

PROHA PLC**Corporate Governance Statement 2010**

This Corporate Governance Statement has been composed in accordance with Recommendation 51 of the Finnish Corporate Governance Code 2010 of the Finnish Securities Market Association, and Chapter 2, Section 6 of the Finnish Securities Market Act. The Finnish Corporate Governance Code 2010 can be found on the Association's website, www.cgfinland.fi. The Corporate Governance Statement is issued separately from the company's annual report.

General Principles

Proha Plc is a public limited company registered in Finland, with its headquarters in Espoo, Finland. Proha Group (Proha) is comprised of the parent company Proha Plc, its three Finnish subsidiaries, and several foreign subsidiaries.

In its decision-making and governance, Proha complies with the company's Articles of Association, the Finnish Companies Act, and other applicable legislation. In addition, and with the exceptions covered in these principles, the company complies with the recommendations of NASDAQ OMX Helsinki Ltd, the Central Chamber of Commerce of Finland, the Confederation of Finnish Industries EK concerning corporate governance, and NASDAQ OMX Helsinki Ltd's Guidelines for Insiders. Proha's subsidiaries comply with local legislation.

Proha complies with the Finnish Corporate Governance Code 2010 issued by the Finnish Securities Market Association with the following exception:

Recommendation 14: The majority of the Board is not independent of the company. Of the four Board members, the Board's Chair Hannu Vaajoensuu and the Vice-Chair Antti Manninen are independent of the company and its significant shareholders.

The Board does not have any designated board committees. The establishment of committees has not been deemed necessary due to the size of the company and the Board.

Tasks and Responsibilities of Corporate Bodies

The General Meeting of Shareholders, the Board of Directors, and the company CEO are responsible for the administration of Proha. Their general tasks and responsibilities are determined as specified by the Finnish Companies Act. Assisted by the Group's Executive Team, the company CEO is responsible for Group-level operative activity.

General Meeting

The General Meeting is the highest decision-making body of the company. An Annual General Meeting is organized once a year on a date, set by the Board of Directors, that falls within six months of the end of the financial period. The company may convene an Extraordinary General Meeting when necessary. In accordance with the Articles of Association, the General Meeting is to be held at the company's registered office in Espoo, or in Helsinki or Vantaa. Notice of the General Meeting and a proposal of the agenda of the meeting are published as a stock exchange release and on the company's web site.

The Annual General Meeting discusses the following matters:

- approval of the income statement and balance sheet
- measures occasioned by the profit or loss shown in the balance sheet
- discharging members of the Board of Directors and the CEO from liability
- number of Board members and their appointment
- selection of the auditor
- remuneration of the Board of Directors and auditors
- other matters mentioned in the notice of the meeting

Board of Directors

The Board of Directors of Proha Plc is responsible for the administration and the proper organization of the company's operations. The Board supervises the company's operations and management and decides on significant matters concerning the company's strategy, organization, financing, and investments. The duties and responsibilities of the Board are determined by the Articles of Association and the Finnish Companies Act. The Board annually draws up a charter that specifies the Board's meeting procedures and duties.

In 2010, Proha's Board of Directors had four members: Hannu Vaajoensuu (Chair), Antti Manninen (Vice-chair), Ilari Koskelo, and Leena Mäkelä. The Board convened 18 times and the attendance rate was 98.6%.

In accordance with the charter of the Board, the duties of the Board are as follows:

- To assume responsibility for tasks specified as obligatory for the company's Board of Directors by the Finnish Companies Act, the Articles of Association, or elsewhere
- To approve the company's strategy and objectives
- To approve company values and ethical principles
- To approve the company's management system and organizational structure
- To approve the company's operating plan and essential changes to it
- To approve the company's internal control and risk management policies and enforce them
- To approve the company's interim reports, financial statements, and annual report
- To assume responsibility for communications related to financial market outlook
- To approve the company's financing policy
- To assume responsibility for the development of the company's market value and specify the company's dividend policy
- To approve business acquisitions and divestments and significant individual investments and contingent liabilities
- To approve the company's incentive system and policy
- To appoint and discharge the company's top management and decide on their terms of employment and remuneration
- To decide on the appointment of the deputy to the CEO
- To decide on the establishment of subsidiaries
- To assume responsibility for the development of the company's corporate governance
- To review the operations of the Board of Directors annually
- To review the CEO's performance and to provide feedback

In accordance with the Articles of Association, the Proha Board of Directors has a minimum of three and a maximum of eight regular members. The Board members are elected by the Annual General Meeting for one term of office at a time. The term of office begins at the end of the General Meeting that elected the Board and expires at the end of the first Annual General Meeting of Shareholders following the election. The Articles of Association place no restrictions on the authority of the General Meeting to elect members to the Board. The Board of Directors selects a Chair and a Vice-Chair from among its members, and the Board of Directors is deemed to have a quorum present when more than half of its members are present.

In addition to matters to be resolved, the Board of Directors, in its meetings, is provided with current information on the Group's operations, financial situation, and risks.

The Board of Directors convenes once a month according to an agreed schedule. The Board may convene more often when necessary. Minutes are kept for all meetings.

CEO

The Board of Directors appoints the company CEO. The CEO is in charge of the company's business 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 Team. Ilkka Toivola was appointed as the Group's CEO November 16, 2009.

Proha Executive Team

The Group's Executive Team is appointed by the Board of Directors.

The Group's Executive Team assists the CEO in the operative management of the company, prepares items for the Board and the CEO, and plans and monitors the operations of the business units. The Executive Team convenes at least once a month in the relevant format and combination. The CEO acts as the Chair of the Executive Team.

Members of the Executive Team in 2010 were Ilkka Toivola (CEO), Mike Critch (Executive Vice President, Dovre), Arve Jensen (Executive Vice President, Dovre), Heidi Karlsson (Senior Vice President, Corporate Functions) as of June 1, 2010, Sirpa Haavisto (CFO), Petri Karlsson (Managing Director, Camako), Juha Pennanen (Managing Director, Safran) as of June 1, 2010, and Svein Blomsø (Managing Director, Safran) until May 31, 2010.

Internal Audit

The Group's internal audit assesses and ensures the sufficiency and effectiveness of the Group's internal control. It also assesses the efficiency of the Group's various business processes, the sufficiency of the Group's risk management procedures, and compliance with internal guidelines. The company CEO and CFO are responsible for internal audit. Internal audit is part of the Group's financial organization.

External Audit

In accordance with the Articles of Association, Proha Plc has a minimum of one and a maximum of two auditors accredited by the Central Chamber of Commerce (Authorized Public Accountants). Should the General Meeting appoint only one principal auditor and should this auditor not be an audit corporation or should the General Meeting deem it otherwise necessary, the Meeting may choose to appoint a minimum of one and a maximum of two deputy auditors. The term of the auditors expires at the end of the first Annual General Meeting of Shareholders following their selection. The Board's proposal for the auditor is disclosed in the notice of the General Meeting.

The primary purpose of an audit is to verify that the Financial Statements give accurate and adequate information concerning the Group's result and financial position for the financial period. In addition, the auditors report to the Board of Directors on the ongoing auditing of administration and operations. In 2010, Proha's auditor was Ernst & Young Oy, Authorized Public Accountants, with Ulla Nykky, A.P.A. as the auditor in charge.

Internal Control and Risk Management Systems Associated with Financial Reporting

The ultimate responsibility for accounting and financial administration lies with Proha's Board of Directors. The Board is responsible for internal control, and the CEO is responsible for the day-to-day organization and monitoring of the control system. The steering and monitoring of business operations is based on the reporting and business planning system covering the entire Group. The CEO and CFO report monthly to both the Board and the Executive Team on the Group's situation and development.

Risk Management and Internal Audit System

The Group's risk management is guided by legal requirements, business requirements set by the owners of the company, and the expectations of the customers, personnel, and other important stakeholders. The goal of risk management is to identify and to acknowledge systematically and comprehensibly risks involved in the company's operations and to make sure that these risks are appropriately accounted for when making business decisions.

The company's risk management supports the achievement of strategic goals and ensures the continuity of business operations. Proha takes risks that are a natural part of its strategy and objectives. The company is not ready to take risks that might endanger the continuity of operations, that are uncontrollable, or that may significantly harm the company's operations.

In accordance with Proha's risk management procedures, the Board of Directors receives an annual report of the most significant risks discovered during the assessment. The Board analyses the risks from the point of view of shareholder value. The most significant risks that have come to the Board's knowledge in 2010 are associated with gaining product leadership and maintaining the company's competitiveness in the changing competitive situation, global frame agreements, new market openings, growth and profitability of the Group's operations in Norway, and estimating the effects of currency fluctuations.

Internal control is a process performed by the company's Board of Directors, operative management, and other employees to obtain a reasonable certainty of the attainment of goals. Proha's internal control framework is based on Proha Authorization Matrix that is approved by the Board. The framework specifies the authority and the responsibilities of the management. The highest supervisory body of Proha's internal control is the Board. The implementation of internal control measures is primarily supervised by the CEO and SVP, Corporate Functions, who report to the Board.

Control Environment

The goal of Proha's internal control is to support the implementation of the Group strategy and to ensure compliance with official regulations. The company's operating culture consists of the steering and control of the company's operations by the Board of Directors, the leadership style of the company's management, the company's organizational structure and management system, effective utilization of information technology, and the employees' competences and development.

Risk Assessment

The aim of financial reporting is to ensure that assets and liabilities belong to the company; that all rights and liabilities of the company are presented in the financial statements; that items in the financial statements have been classified, disclosed and described correctly; that assets, liabilities, income, and expenditure are entered in the financial statements at the correct amounts; that all the transactions during the reporting period are included in the accounts; that transactions entered in the accounts are factual transactions; and that the assets have been secured.

The company's risk management process includes an annual identification and analysis of risks related to financial reporting. In addition, the aim of the process is to be able to analyze and report all new risks immediately as soon as they have been identified. Taking into account the quality and extent of the Group's business operations, the most significant risks related to the reliability of financial reporting are associated with revenue recognition, processing of bad debt provision, capitalization of product development expenses, and impairment testing of assets (including goodwill and capitalized product development expenses).

Control Functions

The correctness and reliability of financial reporting are ensured through compliance with Group policies and guidelines. Control functions that ensure the correctness of financial reporting include controls related to accounting transactions, the selection of and compliance with the accounting principles, information systems, and fraud controls.

The revenue recognition of the Group is under the supervision of the centralized finance function. The revenue recognition is based on the required sale and delivery documents.

The amount of the Group's bad debt provision is checked quarterly. This calculation is based on the ageing of trade receivables by sales company.

The amount of the Group's product development expenditure that is to be capitalized is checked quarterly. The capitalization calculation is based on project-specific monitoring of R&D activities. The Group has a Development Board which decides on the capitalization and possible impairment of R&D expenses.

The company's goodwill is tested for impairment during the last quarter of the financial year. Key variables used in the calculations are the estimated change rates of net sales and costs. In addition, indications of impairment are continuously monitored. If indications of impairment are detected, a separate testing is performed. In calculating the company-specific deferred tax assets, the effective tax rate of each country is applied. Deferred tax assets have not been recognized for Group's losses, as it has been estimated that it may not be possible to utilize the losses in the near future.

The performance of business operations and attainment of annual goals is assessed monthly in Executive Team and Board meetings. Monthly management and Board reporting includes actual and estimated figures and the goals and actual results of previous periods. Financial reports generated for the management are used for monitoring certain key indicators associated with the development of sales, profitability and trade receivables on a monthly basis.

In accordance with its business strategy, Proha has complemented its organic growth with acquisitions. In making acquisitions, the company aims to follow due diligence and utilize its internal and external competence in the planning phase (e.g. due diligence), takeover phase, and when integrating acquired functions into the company's operations.

Communication

The purpose of management reporting is to produce up-to-date, relevant information for decision-making. The Group's financial administration provides the Group's separate units with monthly reporting guidelines and is in charge of any special reporting instructions related to budgeting and forecasting. The Group's financial administration distributes, on a regular basis, information on financial reporting-related processes and procedures. Internal control tasks are carried out according to this information. When necessary, financial administration also arranges targeted training for the organization's personnel on the procedures associated with financial reporting and changes in them. The Group's investor relations maintains, in cooperation with the Group's financial administration, the guidelines on the disclosure of financial information, including, for example, the communication responsibilities of a publicly listed company.

Monitoring

Monitoring refers to the process of assessing Proha's internal control system and its performance in the long term. Proha continuously monitors its operations through various assessments, such as internal audits, external audits, and supplier audits carried out by customers. Proha's management monitors internal control as part of its day-to-day management. The management is responsible for ensuring that all operations comply with applicable laws and regulations. The Group's financial administration monitors compliance with the financial reporting processes and control. The financial administration also monitors the correctness of external and internal financial reporting. The Board of Directors assesses and ensures the appropriateness and effectiveness of Proha's internal control and risk management.

Proha's internal control is also assessed by the company's auditor. The external auditor verifies the correctness of external annual financial reporting. The most significant observations and recommendations of the process audit according to the auditing plan are reported to the Board of Directors.

Compensation

Compensation Governance

The General Meeting decides on the remuneration paid to the Board of Directors and auditors. The Board decides on the service terms and conditions of the CEO, specified in writing. The compensation principles of the top management are decided by the Board. The Board annually approves the personnel incentive scheme. Management compensation is based primarily on the result and net sales of the unit in question.

The Board decides on the compensation paid to the CEO. The CEO decides on the compensation paid to the management. These principles are applied to the Company's subsidiaries.

Board of Directors

The General Meeting decides on the remuneration paid to the Board of Directors and auditors.

The Annual General Meeting on March 17, 2010 decided that the Chair of the Board be paid EUR 30,000 and other members of the board EUR 20,000 for the term which will last to the next annual general meeting in 2011. The compensation is paid quarterly. Deviating from the Board of Directors' proposal, the Annual General Meeting decided that notwithstanding the above, such members of the board who at the moment of election are employed by Proha Group will receive in remuneration EUR 300 per meeting. In accordance with the decision, actual travelling expenses are remunerated.

According to the register maintained by Euroclear Finland Ltd, of the members of the Board Hannu Vaajoensuu held 545,000, Antti Manninen 500,500, Ilari Koskelo 4,262,590, and Leena Mäkelä 8,435 shares in Proha Plc either in person and/or through a company or a family member on December 31, 2010.

CEO

The Board decides on the service terms and conditions of the CEO, specified in writing. The service terms and conditions of the current CEO, Ilkka Toivola, consist of a EUR 150,000 annual salary, performance-based bonus as decided by the Board, car and phone benefits, and a life insurance. The contract includes pension benefits pursuant to the Employees' Pensions Act (TyEL). The contract does not specify the CEO's retirement age. Should the company decide to give notice, the CEO is entitled to severance pay in addition to the salary for the period of notice. Had the company given notice before December 31, 2010, the severance pay would have been equivalent of 6 months' fixed salary. As of January 1, 2011, the severance pay is equivalent of 9 months' salary.

The CEO's bonus is based on the company's, or its individual units', performance and profitability or the successful completion of organizational measures. These objectives are specified half-annually. The CEO's bonus in 2010 may not exceed EUR 112,500 over 12 months.

In accordance with the CEO's terms of contract, the CEO has been granted:

- On January 15, 2010, 100,000 option rights under the 2007 C-series option plan (marking price EUR 0.37).
- On May 27, 2010, 400,000 option rights under the 2010 A-series option plan (marking price EUR 0.33).

Based on the information obtained from Euroclear Finland Oy, on December 31, 2010, Proha's CEO Ilkka Toivola held 218,000 shares in Proha Plc.

Executive Team

The Executive Team's remuneration consists of total salary (including salary in money and fringe benefits, i.e. car and phone) as well as long- and short-term incentives. Short-term incentives include a possible semi-annually bonus that is based on performance and decided by the Board. Long-term incentives include the company's option plans, to which all members of the Executive Team are entitled. The Board decides on the option plans. Proha currently grants option rights under its 2007C and 2010 option plans. Proha has not taken out any additional pension insurance for the members of its Executive Team.

The Board approves semi-annually the terms and criteria of the Executive Team's short-term incentives (or bonuses), which are paid semi-annually. The possible bonuses are based on financial targets, such as results before interest and tax (EBITA) and achieving sales on either Group and/or business unit level. In addition to this, there can be either individual or team objectives. Excluding the CEO, the annual short-term incentives are 20-50% of the base salary for the Executive Team members.

In 2010, the total salaries and benefits of the Executive Team members were EUR 862,000, excluding the company CEO. Performance bonuses totaled EUR 127,000.

Based on the information obtained from Euroclear Finland Oy, on December 31, 2010, Proha's Executive Team, excluding the CEO, held 269,000 shares in Proha Plc.

Insider Administration

Proha's insider guidelines comply with the NASDAQ OMX Helsinki Guidelines for Insiders effective as of January 1, 2006. The insider guidelines forbid insiders, including persons under their guardianship and companies where they exercise control, to trade in shares or option rights issued by the company for a period of 30 days prior to the publication of an interim report or a financial statements bulletin (the so-called 'closed window').

The company's public insiders include members of the Board, CEO, auditors, the auditor in charge of the company of public accountants, and those members of the Executive Team that are responsible for key business areas. In addition, the company has a company-specific insider register that includes those who regularly receive insider information through their work. Persons, who are involved in acquisitions or other projects that have an effect on the valuation of the company's shares, are considered project-specific insiders and are subject to a temporary trading suspension.

The company's Board is in charge of the guidance and supervision of insider issues and also maintains the project-specific insider registers if necessary. The SVP, Corporate Functions, is responsible for the company's permanent insider register. The insider register of Proha Plc is maintained by Euroclear Finland Ltd (previously the Finnish Central Securities Depository Ltd). The up-to-date shareholdings of the insiders can be seen in Euroclear Finland Ltd's customer service point in Helsinki, Finland (Urho Kekkosen katu 5 C). The company also maintains a list of insiders on its website.

Members of the Board**Hannu Vaajoensuu**

Born 1961, KTM

Full-time Basware's chairman of the Board 2005-

Key employment: Basware Plc: CEO 1999–2004, manager 1990–1999, consultancy work for the company 1987–1990

Key positions of trust:

Chairman of the board: Basware Plc, Efecte Oy, Profit Software Oy

Vice chairman of the board: Comptel Oyj

Member of the board: Biocomputing Platforms Ltd Oyj, Inventure Oy, Nervogrid Oy

Antti Manninen

Born 1961, KTM

Main occupation investments and board work

Key employment: Rio Group Oy: Chairman of the Board 1998-, Megavision S.A. Ltd., Investment Manager 1993--1998, Basware Oy: Researcher 1991--1992

Key positions of trust:

Chairman of the board: Rio Group Oy

Member of the board: Fenno Kvantum Oy

Member of the board: Event Management Group Oy

Ilari Koskelo

Born 1959, M.Sc., MBA, Bachelor of Science
Navdata Oy, Managing director

Key employment: Navdata Oy: Managing director and founder, Javad Positioning Systems Inc. and Global Satellite Solutions Inc.: Founder, Geo/Hydro Inc.: Project manager

Key positions of trust:

Chairman of the board: Navdata Oy

Leena Mäkelä

Born 1973, DI
Consultant, Camako Oy

Key employment: Artemis Finland Oy / Proha Plc: product manager, project manager, consultant 1997-2008

Proha's Corporate Governance Statement 2010 was approved by the Board of Directors on January 15, 2011.