

# Corporate governance statement

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Fingrid Oyj



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## 1 Corporate governance statement

Fingrid Oyj's corporate governance statement has been drawn up in accordance with recommendation 54 of the Finnish Corporate Governance Code. The statement has been presented as a report separate from the annual review.

Fingrid is a public company whose shares are not subject to public trading. Since Fingrid has issued other publicly-quoted securities such as bonds, the company follows the applicable sections of the Finnish Corporate Governance Code published by the Finnish Securities Association, which came into effect on 1 October 2010. Since Fingrid's shares or securities entitling shares are not subject to public trading, the insider recommendations are not applicable to the company. Consequently, there is nothing to report of insider administration.

The Finnish Corporate Governance Code in full is available at [www.cgfinland.fi](http://www.cgfinland.fi).

Fingrid Oyj's audit committee and Board of Directors have reviewed this statement. Fingrid's auditing organisation PricewaterhouseCoopers Oy has verified that this statement has been provided and that the general description of the internal control and risk management systems pertaining to the financial reporting process is consistent with the financial statements of the company.

Further information on Fingrid's corporate governance is available on the company's website at [www.fingrid.fi](http://www.fingrid.fi) and in the report of the Board of Directors.

## 2 Board of Directors and committees of the Board

The primary duties and principles of Fingrid's Board of Directors are specified in a written working order ([www.fingrid.fi](http://www.fingrid.fi)).

The Board of Directors is responsible for the administration and the proper organisation of the operations of the company. Moreover, the Board of Directors makes sure that the company adheres to the relevant rules and regulations, articles of association of the company, and guidelines provided by the shareholders' meeting, such as:

- decides on the strategic policies of the company,
- accepts the annual action plan and budget on the basis of the strategy and supervises its fulfilment,
- reviews and accepts the interim reports, annual review and financial statements,
- accepts Fingrid's management system and other business principles to be determined on the Board level, and confirms the values to be followed in Fingrid's operations,
- reviews annually the risks relating to the company's operations and the management of such risks,
- accepts the total amount of capital investments and its distribution on the various sectors, and decides separately on budgeted capital investments and on capital investments outside the budget,
- appoints and dismisses the President of the company,

- accepts the basic organisation and composition of the executive management group of the company,
- decides on the principles of the remuneration system and on the wages of the President and the executive management group,
- assesses its work once a year,
- appoints a consulting Advisory Committee which serves as a link between the Board and the management of the company on one hand and the consumers of electricity and other stakeholders on the other hand,
- appoints members of the audit committee and remuneration committee,
- deals with other business which the Chairman of the Board, a Board member or the President has proposed to be included in the agenda.

Further information on the Board of Directors and its committees as well as the remuneration principles is available on the company's website ([www.fingrid.fi](http://www.fingrid.fi)).

### Composition of Board of Directors

In accordance with the articles of association registered on 13 May 2011, Fingrid's Board of Directors consists of five members who are elected by a shareholders' meeting for a term that lasts until the closing of the next annual shareholders' meeting. The shareholders' meeting also elects a personal deputy member for each Board member. There is no specific order of appointment for the Board members.

In the shareholders' meeting of 3 May 2011, it was decided that Fingrid's articles of association be amended in terms of the number of the members of the Board. The earlier articles of association stipulated that the Board comprised seven members. In accordance with the earlier articles of association, the shareholders' meeting elected seven members on the Board of Directors, and the term of two of these finished when the articles of association amended in terms of the number of the Board members entered into force on 13 May 2011.

In the annual shareholders' meeting of 3 May 2011, the following persons were elected on the Board of Directors:

#### **Helena Walldén**, Chairman

M.Sc. (Tech.), born in 1953

Board member since 3 May 2011

**Main position:** Professional Board Member

Independent of the company and significant shareholders.

#### **Arto Lepistö**, Vice Chairman

Lic. Tech., born in 1952

Board member since 2006

**Main position:** Ministry of Employment and the Economy, Head of Energy Market Division, Industrial Councillor

Independent of the company, non-independent of significant shareholders.

#### **Elina Engman**

M.Sc. (Tech.), born in 1970

Board member since 3 May 2011

**Main position:** Kemira Oyj, Vice President, Energy

Independent of the company and significant shareholders.

### **Timo Kärkkäinen**

M.Sc. (Econ.), born in 1963

Board member since 3 May 2011

**Main position:** Mutual Pension Insurance Company Ilmarinen, Senior Portfolio Manager  
Independent of the company, non-independent of significant shareholders.

### **Esko Raunio**

LL.M., born in 1962

Board member since 3 May 2011

**Main position:** Tapiola Mutual Pension Insurance Company, Director, Private Equity Real Estate Investments  
Independent of the company and significant shareholders.

### **Jarmo Väisänen**

Lic. Pol. Sc., born in 1951

Board member 3 May to 13 May 2011

**Main position:** Prime Minister's Office, Senior Financial Counsellor  
Independent of the company, non-independent of significant shareholders.

### **Jarmo Kilpelä**

M.Sc. (Econ.), born in 1957

Board member 3 May to 13 May 2011

**Main position:** Prime Minister's Office, Senior Financial Counsellor  
Independent of the company, non-independent of significant shareholders.

The Board of Directors in the following composition served until the annual shareholders' meeting of 3 May 2011:

### **Lauri Virkkunen**, Chairman

M.Sc. (Econ.), M.Sc. (Tech.), born in 1956

**Main position:** Pohjolan Voima Oy, President & CEO  
Non-independent of the company and significant shareholders.

### **Timo Karttinen**, First Vice Chairman

M.Sc. (Tech.), born in 1965

**Main position:** Fortum Oyj, Executive Vice President, Electricity Solutions and Distribution  
Non-independent of the company and significant shareholders.

### **Arto Lepistö**, Second Vice Chairman

Lic. Tech., born in 1952

**Main position:** Ministry of Employment and the Economy, Head of Energy Market Division, Industrial Councillor  
Independent of the company, non-independent of significant shareholders.

### **Risto Autio**, member of the Board

M.Sc. (Econ.), born in 1958

**Main position:** Varma Mutual Pension Insurance Company, Director, Alternatives  
Independent of the company and significant shareholders.

**Ari Koponen**, member of the Board

M.Sc. (Econ.), born in 1964

**Main position:** Fortum Distribution, Vice President

Non-independent of the company and significant shareholders.

**Ritva Nirkkonen**, member of the Board

M.Sc. (Econ.), born in 1946

**Main position:** University of Jyväskylä, special tasks, Fund Raising Manager

Independent of the company and significant shareholders.

**Anja Silvennoinen**, member of the Board

M.Sc. (Tech.), MBA, born in 1960

**Main position:** UPM-Kymmene Oyj, Senior Vice President, Energy Business Area

Non-independent of the company and independent of significant shareholders.

Before the annual shareholders' meeting, Fingrid departed from recommendation 14 of the Corporate Governance Code, concerning the number of independent Board members. The majority of the Board members elected in the annual shareholders' meeting of 3 May 2011 are independent, and Fingrid therefore no longer departs from the Corporate Governance Code in this respect.

Personal deputy members of the Board in 2011:

From 3 May 2011

Antti Riivari, Ministry of Employment and the Economy, Senior Advisor

Timo Ritonummi, Ministry of Employment and the Economy, Senior Engineer

Marja Hanski, Ministry of Employment and the Economy, Ministerial Advisor

Mikko Räsänen, Mutual Pension Insurance Company Ilmarinen, Head of Private Equity

Jari Eklund, Tapiola Group, Director

Ilpo Nuutinen (until 13 May 2011), Prime Minister's Office, Senior Government Counsellor

Petri Vihervuori (until 13 May 2011), Prime Minister's Office, Senior Financial Counsellor

Until 3 May 2011

Timo Ritonummi, Ministry of Employment and the Economy, Senior Engineer

Jussi Hintikka, Pohjolan Voima Oy, Executive Vice President

Juha Laaksonen, Fortum Oyj, Chief Financial Officer

Kari Koivuranta, Fortum Sähkönsiirto Oy, Senior Adviser

Pekka Kettunen, Prime Minister's Office, State ownership steering, Ministerial Adviser

Jukka Mikkonen, Stora Enso Oyj, Director, Energy Finland

Jorma Tammenaho, appointed by investor shareholders, Portfolio Manager

## Operations of the Board of Directors in 2011

The Board of Directors assembled 13 times in 2011. Three of these meetings were conducted as written proceedings. The attendance of the Board members in the meetings is described in the table on page 8.

In 2011 the Board decided on issues such as Fingrid's strategy for 2011–2020, Russian cross-border transmission tariff, new terms of grid service for 2012 to 2015, Tihisenniemi–Katerma 110 kV and Hikiä–Forssa 400 kV transmission line investments, outsourcing of internal audit and budget for the year 2012. In a Board meeting following a meeting of the audit committee and remuneration committee, the Board always reviews the matters that were in the agenda of these committees.

The Board of Directors has two committees: an audit committee and a remuneration committee. The Board of Directors confirms the working orders of the committees.

## **2.1 Audit committee**

The audit committee is appointed by the Board of Directors and it assists the Board. The Board of Directors has specified the duties of the audit committee in accordance with recommendation 27 of the Corporate Governance Code, in addition to which the audit committee assesses the audit plans of the auditor and internal auditor and supervises adherence to legislation and to the governance principles set by the Board.

The members of the audit committee are Arto Lepistö (Chairman), Helena Walldén and Timo Kärkkäinen. All members of the audit committee are independent of the company, and Helena Walldén is also independent of significant shareholders. The members of the audit committee until 3 May 2011 were Ritva Nirkkonen (Chairperson), Risto Autio, Arto Lepistö and Anja Silvennoinen.

The committee had four meetings in 2011. The attendance of the members of the committee in the meetings is described in the table on page 8.

The audit committee has handled in its meetings issues such as outsourcing of internal audit, the audit plans of the internal auditor and auditor, company's continuity management, risks and risk management principles, financing principles, competitive tendering of auditing, responsible operation, and account of the management and control system.

## **2.2 Remuneration committee**

The remuneration committee assists the Board of Directors. The remuneration committee is to prepare for the Board of Directors the principles of the remuneration system applied to the executive management and other personnel. The committee also prepares for the Board, on the basis of accepted principles, a proposal concerning the wages to be paid to the President and other members of the executive management group. Moreover, the committee prepares the appointments of the President and persons belonging to the executive management group as well as surveys their successors.

The remuneration committee consists of Helena Walldén (Chairperson) and Arto Lepistö. Both members of the remuneration committee are independent of the company, and Helena Walldén is also independent of significant shareholders. Until 3 May 2011, the remuneration committee consisted of Lauri Virkkunen (Chairman), Timo Karttinen and Arto Lepistö. The President attends the meetings of the committee.

The remuneration committee had five meetings in 2011. The meetings handled matters such as the remuneration systems applied to the personnel and the executive management group.

The table below describes the attendance of the members of the Board of Directors of Fingrid Oyj in the meetings of the Board and the committees in 2011.

### Meetings of Fingrid Oyj's Board of Directors and committees in 2011

Name	Position	Board meetings	Audit committee	Remuneration committee
Helena Walldén (from 3 May 2011)	Chairman	10 / 10	4 / 4	4 / 4
Arto Lepistö	Vice Chairman (from 3 May 2011) Second Vice Chairman (until 3 May 2011)	10 / 10 3 / 3	4 / 4	4/4 1/1
Elina Engman	Member	10 / 10	-	-
Timo Kärkkäinen	Member	10 / 10	4 / 4	-
Esko Raunio	Member	9/10	-	-
Lauri Virkkunen	Chairman (until 3 May 2011)	3 / 3	-	1 / 1
Timo Karttinen	First Vice Chairman (until 3 May 2011)	3 / 3	-	1 / 1
Risto Autio	Member (until 3 May 2011)	3 / 3	-	-
Ari Koponen	Member (until 3 May 2011)	3 / 3	-	-
Ritva Nirkkonen	Member (until 3 May 2011)	3 / 3	-	-
Anja Silvennoinen	Member (until 3 May 2011)	2 / 3	-	-



### **3 President**

The President attends to the administrative routines of the company in accordance with guidelines provided by the Board of Directors. The President is responsible for the operations of the company assisted by the executive management group and serves as the Chairman of the Board of the subsidiaries. Further information on the President and his remuneration principles is available on the company's website ([www.fingrid.fi](http://www.fingrid.fi)).

#### **Jukka Ruusunen**

Doctor of Technology, born in 1958

### **4 Description of the main features of internal control and risk management related to the financial reporting process**

Internal control and risk management intend to make sure that Fingrid works efficiently and productively, that financial reporting is reliable, and that the applicable acts, regulations and the company's own procedural guidelines are followed. The internal control systems related to the financial reporting process are part of a more extensive overall system of Fingrid's internal control, also encompassing comprehensive risk management and internal audit. Further information on internal control, risk management and the foremost risks and factors of uncertainty is available on the company's website at [www.fingrid.fi](http://www.fingrid.fi) and in the report of the Board of Directors.

#### **Control environment of financial reporting process**

The Fingrid Group encompasses the parent company Fingrid Oyj and its fully-owned subsidiary Finextra Oy (former Fingrid Verkko Oy). The associated companies are Porvoon Alueverkko Oy (holding 33.3%) and Nord Pool Spot AS (holding 20.0%). The Group has no joint ventures.

The financial administration of the company is responsible for the Group's centralised financial reporting and for the internal control and risk management of financial reporting. There is monthly reporting of the financial situation to the executive management group and those with budget responsibility, and to the supervisors of units and functions on the proceeds, costs and capital investments in the relevant area of responsibility. In addition to financial accounting reports, financial administration produces comprehensive reports which contain business information and cost accounting reports to the executive management group, those with budget responsibility and to the supervisors of units and functions by means of the financial control system.

The interpretation and application of the financial reporting standards are centralised at the financial administration of the Group, which monitors the accounting standards (IFRS, IAS, FAS), maintains an account scheme, draws up internal guidelines for the financial statements, and is responsible for the financial reporting process. The process is documented and it specifies issues such as the schedule and order in which the month-end accounts are drawn up.

Fingrid draws up the consolidated financial statements and interim reports in accordance with the IFRS reporting standards accepted by the European Union and in accordance with the Finnish Securities Market Act. The annual review and the financial statements of the parent company of the Group are prepared in accordance with the Finnish Accounting Act as well as the guidelines and statements of the Finnish Accounting Standards Board.

The internal control and risk management systems and procedures related to the financial reporting processes, described in more detail below, have been devised so as to make sure that financial reporting by the company is reliable, coherent and timely and that the financial reports published provide an essentially true and fair view of Fingrid's finances.

### **Roles and responsibilities**

Fingrid's Board of Directors is primarily responsible for the specification of the principles for internal control and risk management related to financial reporting, and the Board of Directors makes sure that these principles are followed in the company. The Board of Directors reviews and accepts the interim reports, annual review and financial statements. The audit committee assists the Board of Directors in this by monitoring the efficiency of internal control, internal audit and risk management systems of the company.

The financial function of the Group is responsible for developing the financial reporting process through means such as monitoring the development needs of controls related to financial reporting, by supervising the sufficiency and efficiency of these controls, and by making sure that external reporting is correct and up to date and that the regulations pertaining to reporting are followed.

The company's internal audit has been outsourced to an external service provider. The company's internal audit reports to the President. The President has delegated the administrative responsibility for the internal audit to the General Counsel of the Group. The audits are reported to the audit committee.

### **Risk management and control measures, and follow-up**

So that the risks related to financial reporting could be controlled, Fingrid identifies the risks threatening the achievement of the company's financial objectives and specifies the likelihood and monetary value of such risks. Moreover, risk management measures, responsible persons and implementation schedule are specified for the identified risks. Controls pertaining to risk management are set throughout the Group, on all levels and units of the Group. Examples of the controls include internal guidelines, acceptance procedures and authorisations, cross-checking with cost accounting, matching, checking, assessment of operative efficiency, securing of assets, and differentiation of tasks. The financial administration of the Group is responsible for the control structures relating to the financial reporting process.

The control of the budgeting process is based on the budgeting guidelines, with the financial administration of the Group being responsible for their specification, centralised

maintenance, and for monitoring compliance with them. The principles are applied uniformly throughout the Group, and there is a uniform reporting system in use.

The monthly financial reporting to the executive management group together with the related analyses constitute the primary control and monitoring process in securing the efficiency and purposefulness of the functions and the correctness of financial reporting. This reporting is reviewed monthly in the meetings of the executive management group. The analyses compare the achieved business result to the budget and to the previous year as far as the various proceed and cost components are concerned, and the budget is compared to the quarterly forecast. The monitoring of cash flow and capital investments is part of this process.

Verifying the correctness of monthly reporting employs the company's financial control system, which the controllers and heads of units of the company can use for finding essential errors and anomalies. Internal audit also verifies the correctness of issues such as invoicing, expense receipts, payments, and recording of items in the balance sheet and in property, plant and equipment, and carries out internal audits of capital investments and of refurbishment and maintenance projects.

The correctness of financial reporting is also ensured by taking care of good data security and data management. The goal is to avoid risky work combinations wherever possible. User rights are checked regularly, and user rights are determined by the position of a person in the organisation. Backups are taken regularly of the data bases used in the financial control system and accounting system. The company has a data security manager. The company's internal audit carries out risk-based audits relating to the various processes of the company, including the financial reporting process. The audits conducted in 2011 included an audit relating to the company's acceptance authority and an audit of investment management. Controls for the financial reporting processes are enhanced as part of internal control. The personnel are given training in how to monitor the correctness of the information produced by the financial reporting process of the company, concerning cost unit follow-up, posting, acceptance procedures for invoices and receipts, and budgeting and follow-up of actual situation.