

## **PONSSE PLC**

### **CORPORATE GOVERNANCE STATEMENT**

The company's decision-making and administrative processes comply with the Finnish Companies Act, other regulations governing listed companies and the Ponsse Plc Articles of Association. The Board of the company has ratified the company's code of governance complying with the Corporate Governance procedure for Finnish listed companies approved by the Board of the Securities Market Association in 2008. The code is publicly available on the website of the Securities Market Association, [www.cgfinland.fi](http://www.cgfinland.fi), for example.

The company's annual report refers to this statement.

### **GROUP STRUCTURE AND MAIN FIELD OF BUSINESS**

Ponsse Plc (hereinafter "the Company") is a public limited company listed on the Helsinki Stock Exchange (NASDAQ OMX Helsinki Oy). The Company has its registered office in Vieremä, Finland.

The Ponsse Group includes the parent company Ponsse Plc as well as the following wholly-owned subsidiaries: Ponsse AB, Sweden; Ponsse AS, Norway; Ponsse S.A.S., France; Ponsse UK Ltd., Great Britain; Ponsse North America Inc., the United States; Ponsse Latin America Ltda, Brazil; OOO Ponsse, Russia; Ponsse Asia-Pacific Ltd, Hong Kong; Ponsse China Ltd, China; Ponsse Uruguay S.A., Uruguay; and Epec Oy in Seinäjoki, Finland. Sunit Oy, which operates in Kajaani, Finland, is an affiliated company in which the Company has a holding of 34 per cent.

The main field of business of the Company and the Group is the design, manufacture, sale and servicing of forest machines, other metal products, machine control systems, vehicle PC equipment, different types of separate systems and software.

### **BOARD OF DIRECTORS**

A Board of Directors, consisting of no fewer than five and no more than eight members, is responsible for the proper organisation of the Company's administration and operations. The Annual General Meeting elects Board members for a term of office expiring at the end of the AGM following their election. The Board elects a Chairman and a Deputy Chairman from among its members. In 2009, the Company's Board of Directors consisted of six members.

Persons elected to the Board of Directors shall have the necessary competence required for their duties. Members shall be elected to represent a diverse range of expertise as well as the viewpoint of the Company's owners. Under the Articles of Association, no upper age limit applies to Board members.

The majority of Board members shall be independent of the Company, in addition to which no fewer than two of the Board members belonging to the above-mentioned majority shall be independent of any of the Company's major shareholders. Board members shall submit sufficient information to assess their competence and independence, and report any changes in such information. Notice of independence is given in the Annual Report and on the Company's website.

The Board of Directors considers Board members Maarit Aarni-Sirviö, Nils Hagman (until 28 April 2009), Ilkka Kylävainio, Seppo Remes and Ossi Saksman (as of 28 April 2009) to be independent of the Company and its major shareholders.

## Members of the Board of Directors:

### **Einari Vidgrén, born 1943**

- Industrial Counsellor
- Chairman of the Board of Directors of Ponsse Plc since 1993

### **Maarit Aarni-Sirviö, born 1953**

- M. Sc. (Tech.), MBA
- Managing Director of Rahapaja Oy

### **Ilkka Kylävainio, born 1946**

- Wood industry technician
- Managing Director and Chairman of the Board of Keitele Forest Oy

### **Seppo Remes, born 1955**

- MA, LSc (Econ)
- Managing Director of OOO Kiuru

### **Ossi Saksman, born 1951**

- Administrative notary
- Chairman of the Board of Cooperative Osuuskunta KPY

### **Juha Vidgrén, born 1970**

- Master of Pedagogy
- Deputy Chairman of the Ponsse Plc Board

On 28 April 2009, the AGM confirmed the annual remuneration payable to the Chairman of the Board as EUR 43,000, and the remuneration payable to other members as EUR 32,000. No remuneration is paid to members in the employment of the Company, with the exception of the Chairman of the Board. In 2009, the Board held eleven meetings, of which one was a telephone conference. The average attendance rate of Board members was 90.9 per cent.

If shareholders controlling more than 10 per cent of the Company's voting rights should notify the Company's Board of Directors of their proposal on the number and identity of Board members and the identity of the auditor, which are matters to be decided by the AGM, this information shall be noted in the notice of the AGM. Any proposals on candidates made after the notice of the AGM has been published shall be made public separately.

In addition to the tasks separately specified in the Finnish Companies Act and the Company's Articles of Association, the Board is responsible for the business of the Company—its earnings and its development, ratifying the long-term strategy and the Group risk management policy, approving the budget and also deciding on corporate and real estate transactions and key strategic business expansions, equity-based investments, investment development and individual major investments. The Board also names the Company's President and CEO and ratifies the nomination of other Management Team members, decides upon the principles for compensating top management and annually assesses management activities.

The Board ratifies its own agenda.

In Board meetings, the business at hand is presented by the President and CEO or an executive named by the President and CEO.

The Board's activities and working methods are annually assessed by means of self-assessment or by an external auditor.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

Duties and responsibilities have not been specifically divided among members and the Chairman of the Board of Directors, nor has the Board appointed any specific committees.

## **PRESIDENT AND CEO**

The President and CEO is appointed by the Board of Directors. The President and CEO manages the Company's day-to-day business affairs in accordance with the guidelines and instructions issued by the Board of Directors. His duties include operational management, keeping the Board informed, presenting matters over which the Board has the power of decision, implementing the decisions of the Board and ensuring the legality of the Company's business operations. The President and CEO is assisted by a Management Team consisting of the President and CEO as Chairman and the executives appointed to the team by the Board of Directors. The Management Team meets approximately once a month, and also convenes whenever necessary to address, for example, business plans for the following year and strategy over the longer term.

Each member of the Management Team is responsible for a distinct sphere of operations based on key Company functions. Management Team members report to the President and CEO.

Juho Nummela (born 1977), Doctor of Technology, has acted as President and CEO since 1 June 2008. In 2009, the President and CEO was paid salary and other benefits totalling EUR 183,981. The retirement age of the President and CEO is 65 years, and the pension benefit is determined in compliance with valid legislation.

Under the contract of service concluded between the Company and its President and CEO, both parties may terminate the agreement by giving six (6) months' notice. Should the Company terminate the agreement, it shall pay the President and CEO a sum equal to 12 months' salary in addition to salary and other benefits accruing during the period of notice.

## **RISK MANAGEMENT AND INTERNAL AUDITING**

### **RISK MANAGEMENT**

The Company's risk management is based on the Company's values as well as strategic and financial objectives. The risk management goal is to support the achievement of the objectives specified in the Company's strategy as well as to ensure the financial development of the Company and the continuity of its business.

The task of risk management is to identify, assess and monitor business-related risks which may influence the achievement of the Company's strategic and financial goals or continuity of its business. Decisions on the necessary measures to anticipate risks and react to observed risks are made on the basis of this information.

Risk management is a part of the Company's regular daily business, and it is also included in the management system. Risk management is controlled by the risk management policy approved by the Board.

A risk is any event that may prevent the Company from reaching its objectives or that threatens the continuity of business. On the other hand, a risk may also be a positive event, in which case the risk is treated as an opportunity. Each

risk is assessed on the basis of its impact and probability. The Company's methods of risk management include avoiding, mitigating and transferring risks. Risks can also be managed by controlling and minimising their impact.

### Risk management process

The Company's risk management policy seeks to maintain and further develop a practical and comprehensive system for the management and reporting of risks. The risk management process includes systematic surveying of function- and unit-specific risks, their assessment and comparing the risks with the Company risk management plan. Risk management is systematically implemented and monitored as part of the Company's daily business. The Company aims to promote its risk management by increasing awareness of the significance of risk management and supporting shared risk management projects in the functions.



### Risk classification

The key risks to the Company's business are divided into four categories: strategic and operative risks as well as financing risks and risks of injury or damage.

### Strategic risks

The term "strategic risk" refers to a risk related to the nature of the Company's business, its selected strategy and implementation of the strategy. Such risks may refer to the competitive situation, markets or market environment, legislation and other legal norms, for example. A strategic risk may also be a major investment or a strategic choice related to the business. If realised, a strategic risk may clearly deteriorate the preconditions for the Company's business.

### Market and business environment

Global economic crisis and general economic fluctuations affect the demand for the Company's products and its financial position. The fact that the Company does business in more than forty countries balances out the fluctuation risks. Furthermore, the Company aims to maintain its business so that it is flexible and adaptable to changes in order to be ready to quickly adapt its business to the prevailing market situation.

The competitive situation and changing requirements of the markets may influence the demand for and profitability of the Company's products. The Company invests in understanding the needs of its customers, and it carefully studies the demands posed by different markets on products in order to ensure that the products comply with the specific requirements of each region and are competitive. The Company has an extensive network of stakeholders. Stakeholder risks are mitigated by continuously monitoring the network and engaging in good cooperation. The price development of strategically important raw materials and their availability in the global market influence the profitability of the Company's products. Risks related to the price development and availability of raw materials are mitigated by surveying alternative materials and developing acquisition channels.

*Legislation and the environment*

Changes to the political environment, legislation influencing the Company's business and phenomena connected to climate change may clearly influence the Company's business in different market areas. In cooperation with its subsidiaries and regional partners, the Company actively monitors the requirements posed by the markets on products, services and the business as a whole—such as general business and import legislation as well as product compliance and environmental requirements. Furthermore, the Company actively communicates with its stakeholders, influences future solutions and sees such solutions as new opportunities.

*Products and technology*

The Company's product and technology risks refer to technological choices and R&D. These risks are mitigated by staying close to customers and other stakeholders in order to ensure that product technology is developed in the correct manner. Furthermore, the Company aims to actively cooperate with universities, institutions of higher education and research establishments as well as participate in global R&D projects. Developed technologies and products are protected by means of intellectual property rights. The Company is also aware of the industrial rights of its competitors and respects them in the conduct of its own business.



## **Operative risks**

The term “operative risk” refers to a risk related to the Company’s internal processes, personnel, business network and systems. If realised, operative risks may deteriorate the Company’s earnings, effectiveness and profitability.

### *Organisation and management*

Risks related to the Company’s organisation and management include risks connected to, for example, the availability of workforce, labour market disturbances and management of key competence. The Company’s personnel strategy has a key role in managing risks related to the organisation and management. The commitment of key employees in the Company is improved by means of an incentive scheme. Investments in recruiting are made in order to ensure access to the correct type of workforce. The Company’s image as an employer is developed by means of appropriate communications and cooperation with various educational establishments and other stakeholders.

### *Information and IT*

The Company’s information and IT risks include, for example, the risk of trade secrets leaking out of the Company as well as risks related to the functionality, security and safety of IT systems. The Company complies with an information security policy to manage these risks, with the aim of ensuring that all preconditions for the functionality of the systems and ensuring their safety exist. Information leaks are proactively prevented by means of all necessary measures.

### *Supplier network*

The Company persistently develops its supplier network. Material price and availability risks are also related to the supplier network. The Company aims to ensure a competitive material price level by studying alternative procurement channels and signing long-term agreements. In order to achieve cost-efficient solutions, the Company invests in close R&D cooperation with its supplier network.

Whenever necessary, the Company utilises a policy of two suppliers to manage material availability risks. The business environment is stabilised by means of long-term supplier agreements and regular supplier audits in compliance with the auditing programme. The Company aims to create a supply chain by which the Company does business directly with manufacturers in order to retain a real-time communications channel. A supply chain management tool is utilised in monitoring the supplier network and optimising batch sizes.

### *Production and processes*

The Company’s business requires comprehensive process management. What is important for a cost-efficient business is maintaining and improving processes. The Company’s quality management system is continuously developed in order to maintain its processes as functional. Functionality of the system is assessed by utilising results obtained from process management as well as ISO 9001 certification by a third party.

Production process disturbances or disruptions may hamper the business. Preparations for major disturbances are made by maintaining substitute manufacturing methods and equipment. Furthermore, the opportunity to manufacture cooperation with key partners is maintained.

## **Financing risks**

The Company is exposed to several financing risks in the normal course of its business. The Company’s financing risk management system aims to protect the Group’s performance, cash flows, shareholders’ equity and liquidity from

unfavourable financing market fluctuations. Financing risk management is handled in a centralised manner by the Company Financing Unit. The Board ratifies the Company financing risk management policy, and the Company CFO is in charge of its practical implementation in cooperation with the Financing Unit.

The Company's financing risks include currency, interest, credit and liquidity risks as well as capital management risks. For more information on financing risk management, please see Note 30 to the consolidated financial statements.

### Risks of injury or damage

The main focus in risk of injury or damage mitigation lies in identifying and preventing risks. Identified risks of injury or damage include, for example, occupational health and safety risks, environmental risks and risks of property damage. Risks of injury or damage are managed by means of an extensive insurance scheme. Damage is proactively prevented by applying a safety policy and safety guidelines as well as ensuring that working methods and tools are safe. The Company quickly reacts to any dangers observed. All accidents and close call situations are recorded in a monitoring system, and the necessary measures to prevent dangers are implemented. The Company's objective is an accident-free working environment. Risks of injury or damage are regularly assessed by means of internal audits. The entire personnel participate in identifying risks of injury or damage.

### Risk management organisation and responsibilities

<b>Board of Directors</b>	Decides on risk management objectives and principles as well as ratifies the Company Risk Management Policy. The Board supervises the implementation of risk management.
<b>President and CEO</b>	Responsible for arranging risk management measures and presenting risk management issues to the Board.
<b>CFO</b>	Coordinates the risk management process, carries responsibility for reporting and presents risk management issues to the Management Team.
<b>Management Team</b>	Risk management is included in the strategy process. The Management Team participates in controlling the risk management process and naming the persons in charge. Each member of the Management Team is in charge of identifying risks in his or her business area and implementing risk management.
<b>Regional directors</b>	The subsidiaries independently implement their risk management in compliance with the Group's risk management policy and guidelines.
<b>All employees</b>	Obligated to act in a manner required to prevent risks, follow the Company policies and report any observed risks to their supervisors.

### INTERNAL AUDITING

In compliance with the Finnish code of corporate governance, internal auditing and risk management seek to ensure that the Company's activities are effective and efficient, the information used by the management when making decisions is reliable, the Company policies are followed, implementation of risk management measures complies with the

risk management policy, and the Company complies with all laws and regulations. Internal auditing supports the Board's management task.

The Company does not have a special internal audit organisation. Instead, internal auditing is integrated as part of the Company's management and reporting system. Internal auditing is implemented by the Board of the Company, operative management and employees. Implementation of internal auditing is ensured by paying special attention in organising activities, the competence of personnel, operational guidelines, reporting and auditing scope.

The Board ensures that the auditing of the Company's accounting, asset management and risk management has been properly organised and complies with the relevant legislation. Furthermore, the Board ensures - together with the President and CEO - that the Company conducts its business in compliance with its values. The Board approves the risk management policy and all guidelines pertaining to internal auditing and the code of governance. If necessary, the Board may request external auditors or other service providers to conduct an internal audit.

The President and CEO is in charge of the daily management of the Company in compliance with the Board's instructions. The President and CEO provides a basis for internal auditing by managing and guiding top management and monitoring how executives audit their own activities.

The Company's Management Team ensures that different activities of the Company comply with the internal auditing guidelines and practices. Risk management, financial administration guidelines and financial administration practices are of particular importance.

Under the management of the Company CFO, financial administration assists in creating proper risk management and financial management auditing practices and monitors the sufficiency and practical functionality of the auditing measures.

The President and CEO, the members of the Management Team and managers of the subsidiaries have the responsibility for legislative compliance of the accounting of their areas of responsibility as well as compliance with the Company's operational guidelines. Auditors annually check the accounting and administration of the subsidiaries. Audits of all the Group companies are performed by authorised accounting firms. The auditor of the parent company has the responsibility for coordinating audit focus areas, analysing audit observations from the perspective of the consolidated financial statements and communication with the Group's financial administration. The internal auditing structure of the Group companies is taken into account when deciding upon the scope of the audit. Annual detailed reports on auditing results are provided to Group management and the Board.