



# Corporate Governance Statement

26 February 2019

**FINGRID**

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# Corporate Governance Statement

## 1. General

Fingrid is a public limited company whose governance is based on the Finnish Limited Liability Companies Act, the Market Abuse Regulation, the Securities Market Act, its articles of association and its shareholder agreements. Fingrid complies in its operations with the 2015 Corporate Governance Code for Finnish listed companies (“Corporate Governance Code”) published by the Securities Market Association because the company has issued bonds listed on the London Stock Exchange. This Corporate Governance Statement has been drawn up in accordance with the recommendations of the Corporate Governance Code. Fingrid’s shares are not subject to public trading.

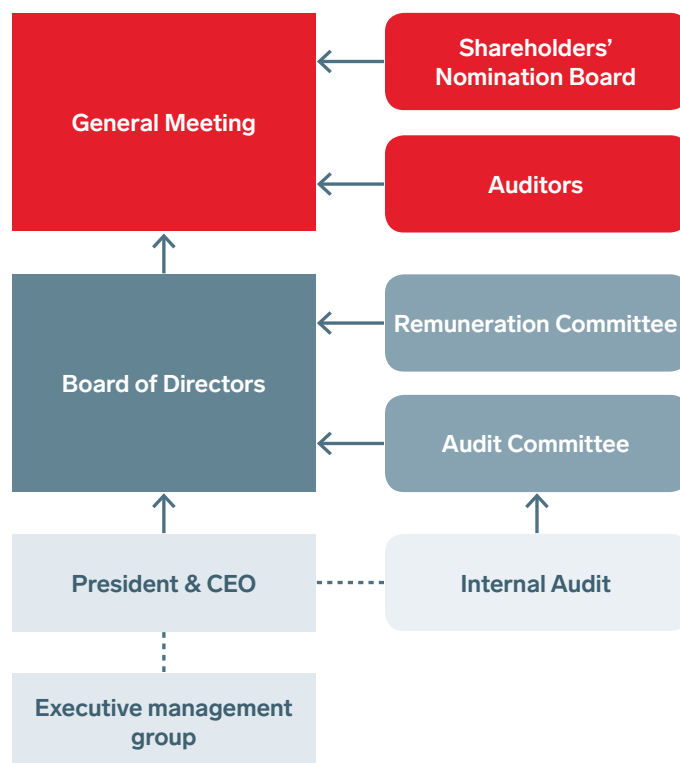
The company’s activities are primarily regulated by the Electricity Market Act. The Electricity Market Act stipulates that Fingrid’s governance and its grid operations must be independent of the production and sale of electricity and natural gas. Fingrid’s owners must ensure that they keep separate decision-making which concerns Fingrid and decision-making concerning companies which practice the production or sale of electricity or natural gas. The confirmed regulatory methods allow the Energy Authority to monitor the reasonableness of the prices of Fingrid’s electricity transmission operations, as well as its capabilities to make sufficient investments in its grid and cover its costs. The Energy Authority confirms the allowed earnings for each regulatory period. The current regulatory methods for the regulatory periods 2016–2019 and 2020–2023 entered into force on 1 January 2016.

Fingrid’s corporate governance statement has been drawn up in accordance with the reporting requirements of the Corporate Governance Code. The statement was drawn up as a separate report from the annual report and has been processed by Fingrid’s Board and the Board’s audit committee. Fingrid’s auditing organisation PricewaterhouseCoopers Oy has verified that this statement has been provided and that the description of the internal control and risk management systems pertaining to the financial reporting process is consistent with the financial statements of the company.

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

## 2. Description of Fingrid’s administrative bodies

Fingrid’s administrative system is described below, and the tasks of the administrative bodies are described later in sections 3–7.



## 3. General meeting

The general meeting is the company’s supreme decision-making body. Each shareholder has the right to participate in the general meeting and to exercise their right to vote. The shares of the company are divided into Series A shares and Series B shares. Series A shares confer three (3) votes each at the general meeting and Series B shares one (1) vote each. When electing members of the Board of Directors, Series A shares confer ten (10) votes each and Series B shares confer one (1) vote each.

Decisions at the general meeting are primarily made with a simple majority vote. Certain changes to the articles of association nevertheless require support from a qualified majority. In addition, Series B shareholders have the right to elect one (1) member of the Board. Up-to-date information on the total number of shares and voting rights in each share class is published on Fingrid’s website.

The general meeting adopts the financial statements, decides on the distribution of profits and elects an auditor and the company Board, elects a Chair and Deputy Chair of the Board and decides on discharging members of the Board and the President & CEO from liability. In addition, the general meeting decides on the remuneration paid to the Board of Directors and its committees. The annual general meeting is held once a year, no later than in June. An extraordinary general meeting shall be held if the Board so decides or if the Limited Liability Companies Act (Osakeyhtiölaki, 324/2006) so requires.

The general meeting is convened by the company Board. In accordance with the articles of association, invitations to general meetings and other notifications shall be sent at the earliest four (4) weeks and at the latest two (2) weeks before the meeting as a registered letter to each shareholder to the address entered in the share register of the company.

The notice of the general meeting and the following information is published on the company website at least 21 days before the general meeting:

- The documents to be submitted to the general meeting
- Board proposals for decisions
- Proposals concerning the composition and remuneration of the Board
- The methods complied with while preparing the proposal for the election of the Board
- Procedure according to which the Board members are to be appointed in compliance with the articles of association
- Information on the proposed Board members and an assessment of their independence
- Proposal for the election of financial auditors
- Other proposals made by the shareholders and to be addressed by the general meeting

The company publishes the minutes of the general meetings on its website no later than two (2) weeks after the meeting.

As a rule, Fingrid's President & CEO, Chair of the Board and other Board members, together with the auditor, are present at the general meeting. Also, a person proposed for the first time as a Board member shall participate in the general meeting that decides on his or her election unless there are well-founded reasons for the absence.

Fingrid's annual general meeting was held on 28 March 2018. The minutes of the annual general meeting have been published on the company's website.

### 3.1. Shareholders' Nomination Board

Fingrid's annual general meeting held on 28 March 2018 decided to establish a Shareholders' Nomination Board. The Nomination Board's tasks are defined in the Nomination Board's rules of procedure approved by the general meeting and they are in line with the Corporate Governance Code's recommendation 18b. The Nomination Board's task is to prepare proposals concerning the appointment and remuneration of the members of the Board of Directors for the annual general meeting and to assess the operations of the Board of Directors. The Nomination Board was established to operate until further notice.

The Nomination Board shall include three (3) representatives of the Company's shareholders and the Chairman of the Board of Directors, who shall serve as an expert member in the Nomination Board. The three (3) shareholders with the largest share of the votes have the right to appoint one (1) member each to the Nomination Board. If a shareholder does not wish to use their right to appoint a member, the right shall be transferred to the next largest shareholder who would otherwise not be entitled to appoint a member.

The Nomination Board must give its proposal to the company's Board of Directors annually, and no later than the 31st of January preceding the next annual general meeting.

The members of the Shareholders' Nomination Board as of 28 March 2018 were Helena Tarkka, Director-General, Ministry of Finance, nominated by the State of Finland; Jukka Reijonen, Head of Private Equity, Debt and Infrastructure, Ilmarinen, nominated by Mutual Pension Insurance Company Ilmarinen; and Erkki Ryyänen, Director, OP, nominated by Aino Holdingyhtiö Ky. The term of office of the Nomination Board's members ends at the closing of the Annual General Meeting following the appointment of the member.

In 2018, the Nomination Board convened two (2) times and the meeting attendance percentage was 100. The Nomination Board prepared a proposal on the number of members and the composition of the Board of Directors to be submitted to the Board of Directors and evaluated the activities of the Board of Directors.

## 4. Board of Directors

Fingrid's annual general meeting elects a Board of Directors once per year. In accordance with the articles of association, the Board of Directors consists of five (5) members. Shareholders who hold Series B shares in the company are entitled to elect one (1) member of the Board through a simple majority decision in accordance with the quantity of Series B shares held. Individuals who are Board members in a company which practices the sale or production of electricity or natural gas, or in a body which

represents such a company, may not be elected as a member of the Board. The general meeting elects one (1) Board member to serve as the Chair of the Board and one (1) member to serve as the Deputy Chair of the Board. The Board is convened by the Chair or Deputy Chair of the Board.

The Board constitutes a quorum when more than half of its members are present, and one (1) of these is the Chair or the Deputy Chair. The decisions of the Board of Directors are made through a simple majority on the basis of the Board members present in the meeting. New Board members are familiarised with the company's operations. A Board member's period of office expires at the closing of the next annual general meeting following his or her election.

#### 4.1. Duties of the Board of Directors

The tasks and responsibilities of Fingrid's Board are set out by the Limited Liability Companies Act and other applicable legislation, as well as the articles of association. The Board of Directors is responsible for the administration and appropriate organisation of the operations of the company. 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 annual general meeting. The primary duties and principles of the Board of Directors are also specified in the Board's working order, according to which the Board:

- Decides the company strategy.
- Approves the annual action plan and budget on the basis of the strategy and supervises its implementation.
- Approves Fingrid's management system and other business principles to be determined on the Board level.
- Confirms the values to be followed in Fingrid's operations.
- Approves the total amount of purchases and capital investments and its distribution on the various sectors, and decides separately on budgeted purchases, capital investments and sales in excess of 10 million euros, and on purchases, capital investments and sales outside the budget in excess of 2 million euros.
- Reviews and approves the audit plan, financial statements, the half-year report and the related stock exchange releases, as well as the annual review.
- Addresses and decides on the proposals to be presented to the annual general meeting in accordance with the regulations of the Limited Liability Companies Act and the recommendations in the Corporate Governance Code.
- Annually reviews the risks relating to the company's operations and the management of such risks.
- Decides on the operating model and annual plan of the internal audit and reviews the internal audit reports.
- Addresses the company's corporate social responsibility report at least once a year.
- Appoints and dismisses the President & CEO of the company and his/her deputy.

- Approves the basic organisation and composition of the executive management group of the company.
- Decides on appointments to the boards of the company's subsidiaries and associated companies and addresses the nominations for the CEOs of subsidiaries and associated companies.
- Decides on the principles of the remuneration system and on the remuneration of the President & CEO and the executive management group.
- Holds part of the meeting at least once a year without the presence of executive management.
- Holds part of the meeting at least once a year with the auditor without the presence of executive management.
- Assesses its activities, work methods and efficiency once a year.
- Appoints from amongst its own members the audit committee and remuneration committee.
- Appoints an advisory committee whose task is to act as a link between the Board and the company management and customers. The advisory committee has 10–14 members who represent electricity producers, transmitters, sellers, users and other electricity market actors. The term of office is three (3) calendar years. The Board confirms the advisory committee's regulations.
- Addresses other business which the Chair of the Board, a Board member or the President & CEO has proposed for inclusion in the agenda.

#### 4.2. Board of Directors in 2018

The Board of Directors in 2018 was represented by Juhani Järvi (Chair), Juha Majanen (Deputy Chair) until 28 March 2018, Päivi Nerg (Deputy Chair) as of 28 March 2018, Anu Hämäläinen, Sanna Syri and Esko Torsti.

Of the Board's members, Juhani Järvi, Anu Hämäläinen and Sanna Syri are independent from the company and its significant shareholders; the other members are independent from the company. The company's President & CEO, CFO and general counsel, who is the Board's secretary, participate in Board meetings. Board members do not own shares in the company.

The Board convened [12] times over the course of the year and approved the financial statements and annual review for 2017, and decided on, among other things, Fingrid's new strategy, the budget and annual action plan for 2019, the grid service pricing for 2019, new investments in the grid and ICT, the principles of risk management and continuity management, the remuneration of executives and all significant policies affecting the company. In its meetings, the Board additionally addressed how the third alternating current (AC) connection between Finland and Sweden and the Datahub project are progressing, as well as the proposal by the Norwegian and Swedish TSOs concerning balance management in the real-time markets.

## Fingrid's Board of Directors 2018

Name	Year of birth	Education	Main position and independence	Attendance at Board meetings	Attendance at committee meetings
Chair Juhani Järvi	1952	M.Sc. (Finance)	Board work, independent from the company and significant shareholders	12/12	Audit committee 5/5 Remuneration committee 3/3
Deputy Chair Juha Majanen	1969	LL.B.	Ministry of Finance, Budget Counsellor, Deputy Head of Budget Department, independent from the company, non-independent of significant shareholders	1/12 (until 28 March 2018)	Remuneration committee 1/3 (until 28 March 2018)
Deputy Chair Päivi Nerg	1958	M.Sc. (Agr. & For.)	Permanent Under-Secretary, The Ministry of Finance, independent from the company, non-independent of significant shareholders	10/12	Remuneration committee 2/3 (as of 28 March 2018)
Anu Hämäläinen	1965	M.Sc. (Finance)	Wärtsilä Corporation, Vice President, Group Treasury and Financial Services & Support, independent from the company and significant shareholders	12/12	Remuneration committee 1/3 (until 28 March 2018) Audit committee 4/5 (as of 28 March 2018)
Sanna Syri	1970	D.Sc. (Technology)	Aalto University, Professor, independent from the company, independent from significant shareholders	12/12	Audit committee 1/5 (until 28 March 2018) Remuneration committee 2/3 (as of 28 March 2018)
Esko Torsti	1964	Lic. Pol.	Ilmarinen Mutual Pension Insurance Company, Vice President, independent from the company and non-independent from significant shareholders	12/12	Audit committee 5/5

### 4.3. Diversity of the Board of Directors

The Board of Directors' diverse composition supports the accomplishment and development of the goals and targets set by the company for its operations. An aim of the company is for all Board members to have adequate and mutually complementary experience and expertise in the areas essential for both the operations and societal role of the company. Fingrid additionally strives to assess the composition of the Board in terms of age and gender and to comply with the gender equality targets recommended by the state ownership steering. The proposal for the composition of the Board of Directors is prepared by the Nomination Board, which includes three (3) representatives of the Company's shareholders and the Chairman of the Board of Directors, who shall serve as an expert member in the Nomination Board.

Fingrid Board members possess wide-ranging business and management expertise, also outside of Finland. The sectors and areas of expertise represented in the Board include industry,

energy sector, financing and accounting as well as state administration. Sixty per cent of the Board members are female and 40 per cent male. The ages of the Board members range between 48 and 67 years.

## 5. Board committees

The Board has two (2) committees: the audit committee and the remuneration committee. The Board approves the committees' working orders, which are regularly updated. The Board appoints members of the committees from amongst its own members. Each committee has at least three (3) members. The requirements of the Corporate Governance Code are complied with when appointing members of the committees.

The committees appointed by the Board assess their operations once a year.

## 5.1. Audit committee

The audit committee is appointed by the Board of Directors and it assists the Board. The Board has specified the duties of the audit committee in its working order in accordance with recommendation 16 of the Corporate Governance Code, in addition to which the audit committee should also assess the audit plans of the auditor and internal auditor, review the auditor's and the internal audit reports, supervise compliance with legislation (incl. requirements set in the EU's Audit Regulation) and with the governance principles set by the Board as well as the financial reporting process and prepare the process for the selection of the auditor.

The Audit Committee consisted of Esko Torsti (Chair), Juhani Järvi, Sanna Syri (until 28 March 2018) and Anu Hämäläinen (as of 28 March 2018). The committee convened five (5) times in 2018. The President & CEO, the CFO and general counsel participated in the committee's meetings. In its meetings, the audit committee addressed issues such as the draft half-year report, the auditor's reports, the internal audit's reports on the key observations on the company's data security, investment management and continuity management audits, the principles of internal control and risk management, and the corporate governance statement. The committee additionally prepared matters up for decision by the Board concerning the company's financial reporting and bond programmes.

## 5.2. Remuneration committee

The remuneration committee is appointed by the Board of Directors and it assists the Board. The Board has specified the duties of the remuneration committee in its working order in accordance with recommendation 17 of the Corporate Governance Code. Accordingly, the remuneration committee, among other things, prepares 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 remuneration to be paid to the President & CEO and other members of the executive management group. The committee furthermore prepares matters concerning the election of the President & CEO and members of the executive management group and successor planning.

The remuneration committee consisted of Juhani Järvi (Chair), Anu Hämäläinen (until 28 March 2018), Juha Majanen (until 28 March 2018), Päivi Nerg (as of 28 March 2018) and Sanna Syri (as of 28 March 2018). In 2018, the remuneration committee convened three (3) times. The President & CEO and the Senior Vice President, HR and Communications, participated in the committee's meetings. Topics discussed in the meetings included the remuneration systems for the executive management group and the President & CEO as well as management successor planning and deputising arrangements.

## 6. President & CEO

The President & CEO, in compliance with the Limited Liability Companies Act, attends to the administrative routines of the company in accordance with guidelines provided by the Board of Directors. In accordance with the Limited Liability Companies Act, the President & CEO is responsible for ensuring that the company's bookkeeping complies with legislation and that financial management is reliably organised. Assisted by the executive management group, the President & CEO is responsible for the operations of the company and the implementation of the Board of Directors' decisions and serves as the Chair of the Board of the subsidiaries. The President & CEO is not a member of the company's Board of Directors.

Jukka Ruusunen (D.Sc. Tech., born 1958) has acted as Fingrid's President & CEO since 2007. He does not own Fingrid shares nor does he have share-based rights in Fingrid or in a company that belongs to the same group as Fingrid.

## 7. Company management

Fingrid holds key responsibility for the transmission of electricity in the main grid in Finland and thereby for the functioning of society as a whole. In its operations, Fingrid complies with the applicable legislation and international conventions as well as the principles approved by the Board of Directors and the policies approved by the President & CEO and discussed by the executive management group. Fingrid's Code of Conduct is published on the company's website.

The primary duty of Fingrid's executives is to ensure that the company's basic tasks are managed efficiently. The operations are based on meeting the needs of customers and society, taking into account the obligations laid down in the articles of association, shareholder agreements, electricity system license and Electricity Market Act.

Fingrid's operations are managed in a matrix of four perspectives. These are: customers and society, finance, internal processes (adequacy of the transmission system, system operation and promoting the electricity market), and personnel and expertise.

The operational organisation has been organised into functions. The heads of the functions make up the executive management group of the company. The Board of Directors approves the basic organisation of the company on the level of functions.

Significant special tasks are separated and organised as necessary in a separate company. Such tasks include e.g. special electricity market services, such as the management of peak load capacity and taking care of the guarantees of origin for electricity, which are carried out by Finextra Oy, a wholly owned

subsidiary of the parent company Fingrid. Another subsidiary wholly owned by the parent company Fingrid, Fingrid Datahub Oy, is in charge of providing the electricity markets' centralised data exchange service and related services to electricity market parties and is responsible for the management of the registered information required by the electricity market and the development of these functions.

## 7.1. Executive management group

The executive management group supports the President & CEO. Its tasks are:

- To define, communicate, implement and follow up the strategy.
- To draw up an action plan and budget.
- To implement financial control and risk management.
- To implement resource planning, procurement and control.
- To implement external communications and stakeholder dialogue.
- To prepare matters for the Board of Directors.
- To develop the work of the executive management group.

Each member of the executive management group is responsible for the day-to-day business operations of the organisation in his or her area of responsibility and for implementing operative decisions.

In addition to Jukka Ruusunen, President & CEO, the executive management group in 2018 consisted of:

- Kari Kuusela, M.Sc. (Tech.), born in 1955, Executive Vice President, asset management,
- Jussi Jyrinsalo, Licentiate in Technology, born in 1964, Senior Vice President, Customers and Grid Planning
- Marina Louhija, LL.M., born in 1968, General Counsel, Legal and Administrative Affairs
- Tiina Miettinen, M.Sc. (Politics), M.Sc. (Knowledge Management), born in 1963, Senior Vice President, HR and Communications
- Jan Montell, M.Sc. (Finance), born in 1968, Chief Financial Officer (CFO)
- Reima Päivinen, M.Sc. (Tech.), born in 1958, Senior Vice President, Power System Operations
- Asta Sihvonen-Punkka, Licentiate in Economics, M.For, born in 1962, Senior Vice President, Markets
- Kari Suominen, M.Sc. (Tech.), MBA, born in 1964, Chief Information Officer (CIO).

The members of the executive management group do not own Fingrid shares nor do they have share-based rights in Fingrid or in a company that belongs to the same group as Fingrid.

The executive management group convened 15 times in 2018.

## 8. Advisory committee

Fingrid's Board of Directors appoints an advisory committee with 10 to 14 members to serve as a link between the company, its customers and other stakeholders. The advisory committee is an advisory body which provides perspectives on the company's grid operations and customer services from a customer point of view. The advisory committee widely represents electricity producers, transmitters, sellers, users and other electricity market actors.

The advisory committee is set out in Fingrid's articles of association. The Board annually confirms the regulations concerning the work of the advisory committee. The term of office of the members of the advisory committee is three years. The President & CEO and Vice President responsible for the company's customer relationships participate in the advisory committee's meetings.

The composition of the advisory committee is set out on the company's website.

The advisory committee convened four times during the year. The topics discussed in the advisory committee's meetings included, among other things, the power system's future scenarios, Nordic imbalance settlement and Fingrid's activities in the international environment. In several meetings, one of the topics discussed was a study on the introduction of a capacity-based consumption fee in grid service pricing.

## 9. Internal control and risk management

### 9.1. Internal control and risk management principles

Fingrid's internal control is a permanent component of the company's operations and addresses all those operating methods and procedures whose objective it is to ensure

- effective and profitable operations that are in line with the company's strategy,
- the reliability and integrity of the company's financial and management information,
- that the company's assets are protected,
- that applicable legislation, guidelines, regulations, agreements and the company's own governance and operating guidelines are complied with, and
- a high standard of risk management.

Risk management is planned as a whole, with the objective of comprehensively identifying, assessing, monitoring and safeguarding the company's operations, the environment, personnel and assets from various threats and risks. Due to the nature of



the company's core mission, risks are also assessed from the perspective of society in general.

Continuity management is a part of risk management. Its objective is to improve the organisation's capacity to prepare and to react in the best possible way should risks occur, and to ensure the continuity of operations in such situations.

Further information on internal control, risk management and the foremost risks and factors of uncertainty is available on the company's website and in the Board of Directors' annual review.

## 9.2. Arrangement of internal control and risk management and distribution of responsibility

### 9.2.1. Board of Directors

The company's Board is responsible for organising internal control and risk management, and it approves the principles of internal control and risk management every two years or more often, if required. The Board defines the company's strategic risks and related management procedures as part of the company's strategy and action plan, and monitors their implementation. The Board decides on the operating model for the company's internal audit. The Board regularly receives internal audit and financial audit reports as well as a status update at least once a year on the strategic risks and continuity threats relating to the company's operations and their management and realisation.

### 9.2.2. Line management and other organisation

Assisted by the Executive Management Group, the President & CEO is responsible for executing and steering the company's governance, decision-making procedures, control and risk management, and for the assessment of strategic risks and continuity threats at the company level, and their related risk management.

The heads of functions are responsible for the practical implementation of the governance, decision-making procedures, controls and risk management for their areas of responsibility, as well as for the reporting of deviations and the sufficiency of more detailed guidelines. Directors appointed in charge of the threats to continuity management are responsible for drawing up and maintaining continuity management plans and guidelines, and for arranging sufficient training and practice.

The CFO is responsible for arranging procedures, controls and monitoring at the company level as required by the harmonised operating methods of internal control and risk management. The company's general counsel is responsible at the company level for assuring the legality and regulation compliance of essential contracts and internal guidelines, taking into account the company's interests, as well as for the procedures these require. Each Fingrid employee is obligated to identify and report any risks or control deficiencies she or he observes and to carry out the agreed risk management procedures.

## 9.3. Arrangement of internal control and risk management related to the financial reporting process

The internal control systems relating to the financial reporting process are part of a more extensive overall system of Fingrid's internal control.

### 9.3.1. Control environment of financial reporting process

The Group comprises the parent company Fingrid Oyj and its wholly owned subsidiaries Finextra Oy and Fingrid Datahub Oy. The associated companies are eSett Oy (holding 33.3%) and Nord Pool AS (holding 18.8%). 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. The executive management group and those with budget responsibility as well as the heads of units and functions receive a monthly report of the financial situation. These reports include information on the proceeds, costs and capital investments in the relevant area of responsibility. In addition to financial accounting reports, the reporting covers comprehensive reports which contain business information. These are produced by means of cost accounting and the financial control system.

The interpretation and application of the standards governing financial statements are centralised at the Group's financial administration, which monitors the accounting standards (IFRS, 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 how, when and on what schedule the month-end accounts are drawn up.

Fingrid draws up the consolidated financial statements and the half-year report in accordance with 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 Finnish companies included in 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.

### 9.3.2. Roles and responsibilities of the financial reporting process

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

The finance department 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 financial auditor and internal auditor carry out inspections relating to financial reporting in accordance with the plan approved by the Board.

### 9.3.3. Risk management, control procedures and monitoring of the financial reporting process

Controls pertaining to risk management are set throughout the Group, at all levels and units of the Group. Examples of the controls include internal guidelines, acceptance procedures and authorisations, cross-checking with cost accounting, matching, verifications, 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 common 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 accuracy of financial reporting. The analyses compare the realised proceed and cost components with the budget and to the previous year, and the budget is compared to the quarterly forecast. The monitoring of cash flow and capital investments is part of this process.

Verification of the accuracy of monthly reporting employs the company's financial control system, which the controllers and heads of units of the company can use to find essential errors and deviations. The accuracy of financial reporting is also ensured through good data security and data protection. 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. The databases used in the financial control system and accounting system are backed up regularly. The company has a data security manager who is responsible for the management and development of data networks and data security, as well as for providing personnel with guidance concerning data security matters.

Controls for the financial reporting processes are developed as part of internal control. Personnel is given training in how to monitor the correctness of the information produced by the financial reporting process of the company, concerning cost allocation, posting, acceptance procedures for invoices and receipts, as well as for budgeting and actual result follow-up.

The company's auditor and internal audit carry out regular inspections on the functionality of controls concerning the financial reporting process and on the accuracy of information.

## 10. Financial audit and internal audit

### 10.1. Financial audit

An authorised public accounting company selected by the general meeting acts as auditor for the company. The company's financial auditor inspects the accounting, financial statements and financial administration for each financial period and provides the general meeting with reports required by accounting legislation or otherwise stipulated in legislation. The financial auditor reports on his or her work, observations and recommendations for the Board of Directors and may also carry out other verification-related tasks commissioned by the Board or management.

The annual general meeting of 2018 elected authorised public accountants PricewaterhouseCoopers Oy as the auditor of the company. Authorised public accountant Heikki Lassila serves as the company's responsible auditor. The general meeting decided that the auditor's fee and expenses are paid on the basis of a reasonable invoice accepted by the company.

Auditor's fees, EUR 1,000	2018	2017
Auditing fees	89	68
Other fees	94	61
TOTAL	183	130

## 10.2. Internal audit

The Board of Directors decides on the operating model for the company's internal audit. The internal audit acts on the basis of plans processed by the audit committee and approved by the Board. Audit results are reported to the object of inspection, the President & CEO, the audit committee and the Board. Upon decision of the Board, an internal audit outsourced to an authorised public accounting company acts within the company. From an administrative perspective, the internal audit is subordinate to the President & CEO. The internal audit provides a systematic approach to the assessment and development of the efficacy of the company's risk management, monitoring, management and administrative processes and ensures their sufficiency and functionality as an independent party. The internal audit has the authority to carry out reviews and to access all information that is essential to the audit. Fingrid's internal audit carries out risk-based auditing on the company's various processes.

In 2018, Deloitte & Touche Oy served as Fingrid's internal auditor and carried out a total of three (3) audits. The audits concerned the company's compliance management, preparation of investment proposals and the implementation of the EU's General Data Protection Regulation in the company. The total fees paid to Deloitte & Touche Oy for auditing tasks amounted to EUR 67,500.

## 11. Related party transactions

The Group's related parties include, in addition to the parent company Fingrid Oyj, subsidiaries Finextra Oy and Fingrid Datahub Oy, and the associated companies Nord Pool AS and eSett Oy, the shareholder entities listed in section 6.5 of the company's financial statements, and senior management and their related parties. The senior management is composed of the Board of Directors, the President & CEO, and the executive management group. Other related party transactions include transactions concluded with entities in which the State of Finland has a holding in excess of 50 per cent. Fingrid's related party transactions are accounted for in section 7.1 of the financial statements.

In the decision making concerning related party transactions, Fingrid sees to it that any conflicts of interest are taken into account, and no one included in the related parties or a representative of a related party participates in deciding on a related party transaction. Business with related parties is conducted at market prices. Fingrid maintains a list of its related parties.

## 12. Main procedures relating to insider administration

Fingrid complies with the Market Abuse Regulation (MAR), Nasdaq Helsinki Oy's insider guidelines as well as the UK's Financial Conduct Authority's (FCA) and the Financial Supervisory Authority's (FIN-FSA) up-to-date guidelines on the governance and management of insider information. Fingrid additionally has insider guidelines approved by the Board of Directors, which describe the key principles for insider issues to be applied within the company. The company's general counsel, Marina Louhija, is in charge of insider administration.

Fingrid's permanent insiders consist of the Board of Directors, President & CEO, members of the executive management group as well as any person considered to regularly have access, due to their duties, to insider information concerning Fingrid. Project-specific lists of insiders are drawn up as necessary; such lists include any persons in charge of preparations for the project who have access to insider information related to the project. Fingrid additionally applies a so-called extended closed window to the persons who participate in the preparation of the half-year report, management reviews and/or financial statements, including any external consultants and experts.

The lists related to Fingrid's insider administration are not public; only the person in charge of insider administration and his/her assistants have access to them.

According to Fingrid's insider guidelines, permanent or project-specific insiders and the persons under the extended closed window rules may not, on their own account or on the account of a third party, trade in Fingrid's financial instruments within thirty (30) days prior to the publication of Fingrid's financial statements release and the regularly published half-year report release and management reviews.

## REMUNERATION STATEMENT

### 13. Arrangement of remuneration decision-making

The annual general meeting decides on the remuneration for Board members and the financial auditor. Fingrid's Board of Directors approves the remuneration for the President & CEO and the members of the executive management group, the remuneration systems for a given year, and the principles of remuneration for personnel.

### 14. Key remuneration principles at Fingrid

#### 14.1. Remuneration and other benefits for the members of the Board of Directors

Each member of the Board is paid a fixed monthly fee and a meeting fee for each meeting that they have attended. The meeting fee is also paid for committee meetings. The members of the Board have no share or share-related remuneration schemes or supplementary pension schemes. Fingrid does not pay pension fees for the Board's remuneration.

#### 14.2. Remuneration of the President & CEO

The service terms of the President & CEO have been specified in a separate President & CEO service contract which is approved by the Board of Directors. The retirement age and pension accrual of the President & CEO are determined in accordance with general pension legislation.

The total remuneration of the CEO consisted in 2018 of a fixed total salary, a one-year bonus scheme (max. 40 per cent of the annual pay for the earnings year), and a three-year long-term incentive scheme (max. 35 per cent of the annual pay for the earnings year). There is no share or share-based remuneration scheme or supplementary pension scheme in place for the President & CEO on behalf of the company.

The criteria for the President & CEO's one-year bonus scheme in 2018 were the company's results, customers' confidence, success in developing the electricity market, functionality of the workplace

community, and leadership. An additional criterion was the realisation of a strategic project, i.e. success in developing the electricity market. The criteria for the long-term incentive scheme are system security, electricity market functionality and shareholder value. Corporate social responsibility is taken into account in both the year-long and long-term incentive schemes.

The mutual period of notice for the President & CEO is six months. If the company dismisses the President & CEO, an amount of money corresponding to nine months' fixed salary is paid to the President & CEO in addition to the salary for the period of notice.

#### 14.3. Remuneration of executive management

The total remuneration of the members of the executive management group consisted of a fixed total salary, a one-year bonus scheme, and a three-year long-term incentive scheme. The maximum amount of the one-year bonus scheme was 20 per cent of the annual pay for the earnings year. The annual maximum amount of the long-term incentive scheme was 25 per cent of the annual pay for the earnings year.

The criteria for the executive management's one-year bonus scheme in 2018 were the company's results, customers' confidence, functionality of the workplace community, and leadership. The criteria additionally comprised the attainment of the key objectives of each member of the executive management group. The criteria for the long-term incentive scheme are operational reliability, electricity market functionality and shareholder value. Corporate social responsibility is taken into account in both the year-long and long-term incentive schemes.

There is no share or share-based remuneration scheme or supplementary pension scheme in place for Fingrid's executive management group on behalf of the company.

#### 14.4. Remuneration of the personnel

Personnel salaries comprised the basic salary determined according to the content of the task, competence, experience and results, an annual quality bonus that encourages the effective implementation of the strategy, and an incentive bonus to support personal performance. Remuneration was supplemented by other benefits and worktime flexibility organised by the company. Results which form the basis of quality bonuses are measured using annually defined company and function-level indicators. Incentive bonuses are paid for good performance as part of the daily management of personal performance.

The CEO-to-employee annual median income ratio in 2018 was 6:1, and the female-to-male annual median income ratio was 0.8:1.

## 15. Remuneration report

### 15.1. Board of Directors

The annual general meeting confirmed, on 28 March 2018, the following monthly fees for the Board members:

- Chair of the Board EUR 2,400
- Deputy Chair of the Board EUR 1,300
- Board members EUR 1,000

In addition, it was decided that Board members will be paid a meeting fee of EUR 600 for each meeting and committee meeting attended by the member. In 2018, the Board convened 12 times, the audit committee convened five times and the remuneration committee convened three times.

#### Fees paid to the Board of Directors for the financial year 2018 in total:

	On the Board in 2018	Fees total 2018*	On the Board in 2017	Fees total 2017*
Chair Juhani Järvi	1.1.-31.12.	40,800	1.1.-31.12.	39,000
Deputy Chair Juha Majanen	1.1.-28.3.	5,100	1.1.-31.12.	24,000
Deputy Chair Päivi Nerg	28.3.-31.12.	15,600	-	-
Sanna Syri, Board member	1.1.-31.12.	21,000	1.1.-31.12.	19,200
Esko Torsti, Board member	1.1.-31.12.	22,200	1.1.-31.12.	20,400
Anu Hämäläinen, Board member	1.1.-31.12.	21,600	1.1.-31.12.	19,200

\* Including monthly fees and meeting fees for meetings attended in 2018

### 15.2. President & CEO and executive management group

The table below indicates the salaries and benefits of Fingrid's President & CEO and other members of the executive management group in 2018:

	Salaries and benefits	Variable merit pay*	2018	2017
President & CEO	302,000	150,000	452,000	416,000
Executive management group	1,180,000	293,000	1,473,000	1,304,000
TOTAL	1,482,000	443,000	1,925,000	1,720,000

\* Merit pay earned in 2017 and paid in 2018