

Salary and Remuneration Report **2012**



Elektrobit

# Salary and Remuneration Report

## 1. 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 Finnish Governance Code is available at the website of the Finnish Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

The statutory governing bodies of the Company are the Shareholders' meeting, Board of Directors, Chief Executive Officer and the Auditor. Other corporate management and business segments' management support the statutory governing bodies of the Company. The Company has no Supervisory Board. The Company's domicile is Oulu.

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 Automotive and Wireless. The Presidents of the sub-groups' parent companies report on the business operations of the segment to the Board of Directors of each sub-group's parent company ("Segment Board"). Operative business decisions are made in each business segment.

A coherent and up-to-date depiction on remuneration promotes the providing of information to the shareholders. To achieve this, the Company has prepared a salary and remuneration report. The salary and remuneration report is prepared in accordance with recommendations included in section 7 (Remuneration) and recommendation 47 of the Finnish Governance Code. The Company's Corporate Governance Code, Corporate Governance Statement for each financial period and the salary and remuneration report are publicly available at the Company's website at [www.elektrobit.com](http://www.elektrobit.com).

## 2. Remuneration

### Decision-Making Process

The general meeting decides on the remuneration paid for board and committee work and on the basis for its definition. Generally the body that appointed a person also decides on the remuneration of that person. The Board of Directors appoints the CEO and thus decides also upon the CEO's remuneration. In addition, the Board of Directors decides upon the compensation payable based on termination of the CEO. The Board of Directors decides on the principles and structure of the remuneration scheme of the Company and the Group on the presentation of the CEO. In accordance with the annual clock of the Board of Directors the review is scheduled to occur in October. Prior to the Board review the structure of the remuneration scheme of each segment is reviewed in the Business Segments. The Segment Boards review the structure of remuneration scheme for the business segments in October in accordance with their annual clock.

Based on this, the remuneration of the other management is decided on one-over-one basis<sup>1</sup>. The CEO may, however, decide upon the salary increases of his direct subordinates within the budget approved by the Board of Directors. The Boards of Directors of the business segments decide upon the budgets for salary increases for each year in February in accordance with the annual clock.

## 3. Remuneration of the Board of Directors

### Remuneration and Other Benefits of the Directors

The Annual General Meeting decides the remuneration of the Board. As a rule, there has not been a separate remuneration for executive members of the Board of Directors<sup>2</sup>.

The General Meeting held on March 26, 2012 decided that the elected Board members' remuneration for the term ending at the end of the following Annual General Meeting shall be as follows:

- Chairman of the Board EUR 3,500 per month and
- other members of the Board of Directors EUR 2,000 per month.

In addition, the Board members are entitled to compensation for the attended Board Committee meetings as follows:

- the Chairman of the Committee EUR 600 for each meeting and other Committee members EUR 400 for each meeting<sup>3</sup>.

The members of the Board of Directors are also entitled to compensation for attending other Elektrobit group company's Board meetings as follows:

- EUR 1,000 for each meeting<sup>4</sup>.

The travel expenses of the members of the Board of Directors shall be reimbursed in accordance with the Company's travel policy. The remuneration of the Board is not at all paid in the form of shares, instead all remunerations are paid in money.

<sup>1</sup>One-over-one principle means that a decision on remuneration shall be approved by the supervisor of the decision-maker.

<sup>2</sup>In 2012 none of the members of the Board had an employment relationship or service contract with the Company.

<sup>3</sup>Prior to year 2010 no separate remuneration has been paid for committee work.

<sup>4</sup>Prior to year 2011 no separate remuneration was paid for attending other Elektrobit group company's Board meetings.

#### REMUNERATION PAID TO BOARD MEMBERS IN 2012, EUR

Name	Position	Remuneration / Elektrobit Corporation Board member	Remuneration / Audit and Finance Committee	Remuneration / other Elektrobit Group company Board
Seppo Laine	Chairman of the Board, member of the Audit and Finance Committee	42 000	2 400	12 000
Jorma Halonen	Board member	24 000		11 000
Juha Hulkko	Board member	24 000		9 000
Staffan Simberg	Board member, Chairman of the Audit and Finance Committee	24 000	3 600	12 000
Erkki Veikkolainen	Board member	24 000		9 000
<b>In total</b>		<b>138 000</b>	<b>6 000</b>	<b>56 000</b>

#### REMUNERATION PAID TO BOARD MEMBERS IN 2011, EUR

Name	Position	Remuneration / Elektrobit Corporation Board member	Remuneration / Audit and Finance Committee	Remuneration / other Elektrobit Group company Board
Seppo Laine	Chairman of the Board, member of the Audit and Finance Committee	42 000	2 000	8 000
Jorma Halonen	Board member	24 000	-	10 000
Juha Hulkko	Board member	24 000		-
Staffan Simberg	Board member, Chairman of the Audit and Finance Committee	24 000	3 000	8 000
Erkki Veikkolainen	Board member	24 000	-	9 000
<b>In total</b>		<b>138 000</b>	<b>5000</b>	<b>35 000</b>

#### REMUNERATION PAID TO BOARD MEMBERS IN 2010, EUR

Name	Position	Remuneration / Elektrobit Corporation Board member	Remuneration / Audit and Finance Committee	Remuneration / other Elektrobit Group company Board
Seppo Laine	Chairman of the Board, member of the Audit and Finance Committee as of March 25, 2010	39 217	2 000	-
Jorma Halonen	Board member	24 000	-	-
Juha Hulkko	Board member	24 000	-	-
Staffan Simberg	Board member, Chairman of the Audit and Finance Committee as of March 25, 2010	24 000	3 000	-
Erkki Veikkolainen	Board member	24 000	-	-
<b>In total</b>		<b>135127</b>	<b>5 000</b>	<b>-</b>

# Salary and Remuneration Report

The members of the Board have not received other benefits or participated in the Company's remuneration schemes, with the exception of J.T. Bergqvist, the semi-executive Chairman of the Board of the Company during 2006-2008 (see section Option Rights 2006 below).

## Financial Benefits of the Chairman of the Board and the Members of the Board Pertaining to Their Possible Employment Relationship or Service Contract

There are no employment relationships or service contracts between the Company's members of the Board and the Company, with the exception of J.T. Bergqvist, the semi-executive Chairman of the Board of the Company during 2006-2008 (see section Option Rights 2006 below).

## Participation of the Members of the Board in a Share-Related Remuneration Scheme

The members of the Board have not participated in a share-related remuneration scheme with the exception of J.T. Bergqvist, the semi-executive Chairman of the Board of the Company during 2006-2008 (see section Option Rights 2006 below). No remuneration for the members of the Board has been paid in the form of Company shares. Information on the shareholdings of the members of the Board in the Company is available in the Company's insider register at [http://www.elektrobit.com/investors/corporate\\_governance/insider\\_guidelines](http://www.elektrobit.com/investors/corporate_governance/insider_guidelines).

## 4. Remuneration of the Chief Executive Officer and Other Executives

### Information on the Service Contract of the CEO

The Board of Directors defines and approves the essential terms of the service of the CEO, including the CEO's remuneration, in a form of a written agreement. The Company's current CEO Jukka Harju's service contract is effective until further notice and can be terminated by both by the company and the CEO with six (6) months' written notice. The CEO is entitled to salary with fringe benefits for the period of 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).

The Company's current CEO has not participated in a share-related remuneration scheme and he has not been awarded with any Company shares or stock options. The maximum amount of variable pay for the CEO is 50% of the aggregate salary of the variable pay earning period.

### Remuneration paid to the CEO Jukka Harju, EUR

	Salary	Other benefits	Extraordinary payments	Variable payment
2012	289 788	-	-	-
2011	287 490	-	-	-
2010	287 030	-	-	-

### The Essential Principles Regarding Remuneration of Other Executives

Remuneration of the other group executives consists of fixed monthly salary with fringe benefits (i.e. the aggregate salary) and variable pay. In addition, the Company has option programs

as long term incentive program. There are no additional pension benefits for the group executives. The maximum amount of variable pay for other executives is 40-50% of the aggregate salary of the variable pay earning period.

### Remuneration paid to other executives<sup>5</sup>, EUR

	Salary	Other benefits	Extraordinary payments	Variable payment
2012	853 678	-	-	63 284
2011	1 018 861	-	-	-
2010	1 469 838	-	-	-

<sup>5</sup>Covers remunerations of the other executives of the Company (excluding the Company's CEO) and the Presidents of the business segments.

#### Option rights of the other executives<sup>6</sup>:

	Amount of option-rights	Amount of shares subject to subscription	Subscription price	Costs for option-rights, EUR
Option rights 2005D	-	-	-	-
Option rights 2008A	280 000	280 000	the trade volume weighted average quotation of the share on the OMX Nordic Exchange Helsinki during 1 January–31 January 2009	30 225
Option rights 2008B	110 000	110 000	the trade volume weighted average quotation of the share on the OMX Nordic Exchange Helsinki during 1 January–31 January 2010	58 865
Option rights 2008D	267 500	267 500	the trade volume weighted average quotation of the share on the OMX Nordic Exchange Helsinki during 1 January–31 January 2011	2 713

#### Variable Pay System

Variable pay will be based on achievement of targets. The earning period for the variable pay was twelve (12) months in 2012. The variable pay earning period was changed to calendar year in 2011 for corporate functions and Wireless Business Segment management and in 2012 for Automotive Business Segment management. In 2010 the earning period was six (6) months.

The targets are set separately for each earning period. The setting of targets and the review of their achievement is decided on one-over-one basis. The Board of Directors approves the targets of the CEO and the other Company's executives. The Segment Boards approve the targets of the business segment Presidents. The criteria for the short term variable pay are the financial and strategic targets of the Company. In addition, part of the targets may be other objectives of the Company or business segments or personal targets. Personal targets vary between duties. In 2012 the financial targets were operating profit and cash flow of the business segments.

#### Long Term Reward System

##### Option Rights 2005

The Annual General Meeting of the year 2005 decided upon issuance of option rights for the management of Elektrobit Group and for its fully owned subsidiary. 4,500,000 option rights were divided into option rights 2005A, 2005B, 2005C and 2005D. Option rights 2005A were granted on the condition that recipients of the option rights shall purchase the amount, determined by the Board of Directors, of Elektrobit Corporation's shares. Option Rights 2005B, 2005C and 2005D included conditions based on financial targets of the Group. The option program included also a program on shareholding that obligated the management to use part of the revenue of the stock options for acquisition of shares of the Company, as determined by the Board of Directors in connection with its decision to issue stock options. In addition and according to the terms of the option program, the subscription price of the shares to be subscribed on the basis of option rights 2005B, 2005C and 2005D shall always be at least the subscription price of shares subscribed on the basis of option rights 2005A. Option rights entitle to subscribe shares as follows: 2005A between 1 April 2008

and 30 April 2010, 2005B between 1 April 2009 and 30 April 2011, 2005C between 1 April 2010 and 30 April 2012 and 2005D between 1 April 2011 and 30 April 2013. No subscriptions were made by the end of the share subscription period for stock options 2005A-C.

##### Option Rights 2006

The Annual General Meeting of the year 2006 decided upon issuance of 1,750,000 option rights for the Chairman of the Board and CEO to be elected after the said Annual General Meeting. These option rights were marked as 2006A. The Chairman of the Board was granted with 750,000 option rights free of charge and the CEO with 1,000,000 option rights free of charge. Option rights were granted on the condition that the Chairman of the Board has purchased 75,000 shares of the Company either directly or through company under its control, and the CEO has purchased 100,000 shares of the Company either directly or through company under its control prior to receiving the option rights. The subscription period of the shares to be subscribed on the basis of option rights 2006A was between 1 May 2009 and 31 May 2012. No subscriptions were made by the end of the share subscription period for stock options 2006A.

<sup>6</sup>Covers option rights of the other executives of the Company (excluding the Company's CEO) and the Presidents of the business segments.

# Salary and Remuneration Report

## Option Rights 2008

The Annual General Meeting of the year 2008 decided upon issuance of option rights for the key persons of Elektrobit Group. The total aggregate amount of the option rights is 4,200,000 at most. 1,400,000 of the said option rights are marked as 2008A, another 1,400,000 option rights as 2008B and the rest, 1,400,000 option rights, as 2008C. The subscription price of the shares to be subscribed on the basis of above mentioned option rights is based on the current market price of the share of Elektrobit Corporation in NASDAQ OMX Helsinki Ltd in January 2009, January 2010 and January 2011. Subscription periods of the shares to be subscribed on the basis of above mentioned option rights are the following: 2008A between 1 April 2012 and 31 March 2014, 2008B between 1 April 2013 and 31 March 2015, and 2008C between 1 April 2014 and 31 March 2016.

Up-to-date information regarding the shareholdings and the option rights of the CEO and the other executives is available at the Company's website in the insider register at [http://www.elektrobit.com/investors/corporate\\_governance/insider\\_guidelines](http://www.elektrobit.com/investors/corporate_governance/insider_guidelines).



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