

# Annual Report 2013

Corporate Governance Statement

Reporting Period 1.1.-31.12.2013



Elektrobit



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# Corporate Governance Statement

## Reporting Period Jan. 1–Dec. 31, 2013

### Introduction

The governance of Elektrobit Corporation (hereinafter "Company") is determined by the Company's Articles of Association, the laws of Finland (such as the Finnish Companies Act and Securities Market Act) and the Company's Corporate Governance Code. The Company follows with some exceptions the Finnish Corporate Governance Code 2010 prepared by the Finnish Securities Market Association ("Finnish Governance Code"). The Governance Code may be viewed, inter alia, at the Finnish Securities Market Association website at [www.cgfinland.fi](http://www.cgfinland.fi).

The Company has departed from an individual recommendation of the Finnish Governance Code. The departure concerns the gender composition of the Board (Recommendation 9) as explained in further detail below. According to the Finnish Governance Code, one element of a diverse composition of the board is to have both genders represented on the board. The Company has departed from this recommendation, as the Annual General Meeting held on April 11, 2013 did not elect both genders to the Board of Directors. The proposal adopted by the Annual General Meeting regarding the composition of the Board was made by shareholders who represented approximately 49.9% of the shares of the Company. Such shareholders were informed about the content of Recommendation 9 by the Board of Directors of the Company. According to the information received, the shareholders who made the proposal, on the one hand, wanted to emphasize the continuity of the Board composition due to foreseen focus areas in the Board work and did not, on the other hand, in view of the size and nature of the Company's operations, consider it appropriate to increase the number of the Board members from the previous five members. The management of the Company and the composition of the Board are thereby based on strong ownership steering and, thus, the main shareholders have a significant representation in the Company's Board. The Company does not have a nomination committee.

This Corporate Governance Statement has been made according to recommendation 54

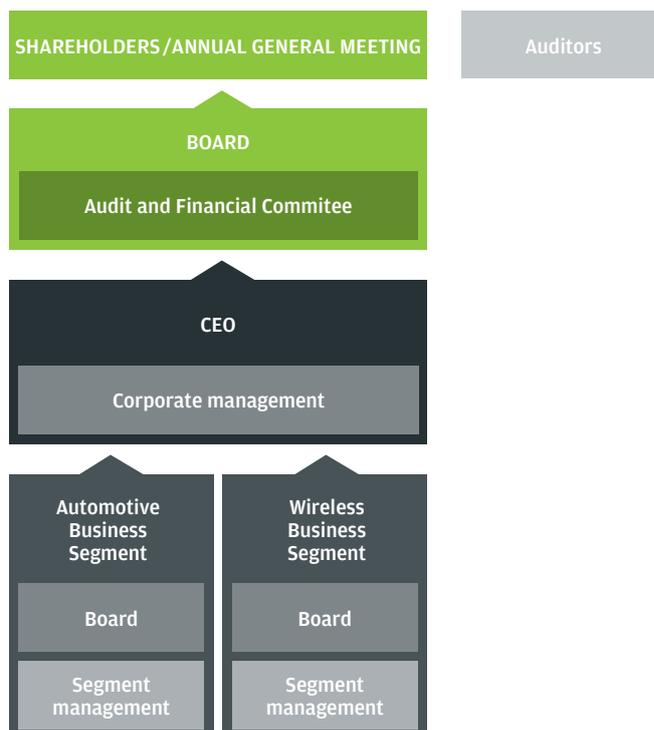
and the applicable legislation. This Statement is made separately from the Report by the Board. The Board's Audit and Finance Committee and the Company's auditor have reviewed this Statement.

The statutory governing bodies of the Company are the Shareholders' meeting, Board of Directors, Chief Executive Officer and the Auditor. Other group management and the below described business segments' management support the statutory governing bodies of the Company. The Company's domicile is Oulu.

The operative business of Elektrobit Group takes place in business segments (sub-groups) formed branch-by-branch. The external reporting of the Group is also based on these business segments which are the Automotive Business Segment and the Wireless Business Segment. The Presidents of the sub-group's parent com-

panies report the segment business to the Board of Directors of each sub-group's parent company ("Segment Board"). Segment Boards comprise the Company's CEO as the Chairman, and one or more Board members of the Company and possibly also one or more external expert members. Segment Board members are elected based on preparation of the Company's Board. Operative business decisions are made in each Business Segment. The Company's Corporate Governance Code and this Corporate Governance Statement are publicly available at the Company's website at [www.elektrobit.com](http://www.elektrobit.com).

### The Governance of Elektrobit Corporation



## The Board of Directors and the Composition and Operation of Committees Established by the Board

### Board of Directors

The Board of Directors is responsible for the Company's governance and proper organization of the operations. The Board of Directors comprises three to seven (3-7) members and in addition it may have one to three (1-3) deputy members. The Annual General Meeting shall elect the members of the Board of Directors for a term which expires at the end of the following Annual General Meeting. The number of terms for the members of the Board of Directors is not limited. The Board of Directors selects a Chairman among its members.

The Annual General Meeting held on April 11, 2013 elected five (5) members to the Board of Directors. The following members of the Board of Directors were elected: Jorma Halonen, Juha Hulkko, Seppo Laine, Staffan Simberg and Erkki Veikkolainen. The Board of Directors elected

Seppo Laine as the Chairman of the Board of Directors at its assembly meeting on April 11, 2013. The Board had the same composition already from the beginning of the year 2013 until the Annual General Meeting. The Board of Directors decided in its assembly meeting held on April 11, 2013 to elect Staffan Simberg (Chairman of the Committee), Seppo Laine, Authorized Public Accountant and Erkki Veikkolainen as members of the Audit and Finance Committee.

According to the Finnish Governance Code, one element of a diverse composition of the board is to have both genders represented on the board (Recommendation 9). The Company has departed from this recommendation, as the Annual General Meeting held on April 11, 2013 did not elect both genders to the Board of Directors. The proposal adopted by the Annual General Meeting regarding the composition of the Board was made by shareholders who represented approximately 49.9% of the shares of the Company. Such shareholders were informed about the content of Recommendation 9 by the Board of Directors of the Company. According to the information received, the shareholders who made the proposal, on the one hand, wanted to emphasize the continuity of the Board

composition due to foreseen focus areas in the Board work and did not, on the other hand, in view of the size and nature of the Company's operations, consider it appropriate to increase the number of the Board members from the previous five members. The management of the Company and the composition of the Board are thereby based on strong ownership steering and, thus, the main shareholders have a significant representation in the Company's Board. The Company does not have a nomination committee.

A corporate governance target is that at least half of the members of the Board of Directors are independent from immediate Company interest. In addition, at least two of the Directors representing this majority shall be independent from significant shareholders of the Company. On April 11, 2013 Jorma Halonen, Seppo Laine, Staffan Simberg and Erkki Veikkolainen are considered independent members of the Board as regards both the Company and its significant shareholders. Juha Hulkko is not independent from significant shareholders as his ownership in the Company exceeds 10% of the Company's share capital.

#### Chairman of the Board of Directors

##### **Seppo Laine**

b. 1953, Authorized Public Accountant

Full-time occupation: Professional Board Member, Authorized Public Accountant

Positions of trust: Elektrobitt Corporation, Member of the Board 2008-, Member of the Audit and Financial Committee 2009-, Elektrobitt Automotive GmbH, Member of the Board 2010-. Joutsen Media Oy, Chairman of the Board 2012-. Marpek Oy, Member of the Board 2009-. Oulu ICT Oyj, Member of the Board 2008-. Cor Group Oy, Member of the Board 2009-. Paikallis-Sähkö Oy, Member of the Board 2010-, Chairman of the Board 2013-. Pohjaset Oy, Chairman of the Board 2013-. IK Group Oy, Member of the Board, 2013-.

Previous work history: Elektrobitt Corporation, CFO 2000-2007. Auditing Company Ernst & Young Ltd., Director at the Oulu regional office and International Partner 1995-2000. Oulun Laskenta Oy, President 1979-1995. Turun Muna Oy, Jaakko Tehnyt, Financial Manager 1977-1979. Tammerneon Oy, Financial Manager 1975-1977.

Holdings: Holds 2,120,051 shares in Elektrobitt Corporation.

Independent as regards both the Company and its significant shareholders.

#### Other members of the Board of Directors

##### **Jorma Halonen**

b. 1948, Bachelor of Science (Economics)

Full-time occupation: Professional Board Member

Positions of trust: Elektrobitt Corporation, Member of the Board 2009-. Elektrobitt Automotive GmbH, Member of the Board 2011-. Permira Nordic, Member of the Board 2009-. TMD Friction Holding GmbH, Chairman of the Board 2009-.

Previous work history: AB Volvo, Vice President and Volvo Group, Vice President 2004-2008. Volvo Truck Corporation, Göteborg, Sweden, President and CEO 2001-2004. Scania Latin America, Sao Paulo, Brasil, President and CEO 1998-2001. Scania Latin America, Sao Paulo, Brasil, Vice President 1996-1998. Oy Scan-Automotive Ab, Oy Scan-Auto Ab (Scania importer) and Oy Saab-Auto Ab, Helsinki, Finland, President and CEO 1990-1996. Leading positions in different companies within computer and telecommunications industries 1972-1990.

Holdings: Holds 21,000 shares in Elektrobitt Corporation.

Independent as regards both the Company and its significant shareholders.

## Elektrobit Corporation

### BOARD OF DIRECTORS



From left to right:  
Staffan Simberg,  
Erkki Veikkolainen,  
Seppo Laine,  
Juha Hulkko and  
Jorma Halonen.

#### Juha Hulkko

b. 1954, M.Sc. (Eng.), eMBA, Dr.tech.h.c.

Full-time occupation: Professional Board Member

Positions of trust: Elektrobit Corporation, Member of the Board 2006-. Gamga Oy, Chairman of the Board 1999-. Spinning Wire GmbH, Member of the Board 2011-. Elproto Oy, Member of the Board and CEO 2011-. Elektrobit Technologies Ltd., Member of the Board 2012-.

Previous work history: Elektrobit Corporation, CEO 2005-2006, Chairman of the Board 2002-2005 and 2008-2010. Elektrobit Ltd., one of the founders 1985, CEO 1985-1995, Chairman of the Board 1995-2002.

Holdings: Holds 27,301,862 shares in Elektrobit Corporation.

Hulkko is independent from the Company but not from its significant shareholders as his holdings exceed 10 % of the Company shares.

#### Staffan Simberg

b. 1949, MBA

Full-time occupation: Professional Board Member, Management Consultant

Positions of trust: Elektrobit Corporation, Member of the Board 2008- and Chairman of the Audit and Financial Committee 2010-. Elektrobit Technologies Ltd., Member of the Board 2011-. Nordic Vehicle Conversion AB, Member of the Board 2011-. Silva Group AB, Member of the Board 2011-. Endomines AB (publ), Member of the Board and Audit Committee 2011-, Chairman of the Board 2012-. Valmet Automotive Group, Advisor of the Board of Directors 2014-. Simberg & Partners Oy, Chairman of the Board.

Previous work history: Metso Group, Industrial Advisor 2011. Cargotec Oyj, Industrial Advisor 2009, 2012. Metso Panelboard, Chairman 2008-2009. Landis & Gyr AG, Member of the Advisory Board 2007-2013. Enermet Group, Managing Director 2005-2007. Siar-Bossard, Associated Partner 1992-1994. Leading positions at Nokia 1978-1991.

Holdings: Corporation controlled by Simberg holds 450,000 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

#### Erkki Veikkolainen

b. 1952, M.Sc. (EE), eMBA

Full-time occupation: Mevita Invest Oy, CEO

Positions of trust: Elektrobit Corporation, Member of the Board 2008-. Elcoflex (Suzhou) Co. Ltd, Member of the Board 2007-. Elcoflex Oy, Chairman of the Board 2006-. Maustaja Oy, Member of the Board 2006-. Aplicom Oy, Member of the Board 2005-. Mecanova Oy, Member of the Board 2005-.

Previous work history: Elektrobit Corporation, Executive Vice President, Contract R&D and Test Business Units 2002-2003. Elektrobit Technologies Ltd., Managing Director 2001-2003. Elektrobit Ltd., Vice President, Business Development 1998-2001. Nokia Mobile Phones, various positions 1985-1998, latest Vice President.

Holdings: Holds 9,388,719 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

## Description of Activities

The Board of Directors has defined a working order and evaluates its performance annually. The Board of Directors shall implement the decisions of the General Meeting. The Board of Directors supervises the operations and management. The Board of Directors makes decisions on the Company's guiding principles for operation, strategy and budget. The Board of Directors decides on mergers and acquisitions and other strategic alliances as well as significant investments and significant matters regarding organization and finance. The Board of Directors supervises that the group companies' accounting and financial management is duly organized. The Board of Directors appoints the CEO and possible Deputy for him or her as well as approves the Company's organization structure.

The CEO, CFO and Chief Legal Officer (who acts as secretary of the Board of Directors) attend the meetings of the Board of Directors. The presidents of the business segments provide their business segment reviews and report on the strategy progress in last Board meeting of each year quarter. Other Group management attend the meetings when necessary or

upon invitation by the Board of Directors. The Chairman of the Board approves the agendas of the meetings of the Board of Directors. The agendas are prepared by the CEO and the Chief Legal Officer.

In 2013, the Board convened 16 times. The Board members attended to the meetings as follows:

Jan. 1-Dec. 31, 2013	Board	Audit and Finance committee
Seppo Laine	16/16	6/6
Jorma Halonen	14/16	
Juha Hulkko	15/16	
Staffan Simberg	16/16	6/6
Erkki Veikkolainen	16/16	4/4

An annual clock, according to which the regular subjects to be handled are determined, is applied in the Board's work. In addition to the regular subjects of the annual clock, the most important subjects of the Board during the year were still profitability improvement of the Group, development of a segment based management system and business portfolio.

The Annual General Meeting decides on the compensation of the members of the Board of Directors and the compensations can be publicly reviewed from such Company's website at [www.elektrobit.com](http://www.elektrobit.com).

## The Board Committees

The proper function of the corporate governance of a company requires that Board work be organized as efficiently as possible. For this reason the Company established an Audit and Financial Committee.

The Directors on the committee can concentrate on the matters delegated to the committee more extensively than the entire Board of Directors. The purpose of the committee is to enhance the efficient preparation of matters within the competence of the Board, increase transparency and ensure the quality and efficiency of the decision-making of the Board.

The committee assists the Board by preparing matters falling within the competence of the Board. The Board remains responsible for the duties assigned to the committee. The committee has no autonomous decision-making power, and thus the Board makes the decisions within its competence collectively.

## Annual Clock FY 2013 Board of Directors' Schedule and Agenda Items

**DECEMBER (3 HOURS)**

- CEO Target Setting for the next year
- Next year Plan and Budget Approval

**NOVEMBER (2 HOURS)**

- Budget Snapshot for Comments

**OCTOBER (1 DAY)**

- Q3 Interim Report Approval
- Management Successor Plans Review
- EB Compensation policy and structure review
- Budget Target Setting

**SEPTEMBER (2 HOURS)**

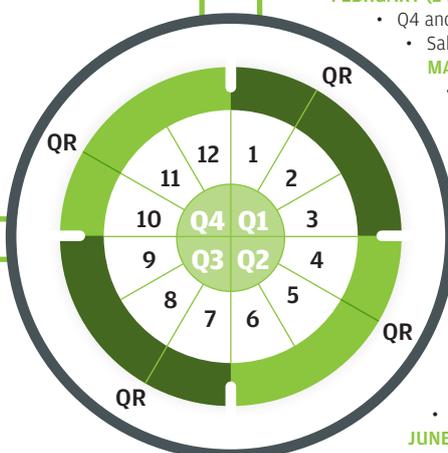
- Business review

**AUGUST II MEETING (1 DAY)**

- Portfolio review
- New business opportunities
- Investor relations strategy review
- Next Year Annual Calendar & Clock Approval
- EB Values review

**AUGUST I MEETING (2 HOURS)**

- Q2 Interim Report Approval



**JANUARY (1 DAY)**

- Meeting with Auditors
- Q4 and Financial Statement Review
- CEO's Performance Review from the past year
- Strategy Health Check, Vision, Strategy and LRP Guidance
- Portfolio review
- Corporate Governance Statement Review
- Risk Management Policy Review
- Board Self-Assessment Reporting and Action Plan
- Proposals to General Meeting

**FEBRUARY (2 HOURS)**

- Q4 and Financial Statement Approval
- Salary increase budget for information

**MARCH I (1 DAY)**

- Customer Satisfaction Survey Results and Actions brief
- Personnel Survey Results and Actions brief

**MARCH II (2 HOURS)**

- Board of Directors' Assembly Meeting

**APRIL (1 DAY)**

- Q1 Interim Report Approval
- Business & Group level Support Function Strategies and LRP Approval

**MAY (2 HOURS)**

- Business review

**JUNE (2 HOURS)**

- Business review

QR: Quarterly Report

A committee shall regularly report on its work to the Board. The reports shall include at least a summary of the matters addressed and measures taken by the committee.

The central duties and operating principles of the Audit and Financial Committee are described below. The Annual General Meeting decides on the compensation of the members of the Board committee and such compensations can be publicly reviewed from the Company's website at [www.elektrobit.com](http://www.elektrobit.com).

#### The Audit and Financial Committee has the following duties:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal audit, if applicable, and risk management systems;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which are included in the Company's corporate governance statement;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm and particularly the provision of related services; and
- to prepare the proposal for resolution on the election of the auditor.

The Chairman and the members of the Audit and Financial Committee are appointed by the Board of Directors of the Company. At least one committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company. The Board of Directors decided in its assembly meeting held on April 11, 2013 to elect Staffan Simberg (Chairman of the Committee), Seppo Laine, Authorized Public Accountant and Erkki Veikkolainen as members of the Audit and Finance Committee. All members of the committee are independent from immediate interest of both the Company and its significant shareholders and they have long-term experience in business management.

In addition to committee members, other regular participants to the committee meetings are CEO and CFO of the Company and optionally external auditors. Further, the committee members may meet the external auditors without the operative management being present in such meetings.

In 2013, the Audit and Financial Committee convened 6 times to ordinary meetings. The Committee has evaluated, prepared and reviewed the following subject matters during the financial period of January 1, 2013 - December 31, 2013:

- Financial Statements of 2012;
- Interim Reports of 2013;
- Annual audit plan for 2013;
- Observations based on auditing during the financial period;
- Observations by the internal control;
- Cash flow monitoring and evaluation of sufficiency of financing;
- Budget target setting and budgeting process;
- Sale of Test Tools product business and its effects on the result, balance sheet and financing status of the Group;
- Group legal structure related questions;
- Tender process on auditing services for the Group in 2014;
- Repayment of capital to shareholders; and
- Impairment testing of the subsidiary shares and goodwill.

During 2014 the Committee's focus areas are the further improvement of the division of work between the Group's and the business segments' financial administration and the resourcing and skills of the business segments, the improvement and assessment of financial processes of the rapidly grown e.solutions GmbH, a company jointly owned by EB and Audi Electronics Venture GmbH, the further improvement of financial reporting to serve the interests of the investors as well as the improvement of the management of different earning logics and modeling the related financial risks, which were already part of the focus areas in 2013.

### Chief Executive Officer

The CEO is in charge of the operative management of the Company in accordance with the Finnish Companies Act, the Articles of Association as well as the instructions and orders given by the Board of Directors. The CEO is responsible for the preparation of the Board meetings and implementation of any decisions made therein. Further, the CEO is responsible for ensuring that the Company's accounting methods comply with the applicable law and that the financial matters are being handled in a reliable

manner. The CEO prepares strategy, long-term planning, investments, mergers and acquisitions, financing and makes decisions thereof to the extent that such decisions are not tasks of the Board of the Directors. The CEO is responsible for financial planning, the Company's communications and investor relations.

The Board of Directors defines and approves the essential terms of the service of the CEO, including the CEO's remuneration, in the form of a written agreement. The CEO's service contract is effective until further notice and can be terminated by both the Company and the CEO with six (6) months' written notice.

The CEO is entitled to a pension under the Contracts of Employment Act and other legislation pertaining to pensions. The Finnish employee pension system (TyEL) allows for an old-age pension based on years of service and the income accumulated during those years, including the base salary, bonuses (excluding any option rights and shares subscribed on their basis) and taxable fringe benefits. The old age pension can be taken out at one's own discretion between the ages of 63-68 (flexible retirement age).



CEO

**Jukka Harju**

Chief Executive Officer 2009-  
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)

Positions of trust: Elektrobit Technologies Ltd. and Elektrobit Automotive GmbH, Chairman of the Board 2010-.

Previous work history: Boier Capital Ltd., Partner 2007-2009. Efore Oyj, Member of the Board 2007-2009. Incap Corporation, Member of the Board 2007-2010. Elektrobit Corporation, Chief Operating Officer 2005-2006 and Executive Vice President, Business Development 2000-2004. Tellabs Ltd, Managing Director 1994-1999. Nokia Telecommunications Ltd, Vice President, Microwave Radios 1990-1994 and other duties in the same organization 1981-1990.

Holdings: Holds 7,650,630 shares in Elektrobit Corporation (including shareholdings of corporations controlled by Harju).



## Other Management of the Company

### Corporate Management

Corporate management supports the CEO in his tasks and consists of the CFO and the Chief Legal Officer of the Group. Group management supports the CEO in operative management, implementation and follow-up of the CEO's competence area, in particular as regards the management and development of the business portfolio, asset management and taxation, internal audit, Corporate Governance of the Company, investor and marketing communications and risk management.

CFO

#### Veli-Pekka Paloranta

Chief Financial Officer 2010-  
b. 1972, M.Sc. (Econ.)

Elektrobit Corporation, Member of the Corporate Management Board 2010-.

Previous work history: Elektrobit Corporation, Director, Finance 2008-2010. JOT Automation Oy, CFO 2007-2008. Elektrobit Group Oyj, Business Controller 2000-2007.

Holdings: Holds 21,200 shares in Elektrobit Corporation. He holds 40,000 stock options 2008B and 20,000 stock options 2008C.

CLO

#### Päivi Timonen

Chief Legal Officer 2002-  
b. 1970, LL.M., trained on the bench

Elektrobit Corporation, Member of the Corporate Management Board 2002-.

Previous work history: Roschier Holmberg Oy, Lawyer 1998-2002.

Holdings: Holds 5,800 shares in Elektrobit Corporation. She holds 40,000 stock options 2008B and 20,000 stock options 2008C.

## Business Segments (sub-groups)

The operative business of the Group takes place in business segments (sub-groups) formed branch-by-branch. The external reporting of the Group is also based on these business segments which are the Automotive Business Segment and the Wireless Business Segment. The Presidents of the parent companies of the sub-groups report the segment business to the Board of Directors of each sub-group's parent company ("Segment Board"). Segment Boards comprise the Company's CEO as the Chairman, one or more Board members of the Company and possibly also one or more external expert members. Operative business decisions are made in each business segment.

### Automotive Business Segment

In the Automotive Business Segment EB offers software products and R&D services for carmakers, car electronics suppliers and other suppliers to the automotive industry. The offering includes in-car infotainment solutions, such as navigation and human machine interfaces (HMI), as well as software for electronic control units (ECU) and driver assistance. By combining its software products and R&D services, EB is creating unique, customized solutions for the automotive industry. EB's software products are: EB street director navigation software, EB GUIDE HMI development and speech dialogue platform, EB tresos product line of software components used in ECUs and tools for their configuration, and EB Assist ADF, an extensive software development kit for driver assistance solutions. These software products generate license fees, often combined with supply of R&D services for customized solutions.

EB and AUDI's subsidiary, Audi Electronics Venture GmbH (AEV), have the joint venture, e.solutions GmbH, that is currently developing infotainment software and provides systems engineering and systems integration services for Volkswagen Group car models. EB owns 51% of e.solutions GmbH and AEV 49%. EB also delivers products and R&D services to the joint venture.

The members of the Board of Directors of the parent company of the Automotive Business Segment sub-group, Elektrobit Automotive GmbH, are Jukka Harju (Chairman of the Board), Gerhard Jakobs, Seppo Laine and Jorma Halonen. The Managing Directors of Elektrobit Automotive GmbH are Alexander Kocher (business and overall responsibility) and Georg Zink (finance and administration).

## Elektrobit Automotive GmbH MANAGEMENT BOARD\*



From left to right:  
Gerhard Jakobs, Jukka Harju,  
Jorma Halonen ja Seppo Laine.

### Chairman of the Board of Directors

#### Jukka Harju

Elektrobit Corporation, Chief Executive Officer  
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)

### Member

#### Jorma Halonen

Elektrobit Corporation,  
Member of the Board of Directors  
b. 1948, M.Sc. (Econ.)

### Member

#### Seppo Laine

Elektrobit Corporation,  
Chairman of the Board of Directors  
b. 1953, Authorized Public Accountant

For other information about Mr. Harju,  
Mr. Halonen and Mr. Laine, see pages 7 and 4.

### Member

#### Gerhard Jakobs

b. 1946, Dr. (Eng.)

Full-time occupation: Professional Board Member,  
Management Consultant

Key positions of trust: WÜRTH Elektronik, Chairman  
of the Advisory Board 1996-.

Primary working history: Diehl Metal Foundation,  
Diehl Metal Applications, CEO 2008-2011 and Vice  
President of Sales & Marketing 2008-2009 and  
Consultant within Corporate Division Diehl Metal  
2008. FCI Corporation, FCI Automotive  
Europe, Vice President, and Connectors Holding, FCI  
Automotive Germany and FCI Automotive  
Austria, General Manager 1998-2008. TEMIC/  
Daimler Benz, TEMIC division Mikrosystems, Chair-  
man, and MBB Mikroelektronik GmbH, General Man-  
ager 1993-1998 and Vice President of Operations  
1992-1993. Messerschmitt-Bölkow-Blohm (MBB)/  
Daimler Benz Deutsche Aerospace, Director of  
Microelectronic 1987-1992. MBB, Microelectronic and  
Service Center Electronic, Head of Department 1986-  
1987, and Chief Department Manager of Technical  
Plant Development 1985-1986, and Manager of de-  
partments for Production Technology, Process Data  
and Test Technology 1984-1985. Institute of Computer  
Technology, General Manager 1981-1984.

Holdings: Does not hold shares in Elektrobit  
Corporation.



### Managing Director

#### Alexander Kocher

President, Automotive Business Segment 2011-  
b. 1960, M.Sc., Electrical Engineering

Primary working history: Wind River Systems,  
Automotive Solutions, Vice President and  
General Manager 2008-2011. Continental, Vice  
President, Navigation & Maps 2007-2008.  
Siemens VDO, Vice President, TLA Platform  
2002-2007. Siemens Automotive, Director, Sys-  
tems Engineering Infotainment 2001-2002.  
Infineon, Director, Systems Engineering Indus-  
trial & Automotive 1998-2000. Siemens Com-  
munications and Siemens Industrial, various  
management positions 1986-1997.

Holdings: Does not hold shares in Elektrobit  
Corporation. Holds 25,000 stock options 2008B.



### Managing Director

#### Gregor Zink

Executive Vice President,  
Automotive Business Segment 2011-  
b. 1966, MBA, M.Sc. (Econ.)

Primary working history: CA Germany, RAC Man-  
ager/Finance Manager 2007-2010. Aareon AG,  
CFO 2004-2007. ino 24 AG, Finance Manager  
2002-2004. Digital Advertising AG, Finance  
Manager 2000-2001. AWT Allgemeine Wirtschaft-  
streuhand, Wirtschaftsprüfungs- und Steuerbe-  
ratungsgesellschaft, Auditor 1996-2000. Hülz-  
burger, Hemmer & Hoffman, Accounting and  
Tax Consultant 1993-1996.

Holdings: Holds 25,000 shares in Elektrobit  
Corporation. Holds 70,000 stock options 2008C.

## Elektrobit Automotive GmbH MANAGING DIRECTORS

\* Organ based on the Articles of Association of Elektrobit Automotive GmbH

**Elektrobit Technologies Ltd.**  
**BOARD OF DIRECTORS**



From left to right:  
 Staffan Simberg, Kai Hildén,  
 Jukka Harju and Juha Hulkko.

**Wireless Business Segment**

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets as well as for the industrial use, and product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use. EB's products in the Wireless Business Segment are the EB Tactical Wireless IP Network for tactical communications, EB Tough Voip for tactical IP-based communication and EB Wideband COMINT Sensor for signals intelligence. The product platforms are the Android-based EB Specialized Device Platform and EB LTE Connectivity Module for specialized markets. For the latest wireless technologies and applications EB offers a broad range of R&D services such as consulting, integration, software and hardware development. The members of the Board of Directors of the parent company of the Wireless sub-group, Elektrobit Technologies Ltd., are Jukka Harju (Chairman of the Board), Staffan Simberg, Kai Hildén and Juha Hulkko. The President of Elektrobit Technologies Ltd. is Hannu Huttunen.

**Chairman of the Board of Directors**

**Jukka Harju**  
 Elektrobit Corporation, Chief Executive Officer  
 b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)  
 For other information about Mr. Harju,  
 please see page 7.

**Member**

**Juha Hulkko**  
 Elektrobit Corporation, Member of the Board  
 b. 1954, DI, eMBA, Dr.tech.h.c.  
 For other information about Mr. Hulkko,  
 please see page 5.

**Member**

**Staffan Simberg**  
 Elektrobit Corporation,  
 member of the Board of Directors  
 b. 1949, MBA  
 For other information about Mr. Simberg,  
 please see page 5.

**Member**

**Kai Hildén**  
 b. 1958, B.Sc.

Full-time occupation: Ay Matti and Kai Hildén,  
 Entrepreneur.

Previous work history: Elektrobit Ltd., Managing  
 Director 2007-2008. Extrabit Ltd., Managing  
 Director 2006-2007. Elektrobit Ltd., Manager Finn-  
 ish divisions 1997-2004. Elektrobit Ltd., Designer,  
 Project Manager, Head of Division 1987-1997. Nokia-  
 Mobira, Research Team Leader 1987. Nokia-Mobira,  
 Designer, Project Manager, Head of Design 1982-  
 1987.

Holdings: Holds 10,831,316 shares in Elektrobit  
 Corporation.



**Elektrobit Technologies Ltd.**  
**MANAGING DIRECTOR**

**Hannu Huttunen**

President, Wireless Business Segment 2010-  
b. 1966, M.Sc. (Econ.)

Positions of trust: Tekniseri Oy, Member of the  
Board 2012-.

Previous work history: EXFO Inc., Wireless Division  
Leader 2010. NetHawk Oyj, CEO 2003-2010. Net-  
Hawk Oy, Executive Vice President 2002-2003.  
Nokia Mobile Phones Oy, IP Convergence Unit Lea-  
der 2002. Nokia Mobile Phones Oy, Special Pro-  
ducts Business Unit Leader 1998-2002. Nokia  
Mobile Phones Oy, NMT450 Business Unit Leader  
1995-1998.

Holdings: Does not hold shares in Elektrobit  
Corporation. He holds 100,000 stock options  
2008B.



## Main Features of Internal Control and Risk Management Processes Related to Financial Reporting Processes

### Risk Management

The purpose of risk management is to secure positive development of earnings of the Company and the continuation of the business by implementing risk management cost-effectively and systematically throughout the different businesses.

Risk management is part of the Company's strategic and operative planning, daily decision-making process and internal control system. Business objectives, risks and risk management operations are combined through risk management as one chain of events.

### Main Principles of Organizing Risk Management

Company adheres to the risk management policy approved by the Board.

Risk management contains all actions, which are connected to setting up targets, identification of risks, measurement, review, handling, reporting, follow-up, monitoring and reacting to risks.

#### The aim of risk management of the Company is to:

- systematically and thoroughly identify and assess all major risks, which threaten the achievement of objectives, including risks related to business operations, property, agreements, competence, currencies, financing and strategy;
- optimize business opportunities and secure continuation of business;
- recognize and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks;
- take only calculated and assessed risks with respect to e.g. expanding the business, increasing market share and creating new businesses;
- avoid or minimize liability risks;
- ensure the safety of products, solutions and services;
- establish a safe working environment for the employees;
- minimize possibilities for unhealthy occurrences, crimes or misconduct by operating procedures, control and supervision;
- inform interest groups of risks and risk management; and
- be cost-effective in risk management.

#### The aim of risk management is not to:

- exclude all risks in their entirety;
- adopt unnecessary control and management procedures; or
- take bureaucratic processes and procedures into use.

### Main Principles of the Risk Management Process

In connection with the strategy process and annual planning the CEO of the Company and Presidents of the Group's business segments review business risks which could endanger the achievement of strategic or profit targets. The businesses produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through monthly reporting by businesses in the Segment Boards (see above section Business segments). Businesses must produce assessments of risks in their designated areas of responsibilities and provide action plans to manage risks as well as to report to the Segment Boards on measures taken including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Company's Board of Directors.

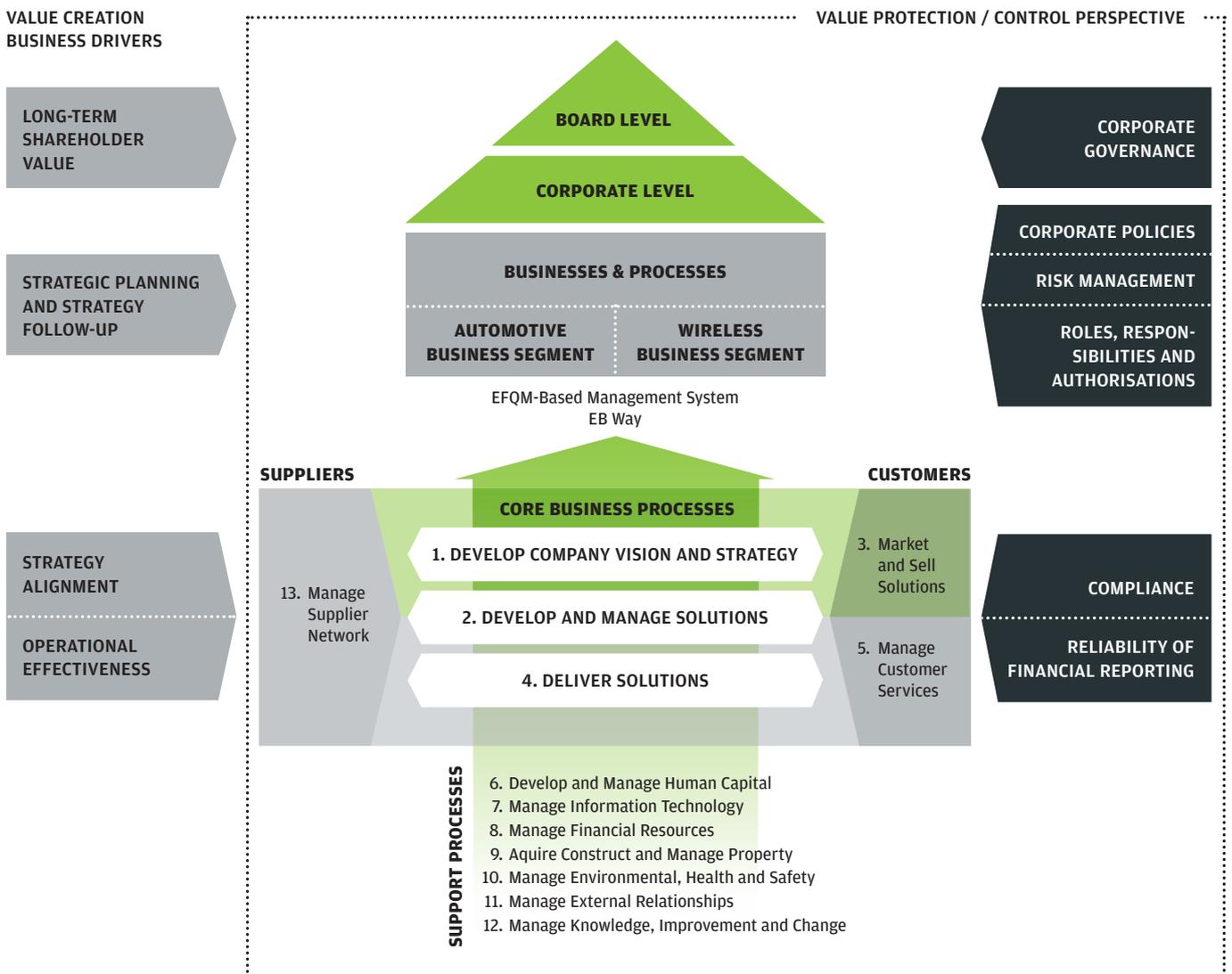
### General Description of Internal Control and Operational Procedures

Internal control is a process applied by the Board of Directors, management and all levels of personnel in the Group to ensure that management has reasonable assurance that

1. operations are effective, efficient and aligned with strategy;
2. financial reporting and management information is reliable, complete and timely made; and
3. the Group is in compliance with applicable laws and regulations as well as the Company's internal policies and ethical values including sustainability.

The first category addresses the basic business objectives, including performance and profitability goals, strategy, implementation of objectives and actions and safeguarding resources. The second category relates to the preparation of reliable published financial statements, including interim reports and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The third deals with complying with those laws and regulations to which the Company is subject to.

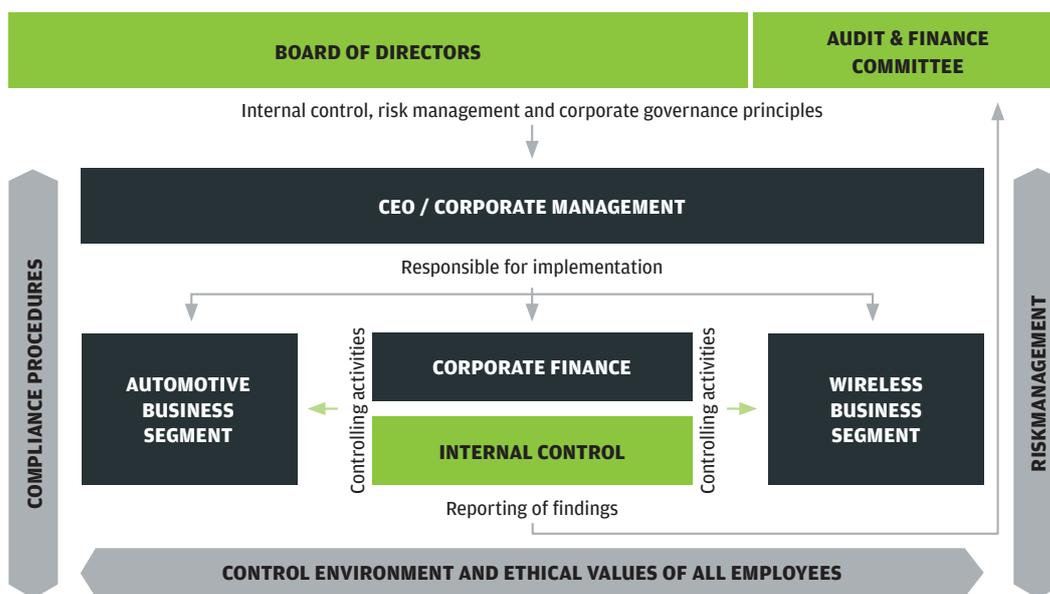
## Internal Control Framework of the Company



Internal control framework of the Company.

### EB's internal control framework consists of:

- the internal control, risk management and corporate governance policies and principles set by the Company's Board of Directors;
- management overseeing the implementation and application of the policies and principles;
- finance function and business controllers monitoring the efficiency and effectiveness of the operations and reliability of the financial and management reporting;
- enterprise risk management process identifying, assessing and mitigating risks threatening the realization of the Company's objectives;
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values (including sustainability) are adhered to;
- effective control environment at all organisational levels including control activities tailored for defined processes and creating group minimum requirements for business and geographical areas;
- shared ethical values and strong internal control culture among all employees; and
- internal audit assignments reviewing the effectiveness of the internal controls as needed.



The key areas of EB's internal control framework 2013.

### Risks and Controls in Core Business Processes

Risk management procedures are in place for business processes in the form of defined control points:

- Relevant process risks are identified;
- Common control points / group minimum requirement control points are identified;
- Common control points are implemented in business processes;
- Additional control points can be determined as needed at business or functional levels.

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the Company's objectives. Control activities are set throughout the organization, at all levels and in all functions. They include various range of activities including but not limited to approvals, authorizations, verifications, reviews of operating performance, security of assets and segregation of duties.

### Internal Controls over Financial Reporting

The Group's external financial reporting process, internal control and risk management systems are briefly described in this section. The main focus is on financial accounting and related controls.

### FINANCIAL REPORTING ORGANIZATION

The Group's financial administration is organized so that both Business Segments have their own operative financial organization, and the financial management as well as central expert functions regarding accounting, taxation, financing, and asset management are centralized in the Group's parent company.

The financial management of the Business Segments is responsible for organizing the accounting, money transactions and other daily financial operations of the companies belonging to the segment as well as organizing the internal reporting that supports the segments' business. The financial management of the business segment controls and supervises the operation of the financial administration organizations of the segment companies, and it reports primarily to the President of the business segment but matrix-wise also to the CFO of the Group.

The tasks of the Group's parent company's financial administration consist of, inter alia, monthly consolidation of the Group entity, preparation of interim reports and consolidated financial statements, management and investment of monetary assets of the Group, management of liabilities, protection against exchange risk, and transfer pricing. The finance function of the Group's parent company implements operative supervision under the Group's CFO who reports any supervisory findings to the Finance and Audit Committee. The Group's parent company's financial administration and financial management of the Wireless Business Segment is located in Finland and the financial management of the Automotive Business

Segment in Germany. The Group's subsidiaries in China, Germany and the USA have own accounting departments. Accounting functions in smaller subsidiaries in France and Japan are organized in external accounting offices or, as in Austria, in the accounting department of the German subsidiary. The tasks and responsibilities of the accounting function of the parent company and each subsidiary are included in the job descriptions of the teams and employees.

### FINANCIAL REPORTING SYSTEMS

Consolidated financial statements are prepared by using the chosen consolidation tool. The accounting of the Group's subsidiaries is done by using the local accounting systems from which the actual figures are reported either manually or by automatic transfer to the group consolidation system.

The accounting system in use includes general ledger accounting, accounts payables and accounts receivables. Current assets and payroll accounting is organized through various programs or purchased as an outsourced service. Purchase invoices are circulated through electronic invoice processing system. The same bank application is used in both Finland and Germany, the USA has a similar bank application.

Global forecasts and budgets are prepared by using the same forecast and reporting program maintained by the Group parent company. In some business segment companies, separate programs supporting internal reporting are in use.

### INTERNAL CONTROLS

The Group's internal control mechanisms are based on policies, instructions, limited process descriptions, authorization matrix, financial reporting review meetings, and segregation of key accounting duties.

### COMPLIANCE PROCEDURES

Compliance procedures are in place at all levels of the organization to ensure that all applicable laws, regulations, internal policies and ethical values including sustainability are adhered to. Group functions and businesses are responsible for following up developments in legislation and regulations in their respective areas and communicating them to the organization. Businesses and corporate function directors are responsible for setting up adequate compliance controls and compliance related training in their units.

### ROLES AND RESPONSIBILITIES REGARDING RISK MANAGEMENT AND INTERNAL CONTROL

The key roles and responsibilities regarding the Group's internal control and risk management are defined as follows:

#### BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the administration and the proper organization of the operations of the Company. According to good corporate governance, the Board also ensures that the Company has duly endorsed the corporate values applied to its operations. The Board approves the internal control, risk management and corporate governance policies. The Board establishes the risk-taking level and risk bearing capacity of the Company and re-evaluates them on a regular basis as part of the strategy and goal setting of the Company. The Board reports to the shareholders of the Company.

#### AUDIT AND FINANCIAL COMMITTEE

Audit and Financial Committee is responsible for the following internal control related duties

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal audit, if applicable, and risk management systems;

- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which are included in the Company's corporate governance statement; and
- to monitor the statutory audit of the financial statements and consolidated financial statements.

More detailed descriptions how Audit and Financial Committee is fulfilling its monitoring role are defined in the Committee's annual plan. The Audit and Financial Committee reports to the Board of Directors of the Company.

#### CHIEF EXECUTIVE OFFICER

CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders given by the Board. CEO sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. CEO is in charge of the risk management process of the Group and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. CEO reports to the Board on risk management as part of the monthly reporting. CEO and the management of the Group functions and the Presidents of the business segments, which operate under CEO, are responsible for the management of risks endangering the fulfillment of objectives set for the Company.

#### CHIEF FINANCIAL OFFICER

CFO ensures and controls that the Group's accounting and financial reporting practices comply with the law and that the financial reporting is reliable.

#### CHIEF LEGAL OFFICER

Chief Legal Officer ensures that the Group's corporate governance practices comply with the law and that legal matters of the Group are handled appropriately, in particular the contractual risks related to business operations.

#### BUSINESSES SEGMENTS

Segment Boards and management of business segments are responsible for internal control implementation in the business segments. More specific internal control policies and procedures

are established within each segment within the principles set by the Group functions. Additionally, the management of business segments and the Group Management are responsible for implementing risk management practices in planning cycle and daily operations, and ensure the adherence of

- laws,
- regulations,
- internal policies, and
- ethical values

in their designated responsibility areas. Some areas of risk management, in particular the management of financial risks and insurances, have been centralized for the purpose of scale advantage and for securing sufficient Group-level control.

#### FINANCE FUNCTION

Group's parent company's finance function is responsible for:

- ensuring a setup of adequate control activities for business segments in cooperation with the business management;
- operative follow-up of the adequacy and effectiveness of control activities; and
- ensuring that external reporting is correct, timely and in compliance with regulations.

Finance function does not have a separate internal control function. Group CFO reports any supervisory findings to the Finance and Audit Committee.

#### INTERNAL AUDIT

The Company has no specific internal audit organization. This is taken into account in the content and scope of the annual audit plan. On the one hand external auditing focuses on specific areas in turn to be audited, and on the other hand, on separately agreed priority areas.



Elektrobit

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