

Itella Enterprise Risk Management Policy

All business is bound to risk. Risk is reckoned as a component of value creation and it needs to be proactively managed. Risk management is part of business management and as such a continuous activity.

This policy specifies the goals, responsibilities and practices of Enterprise Risk Management at Itella Group (hereafter Itella). The main objective of Enterprise Risk Management (hereafter ERM) is to safeguard achievement of Itella's strategic and key targets from unexpected risks and to enhance Itella's business opportunities and corporate image.

Itella's senior management is strongly committed to enhancement of ERM. This policy is approved and owned by the Board of Directors of Itella Group.

ERM at Itella is developed in line with the methodology and best practices of COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management – Integrated Framework. In addition to COSO ERM, A Risk Management Standard published by FERMA (Federation of European Risk Management Associations) is acknowledged in Itella's ERM development.

Objectives

ERM is an integral part of Itella's management system. It is directly related to and linked with Itella strategy creation process, where its main objective is to provide assurance on how enterprise's business strategy will perform under different scenarios and events. Thus, ERM directly supports continuity of Itella's business operations.

ERM is designed to identify events that could affect the company and its strategic performance. These events can be either positive or negative in impact. Opportunity is the possibility that an event will occur and positively affect the achievement of objectives. Risk is the possibility that an event will occur and adversely affect the achievement of objectives.

The fundamental goal of ERM is to provide reasonable assurance that the enterprise achieves its key objectives and strategy and is capable of optimizing its opportunities. Achievement of key objectives should not be done at any cost; enterprise must compare its risk portfolio with its risk appetite and risk capacity on a regular basis to ensure that the portfolio is in balance. Risk appetite is the quantum of risk that the Group is willing to accept given its capabilities and the expectations of its stakeholders. Risk capacity is the maximum risk that the Group can bear in a fiscal year.

As ERM is to support the achievement of an enterprise-wide view on opportunities and risks, it must also be comprehensive and holistically cover all types of risks across the enterprise and be embedded with all important business processes, all business areas and all levels in the organization.

ERM's ultimate goal is to optimize risk, return, growth and capital for the enterprise as a whole.

Roles and Responsibilities

The Itella Board of Directors owns and approves Itella Enterprise Risk Management Policy. Audit Committee oversees that ERM is implemented and works efficiently. Audit Committee also reviews regularly the Group level risk portfolio. Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for organizing the design and efficient implementation of ERM processes. Itella Management Board (MB) approves Itella ERM approach and reviews regularly the implementation of ERM process as well as Group level risk portfolio.

ERM is an integral part of Itella's management processes. Hence core implementation activities are taken care by the line management of Business Groups, Business Units / Lines and country organizations. The line management is responsible for embedding ERM into strategic management, daily operations and business processes, including respective services operated by third parties. For example, Business Groups are responsible for defining, what kind of risks and changes in risk valuation are to be reported within line management and / or in matrix from Business Units / Lines, country entities and third parties providing services for them.

Each Business Group, Business Unit / Line, country organization and named critical Group Function has a nominated Risk Champion, who facilitates and drives the risk management activities in the organization. Business Units in this context include also independent units, such as Itella IPS Oy.

Critical Group Functions in this context include Sales and Marketing, Group Treasury, Group Business Control and Finance, ICT Services, Communications, Group Legal, Facility Services, Group HR, Itella Sourcing and Corporate Security. The criticality of Group Functions from the ERM perspective is evaluated on a regular basis by MB and organizational coverage is adjusted accordingly.

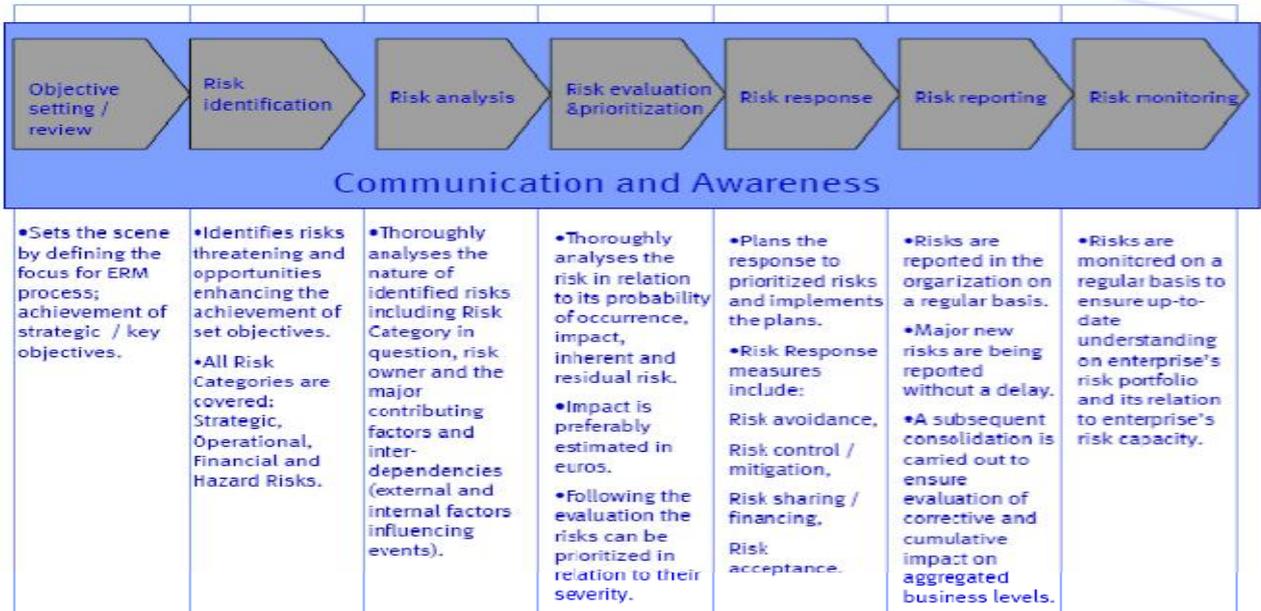
Every Itella employee is responsible for managing risks related to own work and for communicating identified key risks to the line management.

With respect to development of Itella ERM methodology Itella Strategy Forum (ISF) acts as a Steering Group. Chief Risk Officer (CRO) of Itella is in charge of supporting the implementation of this policy, coordinating Group level risk consolidation and developing ERM methodologies. CRO reports to CFO. Business Audit function assesses the coverage of risk management and supports in risk identification.

Risk Management Process

The core components of Risk Management process include: 1) Setting and/or review of (strategic) objectives, 2) Risk identification, 3) Risk analysis, 4) Risk evaluation and prioritization, 6) Risk response, 7) Risk reporting and 8) Risk monitoring.

The picture below illustrates the process and the objectives of each process phase:



In addition to corporate strategy process, the illustrated risk management procedures must also be applied to the following business decision processes: M & A including outsourcing of activities, development of new business operations, products and services, large capital investments, major changes in operations or mode of operation and other major programs and projects.

ERM as Part of Corporate Strategy Process

The timing of key ERM activities is closely connected to other strategic and business planning actions as defined in Itella's corporate strategy process.

ERM should be present already as of the first steps of corporate strategy process, when the learning from the previous year is extracted and business environment trends and phenomena including strategic risks and opportunities are identified and analysed systematically to understand the key drivers of strategy environment.

On the Business Group level, as part of strategy formulation a more detailed risk management process is carried out as described above. A holistic risk analysis and communications especially between Business Groups and Group Functions must be carried out to ensure adequate understanding on risk and corrective response by risk owner.

ERM is also required to provide with support to efficient strategy implementation. Due to this, as instructed within the Group Strategy Process, Business Units / Lines, country organizations and Group Functions are required to formulate their own strategies and / or annual plans including identification, analysis and response to opportunities and risks. The organizations are expected to use the Corporate and Business Group Strategies as an input for their own planning. In this process the strategic Group and Business Group strategic objectives and risks are integrated in the annual action planning and target setting for the coming year.

Risks and controls are monitored and reported on a regular basis on all corporate levels.