

ERM and accountability in Fortum Performance Management

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Corporate Risk Management

Operations in the whole energy chain

Generation

One of the most efficient generation portfolios in Europe with 13% Nordic market share

Portfolio Management & Trading

Best in class physical and financial market operations on the Nordic power market

Markets

The leading Nordic retailer of electricity with 1.3 million private and business customers

Heat / Värme

Leader in district heating in the Nordic area

Distribution

Leader in distribution of electricity in the Nordic area with 1.6 million customers

Service

Efficient operation and maintenance services for energy companies



Foothold in Russia

Nordic countries

Generation	51.1 TWh
Electricity sales	58.5 TWh
Heat sales	20.4 TWh
Distribution cust.	1.6 million
Electricity cust.	1.3 million

Poland

Heat sales	3.5 TWh
Electricity sales	7 GWh

Baltic countries

Heat sales	1.2 TWh
Distribution cust.	24,000

Russia – existing

TGC-1 (~25% minority stake*)

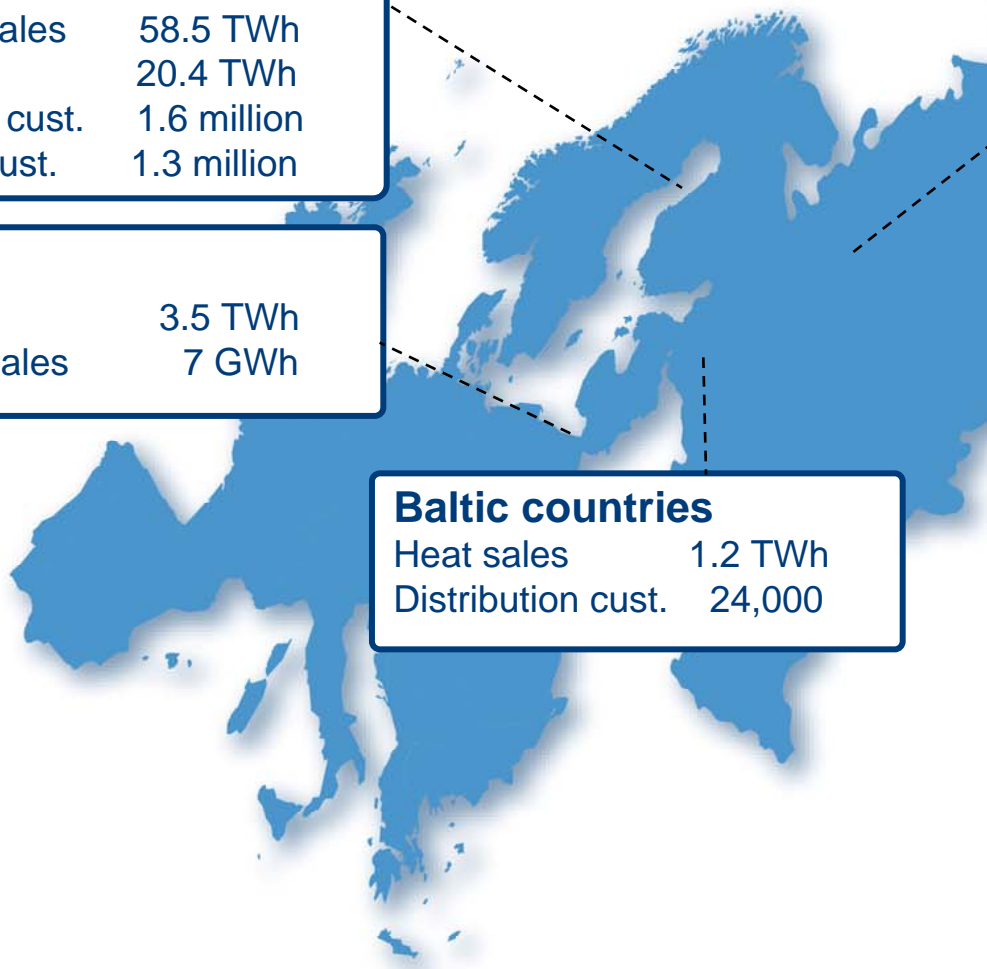
Power generation	~6 TWh
Heat production	~8 TWh

*Fortum's share

Russia – acquisition

TGC-10 (majority)

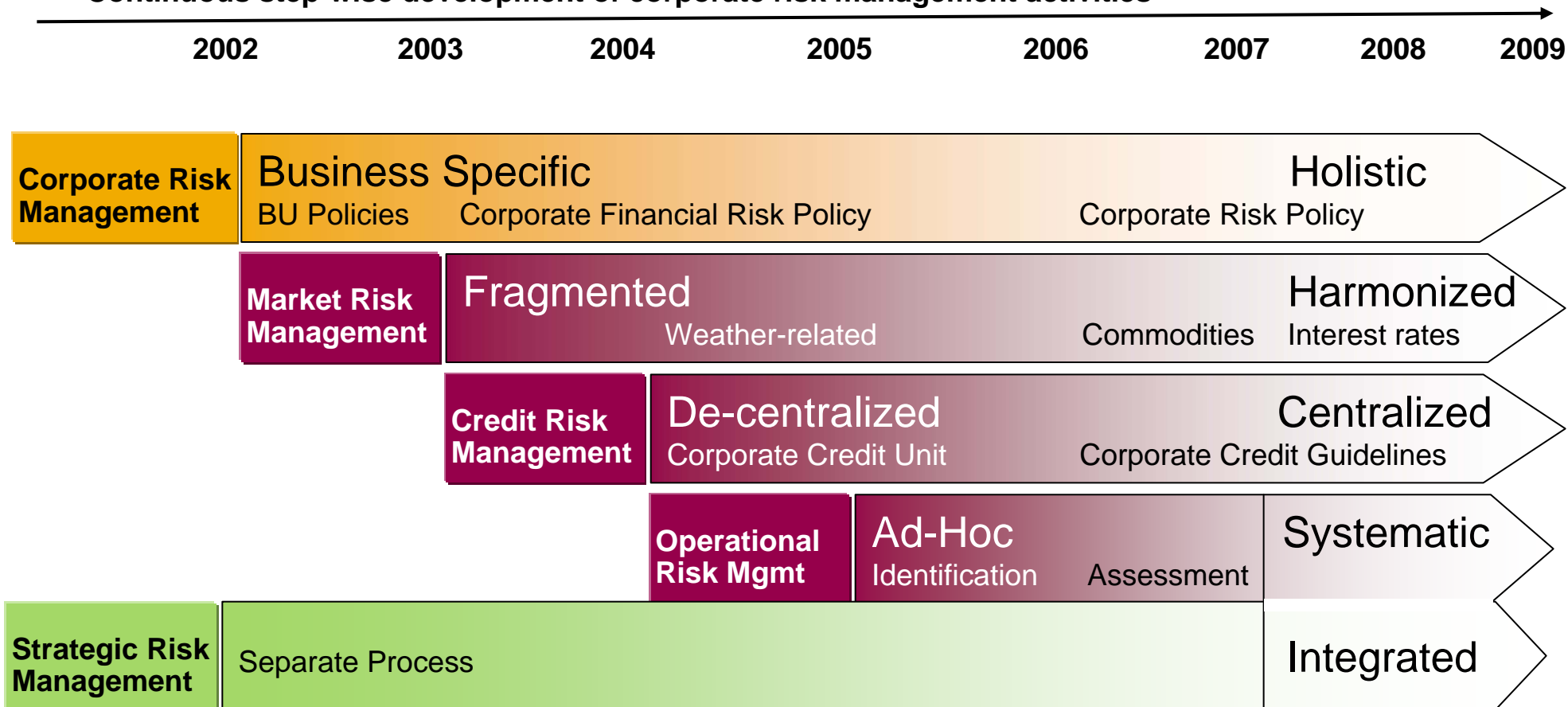
Power generation	18 TWh
Heat sales	27 TWh



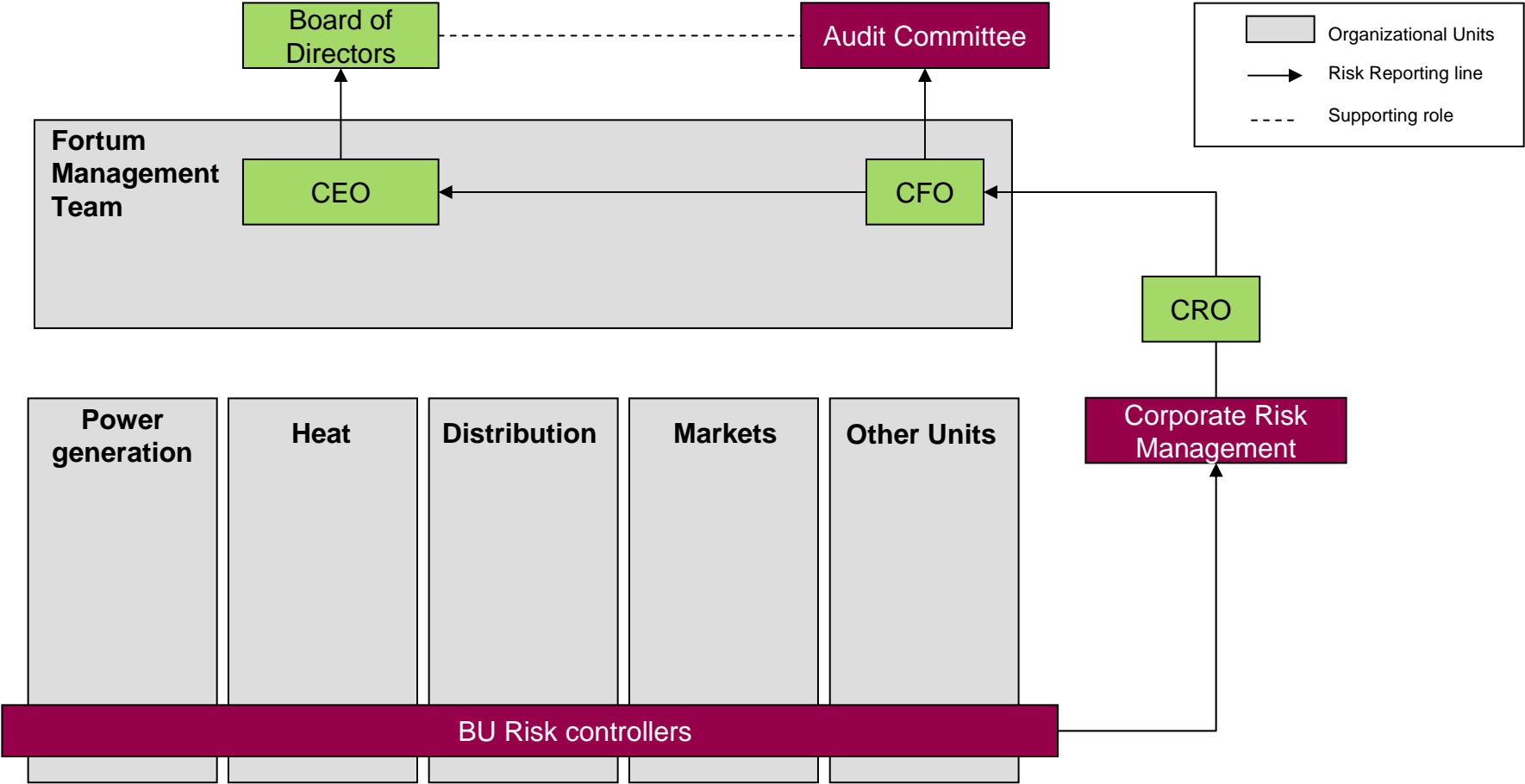
Corporate View on Risk Management

Fortum Risk Management Development

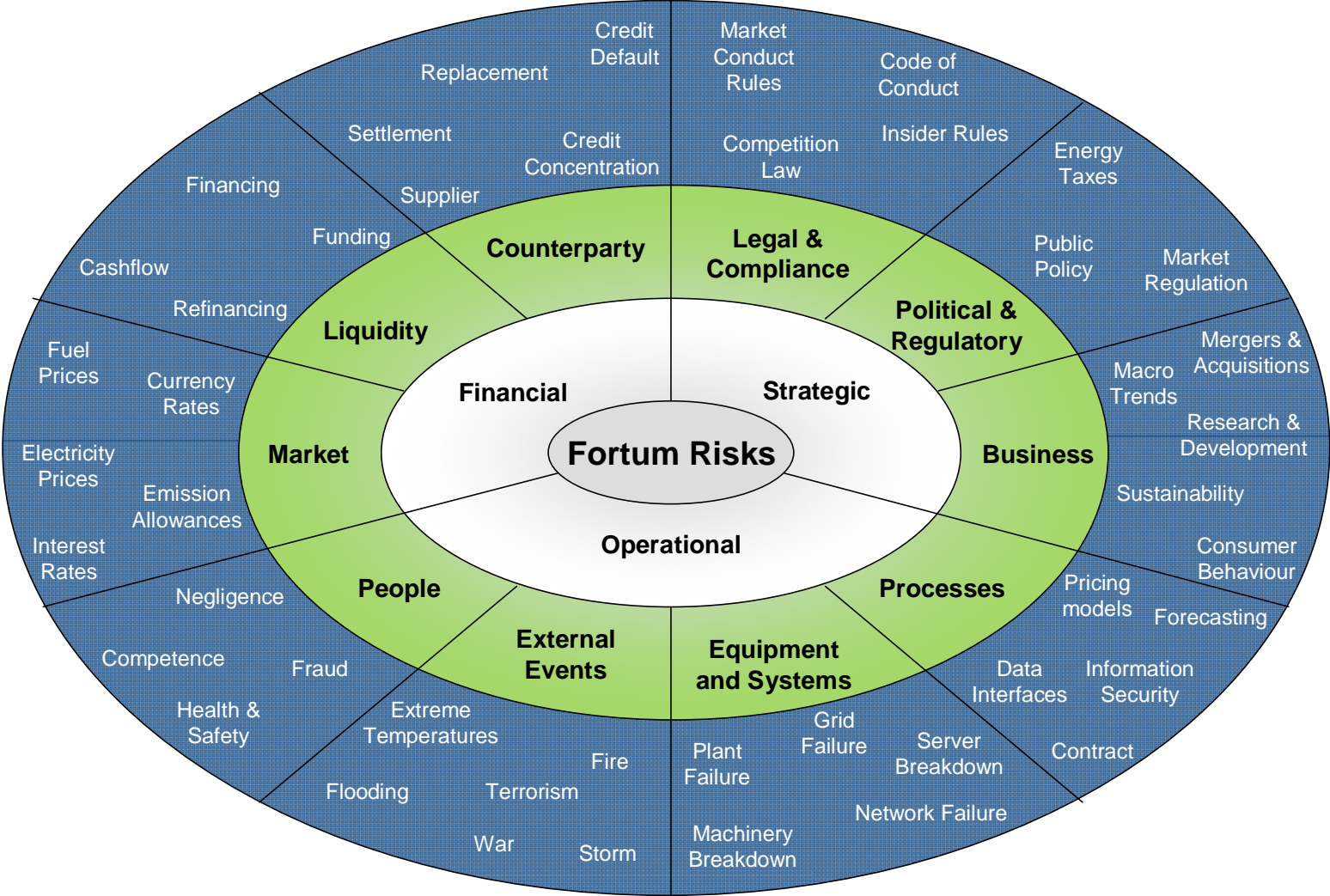
Continuous step-wise development of corporate risk management activities



Fortum's risk management reporting structure



Fortum Risk Map



Fortum Operational Risk Management concept

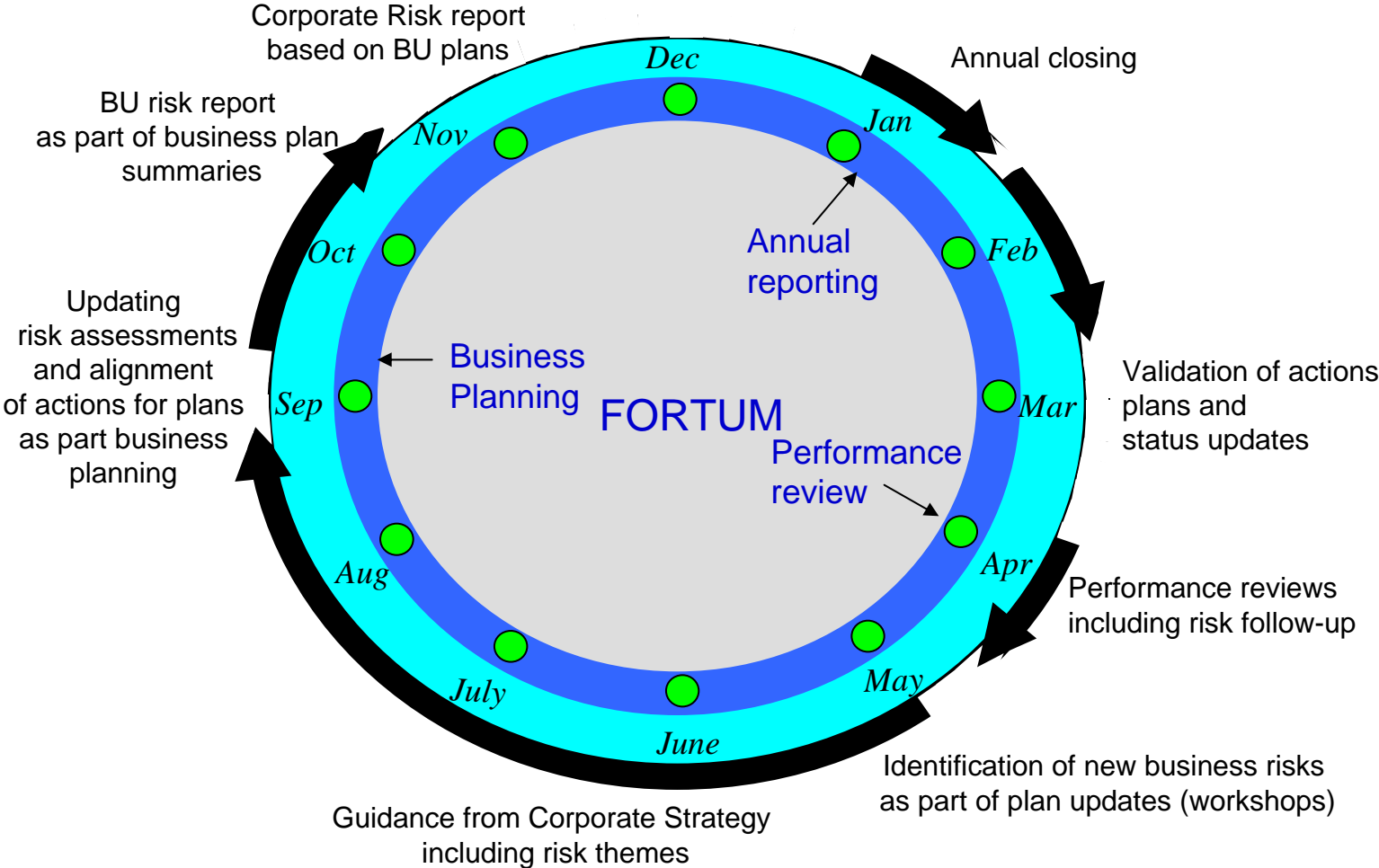
- ***The objective of risk management in Fortum is to enable the execution of the corporate strategy, support the achievement of agreed financial targets and avoid unwanted operational events.***
- The operational risk management (ORM) process supports this objective by creating a group-common framework for BUs, SUs and corporate functions which enable them to;
 - Identify and assess operational and strategic risks threatening the units ability to reach its targets through self-assessment workshops,
 - Manage the risks by creating risk response strategies and action plans to absorb, mitigate or transfer the risks in a consistent manner,
 - Follow-up operational risk management activities in performance reviews and annual business plan reporting.

Some findings from external benchmarking

During past a couple of years we have benchmarked with many peer companies

- No single accepted model
- Correlation between risk culture and maturity of risk management
- Operational risk is difficult to quantify
- Operational risk exposure and size of organisation/activities not correlated
- Incentivisation of operational risk management drives risk culture
- No blame culture needed
- Risk reporting integral part of performance management

Fortum Business Risk Management cycle



Quality requirements for Operational Risk Analysis

- Crisp and actionable events
- Impact and likelihood evaluated against the business plan and objectives
- Clear risk factors - root causes of the event
- Effect clearly documented by looking at both financial and non-financial impacts (EHS, Reputation ...)
- Risk owners agreed who ensure effective management actions
- Actions documented in a measurable way
- Action owners agreed for each of the actions

If owners and actions cannot be identified, events and underlying factors should be broken down to more concrete pieces

Risk ownership

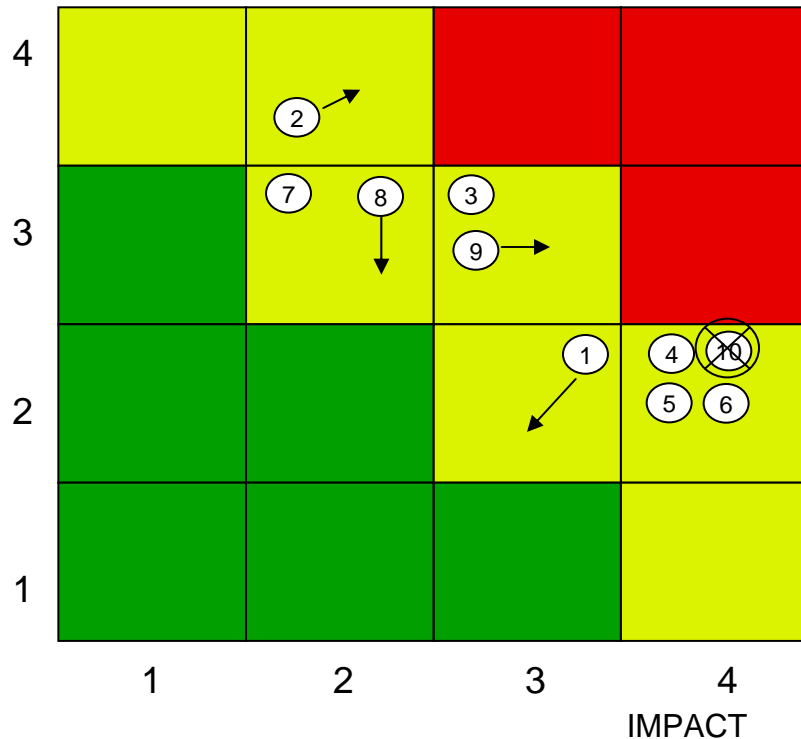
- Ownership for risks is important to incentives people involved and creates accountability
- In order to ensure that mitigating actions are effective we need to have risk owners and action owners identified for individual risks.

"Shared responsibility is nobody's responsibility"

- Risk Owner = Business owner who takes the hit if the event realizes
- Action Owner = is responsible for mitigating the risk factors thru identified actions
- This is especially important if a clear business process is missing and roles and responsibilities are unclear

Template for business risk update

LIKELIHOOD



- Risk 1
 - Comment
- Risk 2
 - Comment
- Risk 3
- Risk 4
- Risk 5
- Risk 6
- Risk 7
- Risk 8
 - Comment
- Risk 9
 - Comment
- Risk 10
 - Comment

Improved follow-up and reporting

- Objective of integrating risk follow-up in performance reviews
 - to give assurance to management that the risk management is in place
 - to show a snap-shot how risks have developed and what has been done
 - to give possibility to escalate problems and raise questions on alarming issues by risk owners
 - to signal to Business Units the tone of the top
- Corporate Risk Management arranges meetings with BU risk controllers to ensure progress.