in Fortum, which also covers business ethics and regulatory compliance.

### Control environment

The standards, processes and structures in internal control are set through Group policies, Group instructions and the Fortum internal control framework. Fortum’s internal control framework is designed to support operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. The internal control framework defines key controls and minimum requirements for the key processes. Corporate Accounting and Control is responsible for the overall control structure of the financial reporting process. Fortum Controllers’ manual defines instructions and guidelines relating to financial reporting.

Fortum has decentralised organisational model, and a substantial degree of authority and responsibility has been delegated to the divisions

## Financial reporting framework in Fortum



in the form of control responsibilities. Fortum’s control governance applies the so-called “Three lines of defense” model as illustrated in the graphic.

### Risk assessment

Risks are regularly identified and analysed as part of the risk management process. Risks, that might, if realised, have a material financial impact or lead to non-compliance are reported to the Audit and Risk Committee at least annually.

### Control activities

Control activities are applied in the processes and, from the financial reporting perspective, these ensure that errors or deviations are prevented or detected and corrected.

The Corporate Accounting and Control unit together with the Record-to-Report internal control process team determine the control requirements covering the financial reporting process. Divisions and units define their controls based on these requirements. Responsibilities are assigned for the control activities and for ensuring that the control

**Fortum's Control Governance**



coverage is in accordance with the requirements. The stream leader of the Record-to-report ensure the consistency of the control requirements and assessment in the organisation.

Control requirements for the financial reporting process include controls regarding the initiation, recognition, measurement, approval, accounting and reporting of financial transactions as well as disclosure of financial information. The general IT controls support the financial reporting controls in areas such as access control and back-up management.

Responsibilities are assigned to finance functions to ensure that analyses of the business performance, including e.g. volumes, revenue,

costs, working capital, and asset valuations are performed in accordance with the control requirements.

**Information and communication**

The Controllers' manual includes the Fortum Accounting manual, Investment manual and reporting instructions, and other instructions relating to financial reporting. Regular core controllers' meetings, headed by the Corporate Controller, steer the finance function. Accounting Network Forum meetings are held regularly to inform about upcoming changes in IFRS, new accounting policies and other changes in reporting requirements.

**Monitoring and follow-up**

Financial performance and key short-term risks and uncertainties related to business operations are reported monthly to the Fortum Executive Management.

As part of the Fortum internal control framework, divisions and units regularly assess the maturity of their control activities including the financial reporting process controls. The Head of Internal Controls reports the results of internal control maturity assessments and identified improvement actions to the management and to the Audit and Risk Committee. Internal control design and operating effectiveness are also assessed as part of the audits carried out by Internal Audit. Audit results, including corrective actions and their status, are regularly reported to the management and to the Audit and Risk Committee.

**Auditing**

**Internal Audit**

Fortum's Internal Audit is an independent and objective assurance function providing a disciplined and systematic approach in examining and evaluating the appropriateness and effectiveness of the Group's management and corporate governance processes, internal control system, risk management, and operational processes.

The Institute of Internal Auditors' International Professional Practices Framework form the basis for the work of Internal Audit.

**External Audit**

The Group and the parent company have one external auditor. Due to ongoing merger and acquisition processes, some of the target companies may have other audit firms during the transition period.

The external 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's Annual General Meeting on 26 March 2019 elected Authorised Public Accountant Deloitte Oy as the company's external auditor, with Authorised Public Accountant Reeta Virolainen having the principal responsibility.

The Annual General Meeting also decided that the auditor's fee would be paid pursuant to invoice approved by the company. The fee paid to the auditor for services rendered and invoiced in 2019 totalled approx. EUR 2,296,000. In addition, the audit firm was paid a total of approx. EUR 1,005,000 for non-audit and advisory services rendered and invoiced.

### Code of Conduct and Compliance Programme

Fortum's Code of Conduct is based on the shared corporate values which form the ethical basis for all work at Fortum. The Code of Conduct has been approved by the Board of Directors. Fortum's Code of Conduct was rebranded and relaunched in 2017 (originally launched in 2007 and updated in 2015) to the whole Group, and it has been published in ten languages. During 2018, a new Code of Conduct eLearning was launched in Fortum. During 2019, attention has in general been on communicating the Code of Conduct and compliance topics and instructions through internal and external communication channels. Alignment is enforced by the full commitment of the top management.

Fortum applies a compliance programme which covers key areas of regulatory compliance and business ethics. Internal Controls are an integral part of compliance, and the Head of Group Compliance who also assumes the role of Group Compliance Officer reports to the General Counsel independently of the business. Also during 2019, the Group Compliance and Controls organisation, including Country Compliance Leads, was appointed to enhance business ethics in all Fortum countries.

Fortum employees are responsible for reporting any suspected misconduct to their own supervisors, to other management members or, if necessary, directly to Group Compliance. Fortum employees and other stakeholders can confidentially report with their own language suspicions of misconduct by using the "SpeakUp channel" on Fortum's internal and external web pages. The reporting channel was renewed in July 2019. In Russia, Fortum has also a separate compliance organisation with appointed compliance officers.

Prevention of corruption is one of the focus areas of the Code of Conduct. Fortum has anti-corruption procedures, including prevention, oversight, reporting and enforcement based on the requirements

prescribed in international legislation. Compliance requirements are also part of the partly owned company management in Fortum. Additionally, Fortum has a country and partner risk evaluation process to support the understanding and management of compliance needs at the local business and partner level. These also cover export control (incl. economic sanctions) and anti-money laundering aspects.

### Insider Administration

Fortum complies with the EU regulation No. 596/2014 on market abuse (MAR) and EU regulation No. 1227/2011 on wholesale Energy Market Integrity and Transparency (REMIT) and related regulation. Fortum complies also with the Guidelines for Insiders issued by Nasdaq Helsinki.

### Persons discharging managerial responsibilities

Persons discharging managerial responsibilities and the persons associated with them are under a duty to disclose their transactions with Fortum's financial instruments. Fortum has defined that the members of the Board of Directors and the Fortum Executive Management are persons discharging managerial responsibilities.

### Duty to disclose and Closed Window

Fortum's Board of Directors and Executive Management members as well as persons related to them are under a disclosure duty towards the Finnish Financial Supervision Authority and Fortum in respect of their transactions with Fortum's financial instruments. Fortum publishes these transactions through stock exchange releases.

Fortum's Board of Directors and Executive Management members as well as other Fortum personnel defined to have access to sensitive financial information of Fortum may not trade in Fortum's financial instruments for a period of 30 days prior to the publication of interim reports and financial statements (Closed Window).

### Internal supervision of insider affairs

Fortum's own internal insider rules are regularly updated and made available to all Fortum employees. Fortum arranges training on insider rules. The coordination and control of insider affairs are among the

responsibilities of Fortum's General Counsel. Fortum regularly monitors the trading of its insiders.

### Related party transactions

Related party transactions are regulated by the Finnish Companies Act and the Corporate Governance Code issued by the Securities Market Association, as well as in the IAS 24 Related parties. Fortum has a specific framework in place for identification, assessment, approval, monitoring and reporting of the company's related party transactions. In accordance with the Finnish Companies Act, the Board of Directors is responsible for monitoring and assessment of the related party transactions. The Audit and Risk Committee of the Board of Directors assists the Board in its task by preparing the matters. As part of its duties, the Audit and Risk Committee monitors the related party transactions concluded by Fortum in accordance with the company's established reporting practices.

Fortum discloses information regarding related party transactions on an annual basis as part of the notes to the company's consolidated financial statements. In addition, as required by law, Fortum discloses the details of any related party transactions that are material to the shareholders by issuing a stock exchange release.