

# CORPORATE GOVERNANCE STATEMENT

Affecto Plc has prepared the Corporate Governance Statement in accordance with recommendation 54 of the Finnish Corporate Governance Code. The corporate governance statement has been prepared as a separate report and it is also available on the company's web site [www.affecto.com](http://www.affecto.com). Affecto's Board of Directors' has reviewed this corporate governance statement. KPMG Oy Ab, has checked that the statement has been issued and that the description of the main features of the internal control and risk management systems pertaining to the financial reporting process is consistent with our financial statements.

## INFORMATION ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Affecto complies with the provisions of the Corporate Governance Code prepared by the Finnish Securities Market Association in 2010. The updated Finnish Corporate Governance Code can be found from: [www.cgfinland.fi](http://www.cgfinland.fi).

In 2010 Affecto has followed up all other recommendations except the one concerning the genders represented in the board. Based on the Nomination and Compensation Committee's proposal, the Annual General Meeting 2010 elected only males as board members because the committee did not find any suitable female candidate. For year 2011, the proposal follows the gender recommendation.

## GENERAL INFORMATION

The duties of the different company organs are organized in line with the provisions of the Finnish Companies Act and the Finnish Securities Markets Act as well as other Finnish legislation.

Affecto complies with the rules and recommendations of the NasdaqOMX Helsinki. The company's Board of Directors is responsible for compliance with corporate governance principles.

## GROUP STRUCTURE

The group parent company is Affecto Plc. Operational business is handled mainly by group subsidiaries. Affecto Finland Oy and Karttakeskus Oy (since 1.1.2011) conduct the business in Finland. The business in Sweden is conducted through Affecto Sweden AB, in Norway through Affecto Norway AS and in Denmark through Affecto Denmark A/S. Business in Baltic

countries is conducted by Affecto Lietuva UAB, Affecto Latvia SIA, Affecto Estonia OÜ, Affecto Poland Sp.z.o.o and Information Technology Solutions Affecto (Pty) Ltd.

The company's operational business is managed principally through the country business units. Finland, Sweden, Norway, Denmark and Baltic were the five country units of the group in 2010.

## GENERAL MEETING

The General Meeting of Shareholders is the highest decision-making body of the company. The Annual General Meeting confirms the company's income statement and balance sheet and decides on the distribution of profits, elects the Board and the auditors and determines their fees.

The Board shall summon an Annual General Meeting within six months of the end of the financial period.

Any matter that a shareholder wishes to be addressed at a General Meeting of Shareholders shall be notified in writing to the Board of Directors in such time that the matter may be included in the notice convening the General Meeting of Shareholders.

## BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the appropriate administrative and operational organization of Affecto Plc and its subsidiaries. The Board ratifies the principles that govern company strategy, organization, accounts and financial management. The Board also appoints the group's Chief Executive Officer.

The shareholders of Affecto Plc elect the Board of Directors annually at the Annual General Meeting. The Board consists of three to seven members. The term of office of the Board members ends at the conclusion of the first Annual General Meeting which is convened after the election.

The Board convenes regularly at least 11 times a year, and whenever required. At the beginning of each year the Board agrees in advance the thematic issues for discussion at the Board meetings, in addition to the requirements of normal financial supervision. In 2010, the Board convened a total of 20 times, and average attendance level was at 90 per cent.

The Chairman of the Board of Directors have received a monthly remuneration of 2 900 Euros and a member 1 600 Euros as decided in the Annual General Meeting. Additionally, reasonable travel costs have been paid.

## DESCRIPTION OF THE COMPOSITION AND OPERATIONS OF THE BOARD AND BOARD COMMITTEES

### Board members

At the end of 2010 the Board of Directors comprised the following members: Aaro Cantell (chairman), Jukka Ruuska (vice chairman), Pyyry Lautsuo, Heikki Lehmusto, Esko Rytönen and Haakon Skaarer.

All board members are independent of the company. Mr. Lautsuo, Lehmusto and Rytönen are independent of the company and of the owners.

Aaro Cantell (b.1964) is the chairman of the Board and has been a member of the Board of Directors since 2000. Mr. Cantell is an entrepreneur and the chairman of the board of Normet Group Oy. He has in the past worked as Managing Partner of Fenno Management Oy and as Investment Director at the Finnish National Fund for Research and Development (Sitra). Mr. Cantell is a Board member of VTT Technical Research Centre of Finland. Mr. Cantell holds a Master of Science Degree in Engineering.

Jukka Ruuska (b. 1961) is the vice-chairman of the Board and has been a member of the Board of Directors since 2010. Ruuska has served as a Senior Partner at CapMan Plc in 2008-2011 managing the CapMan Public Market team. Prior to joining CapMan, Jukka Ruuska served as CEO of the Nordic Stock Exchange and as the CEO of the Helsinki Stock Exchange between 2000 and 2003. Prior to this, he held management positions at Helsingin Puhelin Oy and Finnet Oy and at the investment bank, Prospectus Oy, and Kansallis-Osake-Pankki. Mr. Ruuska has LL.M. and MBA degrees.

Pyyry Lautsuo (b.1946) is a member of the Board of Directors since 2007. Mr. Lautsuo has held various managerial positions in International Business Machines during 1970-2006. Latest he served as the managing director of IBM Finland. Mr. Lautsuo is a Board member of Tectia Corporation. Mr. Lautsuo holds a Master of Science degree in Engineering.

Heikki Lehmusto (b.1947) is a member of the Board of Directors since 2006. Lehmusto is a member of the Finnish Association of Professional Board Members and a partner at Boardman Oy. Earlier he has served as the deputy managing director of Silja Oyj and as a director at YLE (the national broadcasting company). He holds a Master of Law degree.

Esko Rytönen (b.1957) is a member of the Board of Directors since 2006. Mr. Rytönen has been a senior vice president at TeliaSonera AB until 2010. Mr. Rytönen has been a member of administrative bodies of several group companies and associated companies of TeliaSonera. Mr. Rytönen holds a Master of Science degree in Economics.

Haakon Skaarer (b.1952) is a member of the Board of Directors since 2007. Mr. Skaarer is the CEO of Enonic AS. Earlier he worked as an Investment director at Norsk Vekst AS / Arendals Fossekompagni ASA. Mr. Skaarer has worked in various management positions in companies like IBM, Oracle and Storebrand.

Mr. Skaarer holds a Master of Science degree in Economics and Business Administration (Sivilökonom).

### Duties of the Board of Directors

The Board has drafted its own rules of procedure, with the principal duties defined as follows:

- Take responsibility for duties which the Companies Act, the articles of association or other instances has bindingly decreed on the Board of Directors
- Ratify the strategy
- Ratify the company's management system on the submission of the CEO
- Ratify the annual action plan and monitor its enforcement
- Ratify the procedures for company internal control and risk management and monitor their implementation
- Interim reports, financial statements and annual report – processing, approval and communication
- Ratify group finance policy
- Propose the dividend policy to the General Meeting
- Decide on company and business acquisitions and sales
- Decide on significant individual investments and contingent liabilities
- Ratify group incentive scheme and policy
- Appoint and release from duties company senior management and decide on their employment terms and bonuses on the basis of proposals made by the Nominations and compensation committee
- Establishment of subsidiaries
- Supervise and develop the company's corporate governance procedures
- Evaluate and develop the operation of the Board of Directors
- Evaluate the work of the CEO and feedback on it

### Committees of the Board

#### Audit Committee

The task of the Audit Committee, which is appointed by the Board, is to supervise the efficiency of the company's accounting and financial reporting system as well as to monitor the company's audit functions. The committee is also charged with the supervision of matters and practices relating to sound corporate governance and, where necessary, propose to the Board any required measures to develop corporate governance.

The audit committee shall comprise of three to five board members. The members will be nominated annually. The members of the audit committee shall be independent of the company and at least one member shall be independent of significant shareholders. The members shall have the qualifications necessary to perform the responsibilities of the audit committee, and at least one member shall have expertise specifically in accounting, bookkeeping or auditing.

The Committee convened 4 times in 2010, attendance level was 92%.

Committee members: Esko Rytönen, Aaro Cantell and Heikki Lehmusto.

Duties of the Audit Committee:

- To monitor the company's financial position
- To supervise the financial reporting process
- To monitor the reporting process of financial statements (annual reports, interim reports)
- To evaluate the sufficiency, efficiency and appropriateness of internal control and risk management systems
- To review the plans and reports of the internal audit function
- To evaluate compliance with laws and regulations
- To prepare the proposal for resolution on the election of the auditor and to evaluate the independence of the statutory auditor
- To contact the auditor and to review the reports that the auditor prepares for the audit committee
- To evaluate advisory services provided by the auditor
- To monitor the statutory audit of the financial statements and consolidated financial statements
- To review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement

#### **Nominations and Compensation Committee**

The company has a joint committee for nominations and compensation which is in charge of planning the procedures for rewarding employees as well as selecting the candidates for Board membership.

The Committee convened 4 times in 2010, attendance level was 100%.

Committee members: Aaro Cantell, Heikki Lehmusto and Jukka Ruuska.

#### **The committee's rules of procedure determine its duties as follows:**

- Preparatory work for the motion to the Annual General Meeting concerning the election of Board members
- Preparatory work relating to the remuneration of Board members
- Finding candidates to replace Board members
- Preparatory work relating to the salaries and other benefits of the company CEO and Deputy CEO
- Preparatory work relating to the compensation paid to other company managers
- Preparatory work relating to the appointments of the company CEO and Deputy CEO as well as other company managers and the identification of their successors
- Preparatory work relating to the company rewards schemes

#### **M&A Committee**

The company has a M&A committee for planning and preparing M&A activities.

The Committee convened 4 times in 2010, attendance level was 100%.

Committee members: Jukka Ruuska, Aaro Cantell, Pyry Lautsuo and Haakon Skaarer.

#### **DESCRIPTION OF THE BODY THAT IS RESPONSIBLE FOR THE DUTIES OF THE AUDIT COMMITTEE**

The company has an Audit committee.

#### **INFORMATION ABOUT THE CEO AND HIS DUTIES**

##### **Pekka Eloholma, b.1960, M.Sc.(Eng.)**

Eloholma has been the CEO since 1 September 2006. Mr Eloholma's previous position was President and CEO of Setec Oy, which is a part of Gemplus Group. Within the Gemplus Group he was also in charge for identity and security business at EMEA area. Prior to Setec Oy Pekka Eloholma has worked in several management positions, e.g. as a director at Siemens Osakeyhtiö, as the managing director of Siemens Business Services Oy, as the managing director of Finnet-Com Oy and as a business development director at HPY. He has been a board member of Global Intelligence Alliance Group Oy since 2007 and was a board member of SYSOPENDIGIA Plc between 2004 and 2006.

The Board of Directors appoints the CEO. The CEO is in charge of the management of the company's operations and governance in accordance with the Articles of Association, the Finnish Companies Act and the instructions given by the Board. The CEO is assisted in the management of the group by the Executive Management Team.

#### **EXECUTIVE MANAGEMENT TEAM**

The Executive management team assists the CEO in the management of the group. At the end of 2010, the Executive Management Team comprised the following members: Pekka Eloholma (Chief Executive Officer), Satu Kankare (Chief Financial Officer), Ray Byman (Finland), Håvard Ellefsen (Norway), Claus Kruse (Denmark & Sales process development), Rene Lykkeskov (Business Development), Fredrik Prien (Sweden), Hilikka Remes-Hyvärinen (Human Resources) and Stig-Göran Sandberg (Baltic & Delivery process development).

The company web site includes information of management shareholdings.

#### **AUDIT**

The company has one regular auditor, which must be a firm of independent public accountants approved by the Central Chamber of Commerce. The term of office of the auditor ends at the conclusion of the first Annual General Meeting held after the election.

On 25 March 2010, the Annual General Meeting elected as auditor KPMG Oy Ab. KPMG has served as auditor since 2009. The auditor with principal responsibility is Reino Tikkanen.

The 2010 consolidated financial statements include audit fees of 130 thousand Euros paid to KPMG as well as 120 thousand Euros in advisory fees.

## **DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS**

Affecto prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards, as adopted by EU, the Securities Markets Acts as well as the appropriate Financial Supervision Authority Standards and NASDAQ OMX Helsinki Ltd's rules. The Report of the Board of Directors of Affecto and parent company financial statements are prepared in accordance with Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board.

Affecto's financial reporting process consists of external and internal accounting. Internal control and risk management systems and practices as described below are designed to ensure that the financial reports as disclosed by the company give correct information about the company finances in all material respect.

### **Internal control in Affecto**

Affecto's internal control consists of business risk management and internal control systems pertaining to financial reporting. Internal control aims to ensure that Affecto's business activities are efficient and proficient, financial reporting is reliable and that applicable laws, regulations and company's internal policies are followed.

Affecto Board has approved operating principles of internal control, which have been prepared in accordance with the Code recommendation 48. Operating principles include the main features of risk management process, summary of risks, control objectives and common control points for financial reporting as well as roles and responsibilities in executing and monitoring internal control in Affecto.

The Board of Directors and the Audit Committee, which is appointed by the Board, supervise internal control and risk management. The CEO and CFO are together responsible for implementing the internal control and risk management together with the group management team, subsidiary management teams and finance managers.

### **Risk management process in Affecto**

In Affecto's risk management process, subsidiaries in each country identify and assess business risks annually in accordance with a pre-defined model. The assessment includes also potential likelihood and impact of the identified risk. For the risks identified, Affecto prepares an action plan and responsibilities. Risk assessments prepared at the country level are consolidated in the group level and executive management team reviews the summary. Board of Directors reviews the summary and assesses the adequacy of action plans.

## **Internal control and risk management over financial reporting process**

Affecto group has reporting manual which includes an overview of financial reporting process, key outputs, and roles and responsibilities within the process. Essential group policies, for example revenue recognition policy, intercompany transactions policy, transfer pricing policy are part of the reporting manual. The up-to-date versions of reporting manual, other internal guidelines for financial reporting and timetables can be found at group intranet.

Affecto's subsidiaries in each country have separate finance organisation and also business activities are local. Proper arrangement and monitoring of internal control is the responsibility of the local management in accordance with the group framework.

Affecto group uses a common chart of account and consolidation and reporting application. Subsidiaries submit external financial reporting to the group finance on a monthly basis. Reported figures are transferred through a common database to the reporting system which allows transparency of financial data in the subsidiary accounting and reporting.

The group finance has defined the significant processes relevant to internal control over financial reporting, e.g. revenue, purchasing, payroll expenses, project management, finance, and related IT systems. Within this process framework, financial reporting risks and control objectives have been defined and group wide common control points have been designed to mitigate financial reporting risks in a preventive or detective way. Common control points include for example authorisations, key accounting reconciliations, project management procedures, segregation of key financial duties and analysis of financial performance and figures in order to identify any irregularities or errors.

Common control points have been communicated and implemented to the subsidiaries. In connection with the implementation, responsible persons in each country prepared also a self-assessment of common controls and prepared action plan to enhance controls to the target level. Group finance supports subsidiaries by visiting subsidiaries frequently and by providing additional guidance. The subsidiaries together with the group finance conduct annually a self-evaluation of the internal control points, which is then presented to the Audit committee.

Financial reports prepared by the subsidiaries are analysed by Affecto group management and group finance to identify any irregularities or errors. In addition to the financial reports, subsidiary management prepares a written report of activities within the period in a standard form. Group management organises business review meetings at the country level half-yearly in which subsidiary operations and finances are reviewed. Group financial reports are prepared for the

Affecto Board on a monthly basis. According to its charter, the Board reviews and approves interim financial reports, financial statement releases and the financial statements.

Affecto does not have separate internal audit function. The function is generally carried out by financial administration staff. Any audit results are reported by the CFO to the Board's Audit Committee and to the CEO. If necessary, reports can also be addressed directly to the entire Board of Directors. The Audit Committee can engage external advisors to perform evaluations relating to control environment or other activities.

The group finance and subsidiary finance managers meet semi-annually to evaluate and adjust the procedures related to financial reporting and internal controls.

### **INSIDERS**

Affecto complies with the Guidelines for Insiders issued by NASDAQ OMX Helsinki, supplemented by the company's own guidelines. According to Affecto's insider rules, insiders are forbidden to trade with the company's shares only during 4 weeks before each quarterly report.

The board members, CEO and the auditor are permanent public insiders by law. In addition, certain members of the management have been named as public insider. Certain other company managers and financial department employees have been named as company-specific non-public insiders.

Additionally, separate insider registers are maintained for M&A activities and other projects possibly having a significant impact on share price.

The shareholdings of company employees who are public insiders may be viewed on the company's internet web pages. The public insider register can be reviewed at Euroclear Finland Ltd, Urho Kekkosen katu 5 C, Helsinki.

### **COMPENSATION SYSTEM**

Key personnel in the company (incl. management) are covered by an incentive scheme which is based on the attainment of annually set targets. In 2010, the group paid approximately 8.1 million euros as performance-related salaries and bonuses to 894 persons.

The targets set for individuals vary in accordance with their duties and status. On the whole, the targets are linked to the individuals' performance in relation to the net sales and results of the whole company or the profit centre and/or the individual concerned. The employees also have their own qualitative targets, the attainment of which is assessed separately from the financial targets. Although the targets and levels vary by person, the average target levels of management's bonuses are set to form approx. 25 percent of the total compensation.

The Board of Directors has set the targets for the Chief Executive Officer. The Board's Nominations and Compensation Committee has set the targets for the CEO's direct subordinates on the submission of the CEO. The targets for other key personnel have been set in the line organization under the direction of the CEO.

The Annual General Meeting held in March 2008 decided a three-year option program for long-term binding and compensation. The option programs 2006 and 2008 are described in detail in the company's internet web pages.

### **CEO's remuneration**

In year 2010, the CEO Eloholma's salary and other benefits amounted to a total of 277 thousand Euros and he did not earn any annual bonus for year 2010. The CEO's annual bonus is dependent on the profit of the group.

The CEO has received 34 000 options 2006A, 27 900 options 2006B, 34 286 options 2008A and 30 000 options 2008B.

The CEO is subject to statutory pension arrangements. The CEO's employment contract prescribes a six-month period of notice which applies to both parties. The CEO's employment contract does not contain any separate conditions relating to the payment of salary during the period of notice.

### **Management's long-term share-based incentive plan**

The Board of Directors of Affecto decided in June 2010 to establish a new share-based incentive plan, where selected members of the company's management (CEO, Nordic country managers and Baltic area manager) invest in Affecto shares through Affecto Management Oy, owned by the management. The purpose of the plan is to commit the Participants to the Company by encouraging them to acquire and hold the Company's shares, and this way increase the Company's shareholder value in the long run. Affecto Management Oy acquired 823 000 shares and financed the acquisition by the managers' own capital investments and by a 1.6 MEUR interest-bearing loan provided by Affecto. Affecto Management Oy has been consolidated to the group balance sheet. The plan will be valid until the announcement of the Affecto's Q3/2013 interim report.

### **Board compensation**

The members of the Board of directors have received the monthly fees decided in the Annual General Meeting, 2 900 eur/month for the chairman and 1 600 eur/month for members. Additionally, reasonable travel costs have been paid.