

# Report on the governance and resource management system 2011

The administration of SATO Corporation is based on the Finnish Companies Act and SATO Corporation's articles of association. The company also complies with the Corporate Governance Code for Finnish listed companies issued by the Finnish Securities Market Association on 15 June 2010. As SATO Corporation shares are not publicly listed it does not, however, comply with recommendation 9 of section 3 or recommendation 51 of section 9, which concern the number of members and composition of the Board of Directors and the management of insiders. The company's Board of Directors approved guidelines on 13 February 2008 for trading in SATO Corporation shares and other securities. The Corporate Governance Code is available publicly at the website [www.cgfinland.fi](http://www.cgfinland.fi).

SATO Corporation draws up its consolidated financial statements and interim reports in accordance with international, EU-approved IFRS reporting standards. The report of the company's Board of Directors and the parent company's financial statements have been drawn up in accordance with Finnish accounting legislation.

Authority and the governance of the company are divided among the annual general meeting, the Board of Directors, and the President and CEO. The current articles of association of SATO Corporation were registered on 15 March 2011.

## The general meeting

The general meeting of the shareholders is SATO Corporation's supreme decision-making body. The annual general meeting is to be held once a year within six months of the end of the financial year.

The annual general meeting decides on the matters due to it under the Finnish Companies Act and the articles of association, which include the following:

1. adopting the company's financial statements and consolidated financial statements
2. the application of the profit shown by the balance sheet
3. granting release from personal liability to the members of the Board of Directors and the President and CEO
4. electing the members and chairman of the Board of Directors as well as an auditor
5. the remuneration of the Board members and the auditor.

A shareholder is entitled to propose an item permitted under the Companies Act for discussion by the meeting of shareholders if he or she requires this in writing from the Board of Directors no later than four weeks before the notice of meeting is sent.

The notice of meeting will be sent to shareholders no more than three months and no less than three weeks prior to the meeting in a newspaper published in the capital city or demonstrably sent in writing as well as being displayed, together with appendices, on the company's website.

Entitlement to attend the general meeting is held by a shareholder who has been entered in the register of shareholders eight working days before the general meeting.

SATO Corporation has one class of shares. Each share confers entitlement to one vote at a general meeting.

## Board of Directors

The general meeting elects no fewer than five and no more than nine members to the company's Board of Directors. The general meeting elects one member of the Board of Directors to serve as chairman of the Board. The Board of Directors elects one of its members to serve as deputy chairman.

A majority of the members of the Board of Directors must be independent of the company, and at least two of the said majority must also be independent of major shareholders. The term in office of the members of the Board of Directors lasts until the closing of the annual general meeting following the one at which they were elected. The annual general meeting which convened on 2 March 2011 elected to the Board of Directors Juha Laaksonen as chairman of the Board and, as ordinary members, Timo Hukka, Vesa Immonen, Jorma Kuokkanen, Raimo Lind and Esko Torsti. The Board of Directors elected Raimo Lind as its deputy chairman. The Board of Directors convenes 6–12 times a year. In 2011, the Board of Directors convened 11 times. An average of 86.4 per cent of the members of the Board of Directors attended the Board meetings.

Information about the chairman and members of the company's Board of Directors as well as their holdings is on the company's website [www.sato.fi](http://www.sato.fi) and on pages 46–47 of this annual report.

The company's Board of Directors is responsible for the proper organisation of the company's governance and its operations. It is the duty of the Board of Directors to promote the interests of the company and all its shareholders.

SATO Corporation's Board of Directors has confirmed rules of procedure which apply to the duties, meeting procedures and decision-making practices of the Board of Directors. The essential contents of the rules of procedure are explained on the company's website [www.sato.fi](http://www.sato.fi). In addition to matters for decision, the Board of Directors is supplied at the meetings with up-to-date information on the company's operations, economy and risks.

In addition to the duties specified by the Companies Act, the Board of Directors decides on matters which, taking into account the extent and size of the Group's operations, have considerable importance to the Group's business. The duties of the Board of Directors include the following:

1. confirmation of the Group's business strategy and monitoring its implementation
2. confirming and monitoring the annual budget and the action plan
3. dealing with the financial statements and report on operations as well as the interim reports
4. confirming the company's dividend policy
5. supervision of risk management and internal auditing as well as supervising the effectiveness of the internal audit.

The Board of Directors also appoints the company's President and CEO and his deputy, and the members of the Corporate Management Group, and it determines the terms of their employment and of their posts.

The Board of Directors performs an annual, internal self-assessment of its activities and its working methods. The purpose of the self-assessment is to verify how the Board's activities have been performed during the year and to serve as a basis for assessing the Board's method of operating.

#### The Committees of the Board of Directors

At the organisational meeting held annually after the annual general meeting, the Board of Directors appoints an Audit Committee and a Nomination and Compensation Committee. The Audit Committee and the Nomination and Compensation Committee are comprised of between three and five members, chosen by the Board of Directors, one of whom acts as chairman.

The Board of Directors has confirmed rules of procedure for the committees. The Committees have no independent decision-making authority. Their mission is to prepare matters for decision by the Board of Directors and the annual general meeting and they report constantly on their actions to the Board of Directors. The rules of procedure can be seen on the Group's

website [www.sato.fi](http://www.sato.fi).

The Audit Committee convened three times and the Nomination and Compensation Committee convened once during the financial year. The meetings of the Committees were attended on average by 100 per cent of their members.

Serving on the Audit Committee in 2011 were chairman Raimo Lind and members Vesa Immonen and Esko Torsti. All the members are independent of the company and one is also independent of the major shareholders.

Serving on the Nomination and Compensation Committee in 2011 were chairman Juha Laaksonen and members Timo Hukka and Jorma Kuokkanen. All the members are independent of the company and one is also independent of the major shareholders.

#### President and CEO

The Board of Directors appoints the company's President and CEO and his deputy. The duties of the President and CEO are defined by the law, the articles of association, and guidelines supplied by the Board of Directors. The President and CEO attends to the ongoing management of the company in accordance with the rules and regulations supplied by the Board of Directors. The President and CEO is responsible for the Group's business, the planning thereof and the attainment of its goals. The President and CEO serves as chairman of the Corporate Management Group.

The President and CEO is Erkka Valkila, B.Sc. (Eng.). The deputy to the President is Tuula Entelä, LL.M, B.Sc. (Econ.). Information on the President and CEO and his deputy and on their holdings is given on the Group's website [www.sato.fi](http://www.sato.fi) and on pages 48–49 of this annual report.

#### The Corporate Management Group

The Corporate Management Group deals with all key issues for the management of the Group, such as matters related to the strategy, budgeting, investments, business planning, and financial reporting. The Corporate Management Group's duties include the implementation of the decisions of the Board of Directors under the leadership of the President and CEO. The Corporate Management Group has no authority under law or the articles of association; it serves as a body to assist the President and CEO.

The members of the Corporate Management Group are the President and CEO of SATO Corporation; the Vice Presidents; the Director, Customer relationships and Communications; and the CFO. The duties and spheres of responsibility of the members of the Corporate Management Group, as well as their personal details and holdings, are stated on the Group's website [www.sato.fi](http://www.sato.fi).

The Corporate Management Group convenes once a week.

#### Disclosures

SATO's website is used to make public the main information on the company's administration. All of the company's disclosures and the main management presentation material on the company's economy may be seen immediately after publication on the company's website [www.sato.fi](http://www.sato.fi).

#### Internal supervision

The aim of the internal supervision is to help to verify the efficiency, productiveness and reliability of the Group's operations, and to confirm the compliance of operations with the law and other regulations. The Group's internal supervision systems serve to verify that the financial reports issued by the company give essentially correct information on the financial standing of the Group. The Group has determined for the key spheres of its operations Group-wide principles which form the basis for internal supervision.

Responsibility for the arrangement of the internal supervision is held by the Board of Directors and by the President and CEO. Each member of the Board of Directors is sent a monthly report on the Group's financial situation and its business climate. The Audit Committee of the Board of Directors oversees the effectiveness of the internal supervision and the accuracy of the financial reporting. Responsibility for the performance of internal supervision is held by the operational organisation of the entire Group, in such a way that each Group employee is responsible to his or her supervisor at all times for the supervision of his or her sphere of responsibility.

The content of the reporting process and compliance with regulations are the responsibility of the Group's financial administration. The Group's financial reporting process complies with the Group's operational guidelines and process descriptions as well as control measures for

ensuring the quality of reporting. The controls on the reporting process have been specified on the basis of a control risk assessment matrix for the process. The types of controls are, for example, system controls, specifications, or audits or actions carried out by management or another party. Responsible parties have been allocated for controls which are in charge of the implementation and effectiveness of the controls.

The interpretation and application of accounting standards has been consolidated in the hands of the Group's financial administration, which maintains operating guidelines on financial reporting, process descriptions, calculation manuals and control mechanism descriptions, and which attends to the associated in-house communications. The Group's financial administration also oversees compliance with these instructions and procedures. The monitoring of the budgeting and reporting processes is based on the Group's reporting principles, for which the definition and centralised maintenance is the responsibility of the Group's financial administration. The principles are applied uniformly throughout the Group and a standardised Group reporting system is in use.

#### Internal audit

The internal audit enhances the handling of the Board of Directors' duty of supervision.

The internal audit assesses, independently and systematically, the functionality, efficiency and appropriateness of the Group's management and governance systems as well as the business processes and risk management. In its reports, the internal audit makes recommendations for the improvement of systems and processes.

The duties of the internal audit are handled by Deloitte & Touche Oy. The internal audit reports are sent to the chairmen of the Board of Directors and the Audit Committee as well as to the President and CEO. A review of the internal audit is sent twice a year to the Audit Committee. The Board of Directors deals with



the annual plan for internal auditing and the audit report for the previous year. The subjects for auditing are selected in accordance with the Group's strategic goals, estimated risks and priorities.

### Risk management

SATO's risk management is based on the systematic risk assessment embodied in the strategic and annual planning process. Risk assessment also covers the risks of the financial reporting process. Business risks are categorised as strategic and tactical risks as well as financing and market risks. The controls on the financial reporting process are specified on the basis of a separate survey of reporting process risks.

Responsibility for the arrangement of risk management is held by the company's Board of Directors. The internal audit and internal supervision enhance the handling of the Board of Directors' duty of supervision. The mission of the Audit Committee elected by the Board of Directors from among its membership is to assess the adequacy and appropriateness of risk management processes and risk management. The Audit Committee reports to the Board of Directors, which supervises the risk management.

### Auditing

The annual general meeting elects a single auditor for the company, which must be an auditing firm approved by the Central Chamber of Commerce. The auditor's term in office is the financial year and his duties end at the closing of the annual general meeting following the one at which he was elected. The auditor for the financial year 1 January–31 December 2011 was KPMG Oy Ab. The auditor in charge at the auditing firm was Lasse Holopainen, M.Sc. (Econ. & BA), APA. The audit checks the accounts, financial statements and administration of the company and Group.

## REPORT ON SALARIES AND REMUNERATION, 2011

### The Board of Directors and auditors

The remuneration to be paid to the members of the Board of Directors and auditors is decided by the annual general meeting. The annual general meeting which convened on 2 March 2011 decided that the chairman of the Board of Directors was to be paid EUR 36,000, the deputy chairman was to be paid EUR 22,000 and the members of the Board of Directors were to be paid EUR 18,000 for their term in office. It was also decided to pay the chairman of the Board of Directors and the members EUR 500 per meeting. It was decided to pay the chairmen of the committees and the members EUR 500 per meeting.

The fees for the members of the Board of Directors in 2011 totalled EUR 167,500.00. No shares or share-related entitlements were surrendered to members of the Board of Directors during the financial year.

It has been decided to pay the auditors' fee on invoice. Auditing fees paid by the SATO Group for auditing services during the financial year 2011 amounted to EUR 216,166.27 and fees for non-auditing services were EUR 71,280.96.

### The President and CEO and the Group's other management

The criteria and payment of the salaries and bonuses paid to the President and CEO and to the members of the Group's Corporate Management Group are decided by the company's Board of Directors. Employees of the Group are not paid any separate remuneration for serving as a member of the Board of Directors or as President of a Group company.

The salary and other perquisites of the President and CEO in 2011 amounted to EUR 430,772.40, of which EUR 292,897.65 was fixed salary and the variable component was EUR 137,874.75. The salary and other perquisites paid to the Deputy President and CEO were EUR 257,927.87, of which EUR 186,698.72 was fixed salary and the variable component was EUR 71,229.15.

The retirement age for the President and CEO and for a Vice President acting as his deputy is 60 years. At that time, they are entitled to a pension amounting to 60 per cent of the annual wages serving as the basis for the calculation of pension. The period of notice of the President and CEO's service contract is six months. In case the company terminates the service contract of the President and CEO before his retirement age, the President and CEO will be entitled to a redundancy bonus of 12 months' full salary in addition to the salary for the period of notice.

The members of the Corporate Management Group are covered by an annual incentive scheme based on the Group's profit and the attainment of other main targets. The Board of Directors approves the criteria for and payment of bonuses.

A long-term incentive scheme for the period 2010–2012, which was decided on in spring 2010 by the Board of Directors, applies to 15 people working in management positions in the Group. The earnings period is three years and the criterion for accrual is growth in net assets. The commitment period for the incentive scheme will continue until 2014. The incentive scheme is cash-based and includes a maximum limit. The purpose of this is to combine the goals of the management with those of the shareholders, commitment of the key people, improvement of competitiveness, and promotion of long-term financial success.