

Corporate Governance

Well-defined and transparent corporate governance provides a structure for responsible, value-oriented performance and supervisory functions of the company. It is an imperative that works for the benefit of Fortum's shareholders, financial markets, business partners, employees and the public.

The Board of Directors' and the President and CEO's responsibility for the administration and management of the company is regulated in the Finnish Companies Act, which is supplemented by the Finnish Corporate Governance Code. In the following, you will find Fortum's Corporate Governance Statement, as recommended in

the Corporate Governance Code and information on management remuneration, followed by the biographical presentations.

✚ *Insider administration at Fortum is presented on the web at www.fortum.com/insideradministration*

GOVERNING BODIES OF FORTUM



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 2010. This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the company's Operating and financial review report.

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

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

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 AND GOVERNING BODIES OF THE GROUP

The decision-making bodies managing and overseeing the group's administration and operations are the Annual General Meeting of Shareholders, the Board of Directors with its two Committees and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of Directors supervises the performance of the company, its management and organisation. The 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.

In Fortum's Annual General Meeting 2011, the State of Finland and the Finnish Shareholders Association (Osakesäästäjien keskusliitto) proposed to dissolve the Supervisory Board and accordingly to amend the Articles of Association of Fortum. The proposal was accepted and the changes to the Articles of Association entered into force on 4 April 2011.

In 2011 Fortum's Board of Directors invited representatives of Fortum's stakeholder groups to an informal Advisory Council for the company in order to facilitate dialogue and exchange of views between Fortum and its stakeholders.

General Meeting of Shareholders

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

referred to in the Section 2, Sub-section 2 Chapter 4, of the Companies Act.

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

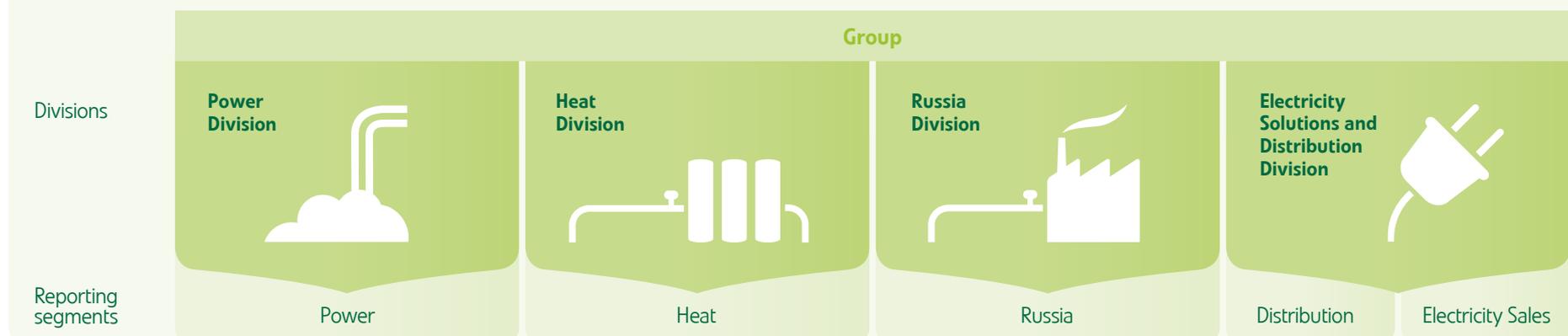
Shareholders' Nomination Board

By decision of Fortum's Annual General Meeting 2011, a Shareholders' Nomination Board was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Nomination Board consists of the representatives of the three main

THE DUTIES OF THE ANNUAL GENERAL MEETING INCLUDE:

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

FORTUM'S FINANCIAL REPORTING STRUCTURE



shareholders and, in addition, as expert member the chairman of the Board of Directors.

The three shareholders whose shares represent the largest number of the votes of all shares in the company on the 1st day of November preceding the Annual General Meeting will have the right to appoint the members representing the shareholders. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder. The largest shareholders will be determined on the basis of the ownership information registered in the book-entry system. In case an owner is required under the Securities Markets Act to report certain changes in ownership (when flagging by shareholder is required), for example when the ownership is distributed among various funds, the ownership will be counted as one holding if the owner so requests by notifying the Board of Directors in writing no later than on 28 October.

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

In November 2011, the following persons have been appointed to Fortum Shareholders' Nomination Board:

Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department; Mikko Koivusalo, Investments Director, Varma Mutual Pension Insurance Company and Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company. The Chairman of Fortum's Board of Directors, Sari Baldauf, serves as the Board's expert member.

In its meeting on 31 January 2012 the Shareholders' Nomination Board decided to propose to the Annual General Meeting, which will be held 11 April 2012, that the following persons be re-elected to the Board of Directors: Sari Baldauf as Chairman, Christian Ramm-Schmidt as Deputy Chairman, and as members Minoo Akhtarzand, Heinz-Werner Binzel, Ilona Ervasti-Vaintola and Joshua Larson. The Shareholders' Nomination Board proposes that Kim Ignatius and Veli Sundbäck be elected as new members of the Board of Directors.

The Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with relevant laws and regulations, including the Finnish Companies Act, Fortum's Articles of Association and any instructions given by the General Meeting of Shareholders. The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of

FORTUM'S BOARD OF DIRECTORS 2011

Name	Born	Education	Occupation	Attendance in the Board meetings	Attendance in the Board Committee meetings
Chairman Sari Baldauf	1955	MSc (Econ.)	Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Deputy Chairman Christian Ramm-Schmidt	1946	B. Sc (Econ.)	Senior Partner of Merasco Capital Ltd. Non-executive director	10/10	The Audit and Risk Committee, 5/5
Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Minoo Akhtarzand ¹⁾	1956	Civil Engineer, Electrical engineering	Governor in the County of Jönköping Non-executive director	7/8	The Nomination and Remuneration Committee, 2/2
Heinz-Werner Binzel ¹⁾	1954	Economics and electrical engineering degree	Independent consultant Non-executive director	8/8	The Audit and Risk Committee, 4/4
Ilona Ervasti-Vaintola	1951	LL.M, Trained on the bench	Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Joshua Larson	1966	Master of International Affairs, Bachelor in Russian language	Private investor and consultant Non-executive director	10/10	The Audit and Risk Committee, 5/5

MEMBERS OF FORTUM'S BOARD OF DIRECTORS UNTIL 31 MARCH 2011

Chairman Matti Lehti	1947	PhD (Econ.)	Non-executive director	2/2	The Nomination and Remuneration Committee, 1/1
Birgitta Johansson-Hedberg	1947	Bachelor of Art, Master of Psychology	Non-executive director	1/2	The Audit and Risk Committee, 1/1

¹⁾ New members as of 31 March 2011

The Board of Directors' working order

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 regulations and the company's Articles of Association
 - 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
 - Setting performance targets for the company and the management
 - Approving interim reports, consolidated financial statements, Operating and financial review and parent company financial statements
 - Taking care of the duties of the company's Board of Directors specified in the Companies Act and in the Articles of Association
 - Deciding on major investments, divestments and business arrangements
- Electing members to the Board Committees
 - Reporting on the remuneration of the company management at the Annual General Meeting, as appropriate

ANNUAL SELF-ASSESSMENT:

- The Board of Directors conducts an 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
- Material shall be delivered to the members five days before meetings

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 2011, the Board of Directors comprised seven members; three including the Chairman are women.

In 2011, the Board of Directors met ten times. In addition to steering and supervising the Group's operational and financial development, the main items during the year were Fortum's strategy, annual business plan, performance target setting and assessment, risk policy and financial reporting. Main items also included nuclear power, major investments and divestments, Russian operations and research and development activities. The Board also dealt with issues relating to sustainable business development, management performance and remuneration.

The members of the Board of Directors are all independent of the company and its significant shareholders. Ilona Ervasti-Vaintola has been dependent on the company (interlocking control relationship until 31 October 2011). The President and CEO, the Chief Financial Officer and the General Counsel (being the secretary to the Board) attend the Board meetings. Other Fortum Management Team members attend as required to provide information to the Board or upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion and to be decided upon at the Board of Directors' meetings. The Board of Directors has approved a working order to govern its work.

➔ *The main contents of the working order are presented on the left.*

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

The Board Committees

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

THE TASKS OF AUDIT AND RISK COMMITTEE INCLUDE:

- Monitoring the reporting process of financial statements
- Supervising the financial reporting process
- Monitoring the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- Reviewing the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- Monitoring the statutory audit of the parent company financial statements and consolidated financial statements

- Evaluating the independence of the statutory auditor or audit firm, particularly the non-audit services provided 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 statutory auditor and reviewing the reports that the auditor prepares for the Committee

✚ *The main tasks in the charters for the Board Committees are outlined on this 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 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 March 2011, the Board elected among itself Christian Ramm-Schmidt as the Chairman and Joshua Larson and Heinz-Werner Binzel as members to the Audit and Risk Committee. The former Board member Birgitta Johansson-Hedberg acted as the Chairman and

Christian Ramm-Schmidt as a member until the Annual General Meeting 2011.

The Committee met five times in 2011. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corporate Controller, General Counsel as the secretary to the Committee and other parties invited by the Committee.

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

The Nomination and Remuneration Committee

After the Annual General Meeting in March 2011, the Board elected among itself Sari Baldauf as the Chairman and Esko Aho, Minoo Akhtarzand and Ilona Ervasti-Vaintola as members to the Nomination and Remuneration Committee. The former Chairman of the Board, Matti Lehti, acted as the Chairman and Sari Baldauf as a member until the Annual General Meeting 2011. The Committee met three times during 2011. Other regular participants at the Committee meetings were the President and CEO, Senior Vice President, Corporate Human

THE TASKS OF NOMINATION AND REMUNERATION COMMITTEE INCLUDE:

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

Resources and General Counsel as the secretary to the Committee.

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

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

President and CEO

The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. 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 set for the President and CEO by the Board's Nomination and Remuneration Committee.

Fortum Management Team and operational organisation

The Fortum Management Team consists of nine members¹⁾, including the President and CEO to whom the members of the Management Team report. Two

members of the Fortum Management Team are women. The General Counsel acts as the secretary to the Management Team. The Management Team meets on a monthly basis. Additional meetings are held dealing with strategy and business planning, 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 the results, plans and decides on investments, mergers, acquisitions and divestments within their authorisation. Each member of the Management Team is responsible for the key day-to-day operations and the implementation of operational decisions in their respective organisations.

The divisions of Fortum are Power, Heat, Russia, and Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, physical operation and trading, maintenance and development of power plants and expert services for power producers. Heat Division consists of combined heat and power generation, district heating and cooling activities and business-to-business heating solutions. Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's 25% holding in TGC-1. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales and distribution activities and

consists of two business areas: Distribution and Electricity Sales. The staff functions are Corporate Finance, Corporate Relations and Sustainability, Corporate Human Resources, Corporate Strategy and R&D. From 1 Jan 2012 onwards the staff functions are: Corporate Finance, Corporate Relations and Strategy, Corporate Human Resources and Corporate R&D and Innovation.

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 the business processes, the adequacy of risk management, compliance with laws, regulations and internal rules and instructions.

The Standards for the Professional Practice of Internal Audit form the basis for the work of Internal audit.

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 are 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 31 March 2011 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Jukka Vattulainen having the principal responsibility.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

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

Fortum's Board of Directors approves the Group Risk Policy, which sets the Group's objective, principles and division of responsibilities for risk management activities also for the financial reporting process. The financial reporting process is embedded in the internal control framework, and the

¹⁾ As of 1 February 2012 eight members when Maria Paatero-Kaarnakari leaves the Fortum Management Team and starts as Senior Vice President, Fortum Asia in India.

FINANCIAL REPORTING FRAMEWORK IN FORTUM



process level internal control structure has been created by using a risk-based approach. Fortum's internal control framework includes the main elements from the framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Control environment

Fortum's internal control framework supports the execution of the strategy and ensures regulatory compliance and reliability of the financial reporting. Fortum Code of Conduct, approved by the Board of Directors, is based on Fortum's shared values and it describes the principles for business conduct. The internal control framework consists of group-level policies and processes as well as business and support process-level controls.

The Audit and Risk Committee, appointed by the Board of Directors, oversees the financial reporting process and monitors the efficiency of the internal controls and risk management within the Group. Corporate Risk Management is responsible for reporting risk exposures and maintaining the company's risk management framework.

Corporate Accounting and Control unit headed by the Corporate Controller is responsible for the overall control

structure of the financial performance management process. The control process is based on Group policies, instructions and guidelines relating to financial reporting. Controllers Manual contains financial reporting instructions. This manual is regularly reviewed and updated. During 2011 the position of Head of process development has been established to support the finance organisation in ensuring a uniform way of working and monitoring the performance of the processes within the Finance function.

Fortum's organisation is decentralised and a substantial degree of authority and responsibility is delegated to the divisions in form of control responsibilities. Some areas like commodity market risk control is more centralised.

Risk assessment

Risks related to financial reporting are identified and analysed annually as part of the Fortum risk management process. Risks are reported in connection with the planning process and the follow-up of actions and improvements is integrated to operational management. 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. This assessment includes risks related to fraud and irregularities, as well as to risks

of loss or misappropriation of assets. The results of the control risk assessment and the process level controls are reported to the Audit and Risk Committee.

Control activities

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. In financial reporting, the Controllers Manual sets the standards.

The Corporate Accounting and Control unit defines the design of the control points, and internal controls covering the end-to-end financial reporting process. Responsibilities are assigned for the controls and also for ensuring their operating effectiveness. Fortum's processes include controls regarding the initiation, approval, recording and accounting of financial transactions. Standardised way of working is also ensured by Fortum's financial shared service center, which performs controls for the recognition, measurement and disclosure of financial information. The financial shared service center was awarded the ISO 9001:2008 certificate in December 2011.

All divisions have their own finance function ensuring that relevant analyses of the business performance are done such as volumes, revenues, costs, working capital, asset base

and investments. These analysis are reviewed in different levels of the Group and ultimately by the Board of Directors.

Information and communication

The Controller's manual includes Fortum Accounting manual, Investment manual and reporting instructions and other policies relating to the financial reporting. It is stored on intranet site and is accessible to all involved in the financial reporting process. Monthly Core Controllers' meetings, headed by the Corporate Controller, are steering the development projects within Finance and receiving updates from different expert forums within Finance.

Regular Accounting Network Forum meetings are used to inform the finance community about upcoming changes in IFRS, new accounting policies and other changes.

Follow-up

Financial results are followed up in the monthly reporting and reviewed monthly by the Fortum Management Team. Quarterly Performance Review meetings with the Fortum Management Team and division management are embedded in the Fortum Performance Management process. The financial performance is ultimately reviewed by the Audit and Risk Committee and the Board of Directors.

As part of the Fortum internal control framework, all divisions are assessing the effectiveness of the controls they are responsible for. Division- and corporate-level controller teams are responsible for assessing the financial reporting process and the Corporate Risk Management reviews these regularly. Internal control design and operating effectiveness are also assessed by Corporate Internal Audit. The audits are conducted based on the audit plan adopted by the Audit and Risk Committee. Audit results, including corrective actions and status, are regularly reported to the Audit and Risk Committee.

FORTUM PERFORMANCE MANAGEMENT PROCESS

