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**CORPORATE GOVERNANCE STATEMENT  
REPORTING PERIOD 1.1.-31.12.2011**

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# Corporate Governance Statement

## Reporting Period 1.1.-31.12.2011

### 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 2011 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/en](http://www.cgfinland.fi/en).

The Company has departed from certain individual recommendations of the Finnish Governance Code. These departures are concerning the gender composition of the Board (Recommendation 9) and the number of the Board's Audit and Financial Committee members (Recommendation 22) 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 March 31, 2011 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 50% of the shares 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. The members of the Audit and Financial Committee in year 2011 have been Staffan Simberg (chairman of the committee) and Seppo Laine, Authorized Public Accountant. Taking into consideration the composition and the number of Board members in 2011 and the financial expertise held in particular by Seppo Laine, the assembly meeting of the Board resolved to deviate from the Govern-

ance Code's recommendation concerning a minimum of three committee members.

This Corporate Governance Statement has been made according to recommendation 54 and the applicable legislation. This Statement is made separate 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 by branch-by-branch. The external reporting of the Group is also based on these business segments which are Automotive and Wireless. The CEO's 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 of 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 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 March 31, 2011 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 March 31, 2011. The Board had the same composition already from the beginning of the year 2011 until the Annual General Meeting. In addition, the Board of Directors decided in its assembly meeting held on March 31, 2011 that Staffan Simberg (Chairman of the Committee) and Seppo Laine shall continue 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 31 March 2011 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 50% of the shares 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 of immediate company interest. In addition, at least two of the Directors representing this majority shall be independent of significant shareholders of the Company. On March 31, 2011 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 of significant shareholder as his ownership in the Company exceeds 10% of the Company's share capital.



Left to right: Staffan Simberg, Juha Hulkko (sitting), Jorma Halonen, Seppo Laine (sitting) and Erkki Veikkolainen.

### Chairman of the Board of Directors

#### SEPPO LAINE

b. 1953, Authorized Public Accountant

Full-time occupation: Professional Board Member

#### Positions of trust:

Elektrobit Corporation, Chairman of the Board 2010-, Elektrobit Corporation, Member of the Board 2008-, Member of the Audit and Financial Committee 2010-, Elektrobit Automotive GmbH, Member of the Board 2010-, Chairman of the Board, Condia Oy, Member of the Board, Oulu ICT Oyj, Cor Group Oy, Paikallis-Sähkö Oy and Taxpayers Association of Finland.

#### Previous work history:

Chairman of the Audit and Financial Committee 2009-2010 and Member of Automotive- and Wireless Committee 2009-2010. Elektrobit 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 Tehtaat, Financial Manager 1977-1979. Tammerneon Oy, Financial Manager 1975-1977.

#### Holdings:

Holds 2,120,051 shares and corporation controlled by Laine holds 100,000 shares in Elektrobit Corporation.

### Other members of the Board of Directors

#### JORMA HALONEN

b. 1948, Bachelor of Science (Economics)

Full-time occupation: Professional Board Member

#### Positions of trust:

Elektrobit Corporation, Member of the Board of Directors 2009- and Member of the Board of Directors of Elektrobit Automotive GmbH 2011-. Ashok Leyland, India, Member of the Board of

Directors 2011-. Hinduja Foundries, India, Member of the Board of Directors 2011-. Optare Plc, UK, Member of the Board of Directors 2011-. TMD Friction Holding GmbH, Chairman of the Board of Directors 2009-. Permira, Nordic Advisory Board, Member 2009-. CPS Color Group Oy, Chairman of the Board of Directors 2008-. National Industrial Cluster Development Program, Riyadh, Member of the Board of Directors 2008-.

#### Previous work history:

Niscayah Group Ab, Chairman of the Board of Directors 2008-2011. Semcon Ab, Member of the Board of Directors 2008-2011. Elektrobit Corporation, Chairman of the Automotive Committee 2009-2010. Assa abloy AB (publ.), Member of the Board of Directors 2008-2010. Vice President of AB Volvo and Vice President of Volvo group, 2004-2008. President and CEO of Volvo Truck Corporation, Göteborg, Sweden 2001-2004. President and CEO of Scania Latin America, Sao Paulo, Brasil, 1998-2001. Vice President, Scania Latin America, Sao Paulo, Brasil, 1996-1998. President and CEO of Oy Scan-Automotive Ab, Oy Scan-Auto Ab (Scania importer) and Oy Saab-Auto Ab, Helsinki, Finland, 1990-1996. Leading positions in different companies within computer and telecommunications industries, 1972-1990

#### Holdings:

Holds 21,000 shares in Elektrobit Corporation.

#### 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. CWC (Centre for Wireless Communications) -research institute, Member of the Steering Committee.

Elektrobit Corporation, Chairman of the Board 2002-2005 and 2008-2010 and Member of the Audit and Financial Committee 2008-2009. Elektrobit Corporation, CEO 2005-2006, Chairman of the Board 2002-2005. Elektrobit Ltd., one of the founders in 1985, CEO 1985-1995, Chairman of the Board 1995-2002.

#### Holdings:

Holds 27,214,362 shares in Elektrobit Corporation.

### STAFFAN SIMBERG

b. 1949, MBA

Full-time occupation: Professional Board Member

#### Positions of trust:

Elektrobit Corporation, Member of the Board 2008-, Chairman of the Audit and Financial Committee 2010-, Elektrobit Technologies Ltd., Member of the Board 2011-. Business Consultant, Simberg & Partners AB, Chairman of the Board 1994-. NEZ-Invest AB, Chairman of the Board 2011-. Nordic Vehicle Conversion AB, Member of the Board 2011-. Silva AB, Member of the Board 2011-. Endomines AB (publ), Member of the Board and Audit Committee 2011-. Metso Group, Industrial advisor 2011-. Karnell, investment advisor 2009-. Landis & Gyr AG, Member of the Advisory Board 2007-.

#### Previous work history:

Elektrobit Corporation, Member of the Audit and Financial Committee 2009-2010. Cargotec Oyj, Industrial advisor, 2009. Metso Panelboard, Chairman 2008-2009. Powermill Service -group, Member of the Board 2005-2007. Dotcom Solutions AB, Member of the Board 2000-2005. 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.

### 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- and Elektrobit Technologies Ltd., Member of the Board 2010-. Chairman of the Board of Elcoflex Oy. Member of the Board in Aplicom Oy, Elcoflex (Suzhou) Co. Ltd, Maustaja Oy and Mecanova Oy.

#### Previous work history:

Elektrobit Corporation, Chairman of the Wireless Committee 2009-2010. 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.

# Corporate Governance Statement

## Reporting Period 1.1.-31.12.2011

### 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 Annual 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. 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 2011, the Board convened 18 times. The Board members attended to the meetings as follows:

1.1.-31.12.2011	Board	Audit and Finance Committee
Seppo Laine	18/18	6/6
Jorma Halonen	15/18	
Juha Hulkko	18/18	
Staffan Simberg	17/18	6/6
Erkki Veikkolainen	18/18	

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 subject of the Board during the year was profitability improvement of the Group, development of a segment-based management system and in particular evaluating and planning actions relating to the reorganization processes of group's previously significant customer, TerreStar Networks Inc., and its parent company TerreStar Corporation and evaluating potential profit and balance sheet implications of the reorganization processes.

The Annual General Meeting decides on the compensation of the members of the Board of Directors and such compensations can be publicly reviewed from the 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 Members on the committees can concentrate on the matters delegated to the committee more extensively than the entire Board of Directors. The purpose of the committees 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 committees assist the Board by preparing matters falling within the competence of the Board. The Board remains responsible for the duties assigned to the committees. The committees have no autonomous decision-making power, and thus the Board makes the decisions within its competence collectively.

Taking into consideration the current composition and the number of Board members, the Board committees in the Company shall have at least two members appointed by the Board of Directors among its members, one of them being the Chairman of the respective committee.

A committee shall regularly report on its work to the Board. The reports shall include at least a summary of the matters addresses 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 committees and such compensations can be publicly reviewed from the Company's website at [www.elektrobit.com](http://www.elektrobit.com).

### **Audit and Financial Committee**

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 is 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 members of the Audit and Financial Committee have been Staffan Simberg (chairman of the committee) and Seppo Laine, Authorized Public Accountant. Taking into consideration the composition and the number of Board members and the financial expertise held

in particular by Seppo Laine, the assembly meeting of the Board held on March 31, 2011 resolved to depart from the recommendation concerning a minimum of three committee members by the Finnish Governance Code (Recommendation 22). Both members of the committee are independent of 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 2011, the Audit and Financial Committee convened 6 times to ordinary meetings. In addition to the focus areas specified above, most important subjects during 2011 were cash flow monitoring and development of cash flow reporting; capitalization and financial modeling of sub-groups in accordance with the segment based management model; and costs of development projects and capitalizations related thereto.

During 2012, the Committee's focus areas are securing financing of business segments, in particular, by means of operative cash flow; functionality of risk management processes in the segment based management model; clarifying of internal control operating model and focusing internal control measures to business segments as well as enhancing financial modeling and follow-up of business undertakings.

### **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 a 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).

**Jukka Harju**

Chief Executive Officer, 2009-

b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)

Elektrobit Technologies Ltd. and Elektrobit Automotive GmbH, Chairman of the Board 2010-, Elektrobit Corporation, member of the Board of Directors 2006-2009, Chairman of the Automotive Committee 2008-2009. Boier Capital Ltd., partner 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 7,644,630 shares in Elektrobit Corporation (including shareholdings of corporations controlled by Harju).

# Corporate Governance Statement

## Reporting Period 1.1.-31.12.2011

### Other Management of the Company

#### CORPORATE MANAGEMENT

Corporate management supports the CEO in his tasks and consists of the Chief Financial Officer and the Chief Legal Officer of the Group. Group management supports the CEO in operative management and 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.

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

Elektrobit Corporation, member of the Corporate Executive Board 2010-. Director, Finance, Elektrobit Corporation, 2008-2010. JOT Automation Oy, CFO 2007-2008. Elektrobit Group Oyj, Business Controller 2000-2007.

#### Holdings:

Holds 1,200 shares in Elektrobit Corporation. He holds 10,000 stock options 2008A, 40,000 stock options 2008B and 20,000 stock options 2008C.

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

Elektrobit Corporation, Member of the Corporate Executive Board 2002-. Roschier Holmberg Oy, Lawyer 1998-2002.

#### Holdings:

Holds 11,800 shares in Elektrobit Corporation. She holds 57,500 stock options 2008A, 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 by branch-by-branch. The external reporting of the Group is also based on these business segments which are Automotive and Wireless. The CEO's 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 of 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. Operative business decisions are made in each business segment.

#### WIRELESS BUSINESS SEGMENT

In the Wireless Business Segment EB offers development services and customized solutions for wireless communications markets, radio channel emulator products for industries and authorities utilizing wireless technologies, and products for the authority markets.

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 and Erkki Veikkolainen. The President of Elektrobit Technologies Ltd. is Hannu Huttunen.

#### ELEKTROBIT TECHNOLOGIES LTD.

##### Board of Directors

Chairman of the Board of Directors  
JUKKA HARJU  
Chief Executive Officer, Elektrobit Oyj  
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)<sup>1</sup>

Member  
STAFFAN SIMBERG  
Elektrobit Corporation, member of the Board of Directors  
b. 1949, MBA<sup>2</sup>

Member  
ERKKI VEIKKOLAINEN  
Elektrobit Corporation, member of the Board of Directors  
b. 1952, M.Sc. (EE), eMBA<sup>3</sup>

#### ELEKTROBIT TECHNOLOGIES LTD.

##### Managing Director

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

Elektrometalli Oy, Member of the Board 2008-. EXFO Inc., Wireless Division leader 2010. NetHawk Oyj, CEO 2003-2010. NetHawk Oy, Executive Vice President 2002-2003. Nokia Mobile Phones Oy, IP Convergence unit leader 2002. Nokia Mobile Phones Oy, Special Products Business unit leader 1998-2002. Nokia Mobile Phones Oy, NMT450 Business unit leader 1995-1998. Nokia Mobile Phones Oy, Special Products Business unit, Business Controller

#### Holdings:

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

#### AUTOMOTIVE BUSINESS SEGMENT

In Automotive Business Segment EB offers software products and R&D services for carmakers, car electronics suppliers and other suppliers of 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.

The members of the Board of Directors of the parent company of the Automotive sub-group, Elektrobit Automotive GmbH, are Jukka Harju (Chairman of the Board), Gerhard Jakobs, Seppo Laine and Jorma Halonen. The CEO of Elektrobit Automotive GmbH is Alexander Kocher.

#### ELEKTROBIT AUTOMOTIVE GMBH

##### Management Board<sup>4</sup>

Chairman of the Board of Directors  
JUKKA HARJU  
Chief Executive Officer, Elektrobit Oyj  
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)<sup>1</sup>

Member  
JORMA HALONEN  
Elektrobit Corporation, member of the Board of Directors  
b. 1948, M.Sc. (Econ.)<sup>5</sup>

Member  
GERHARD JAKOBS  
b. 1946, Dr. (Eng.)

Full-time occupation: Professional Board Member

Diehl Metal Foundation, CEO of Diehl Metal Applications 2009-2011, Vice President of Sales & Marketing 2008-2009 and Consultant within Corporate Division Diehl Metall 2008. FCI Corporation, Vice President of FCI Automotive Europe, General Manager of Connectors Holding, FCI Automotive Germany and FCI Automotive Austria 1998-2008. TEMIC/Daimler Benz, Chairman of TEMIC division Mikrosystems, General Manager of MBB Mikroelektronik GmbH 1993-1998, and Vice President of Operations 1992-1993. Messerschmitt-Bölkow-Blohm (MBB)/Daimler Benz Deutsche Aerospace, Director of Microelectronic 1987-1992. MBB, Head of department Microelectronic and Service Center

<sup>1</sup> For other information about Mr. Harju, please see Page 5.

<sup>2</sup> For other information about Mr. Simberg, please see Page 3.

<sup>3</sup> For other information about Mr. Veikkolainen, please see Page 3.

<sup>4</sup> Organ based on the Articles of Association of Elektrobit Automotive GmbH.

<sup>5</sup> For other information about Mr. Halonen, please see Page 3.

Electronic 1986–1987, Chief Department Manager of Technical Plant Development 1985–1986, and Manager of departments for Production Technology, Process Data and Test Technology 1984–1985. Institute of Computer Technology, General Manager 1981–1984.

Holdings:

Does not hold shares in Elektrobot Corporation.



**JUKKA HARJU**

Chief Executive Officer

Chairman of the Board of Elektrobot Automotive GmbH

Chairman of the Board of Elektrobot Technologies Ltd.



**VELI-PEKKA PALORANTA**

Chief Financial Officer

Member

**SEPPO LAINE**

Elektrobot Corporation, Chairman of the Board b. 1953, Authorized Public Accountant<sup>6</sup>

## ELEKTROBIT AUTOMOTIVE GMBH

### Managing Directors

Alexander Kocher

President, Automotive Business Segment, 2011–7

b. 1960, M.Sc., Electrical Engineering

Wind River Systems, Automotive Solution, 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, Systems Engineering Infotainment 2001–2002. Infineon, Director, Systems Engineer in Industrial & Automotive 1998–2000. Siemens Communications and Siemens Industrial, various management positions 1986–1997.

Holdings:

Does not hold shares in Elektrobot Corporation. Holds 100,000 stock options 2008A and 100,000 stock options 2008B.

Gregor Zink

Executive Vice President, Finance and Business Support, Automotive Business Segment 2011–

b. 1966, MBA, M.Sc. (Econ.)

CA Germany, RAC Manager/Finance Manager 2007–2010. Aareon AG, CFO 2004–2008. ino 24 AG, Finance Manager 2002–2004. digital advertising AG, Finance Manager 2000–2001. AWT Allgemeine Wirtschaftstreuhand, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Auditor 1996–2000. Hülzburger, Hemmer & Hoffman, Accounting and Tax Consultant 1993–1996.

Holdings:

Does not hold shares in Elektrobot Corporation. Holds 70,000 stock options 2008C.



**PÄIVI TIMONEN**

Chief Legal Officer



**STAFFAN SIMBERG**

Member of the Board of Elektrobot Corporation and Chairman of the Financial and Auditing Committee

Member of the Board of Elektrobot Technologies Ltd.



**ERKKI VEIKKOLAINEN**

Member of the Board of Elektrobot Corporation

Member of the Board of Elektrobot Technologies Ltd.



**HANNU HUTTUNEN**

Managing Director of Elektrobot Technologies Ltd.

President, Wireless Business Segment



**JORMA HALONEN**

Member of the Board of Elektrobot Corporation

Member of the Board of Elektrobot Automotive GmbH



**GERHARD JAKOBS**

Member of the Board of Elektrobot Automotive GmbH



**SEPPO LAINE**

Chairman of the Board of Elektrobot Corporation and Member of the Financial and Auditing Committee

Member of the Board of Elektrobot Automotive GmbH



**ALEXANDER KOCHER**

Managing Director of Elektrobot Automotive GmbH

President, Automotive Business Segment



**GREGOR ZINK**

Managing Director of Elektrobot Automotive GmbH

Executive Vice President, Finance and Business Support, Automotive Business Segment

<sup>6</sup> For other information about Mr. Laine, please see Page 3.

<sup>7</sup> Kocher started as President of Automotive Business Segment on November 1, 2011. The employment relationship

of the previous President of the Automotive Business Segment, M.Sc. (Eng.), MBA Jarkko Sairanen ended on March 31, 2011 and between April 1 - October 31, 2011 the acting President of the Automotive Business Segment was the

segment's Vice President of Finance M.Sc. (Econ.) Gregor Zink. Both Kocher and Zink will continue as Managing Directors of Elektrobot Automotive GmbH.

# Corporate Governance Statement

## Reporting Period 1.1.-31.12.2011

### 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, increase 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.

The aim of risk management is not to:

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

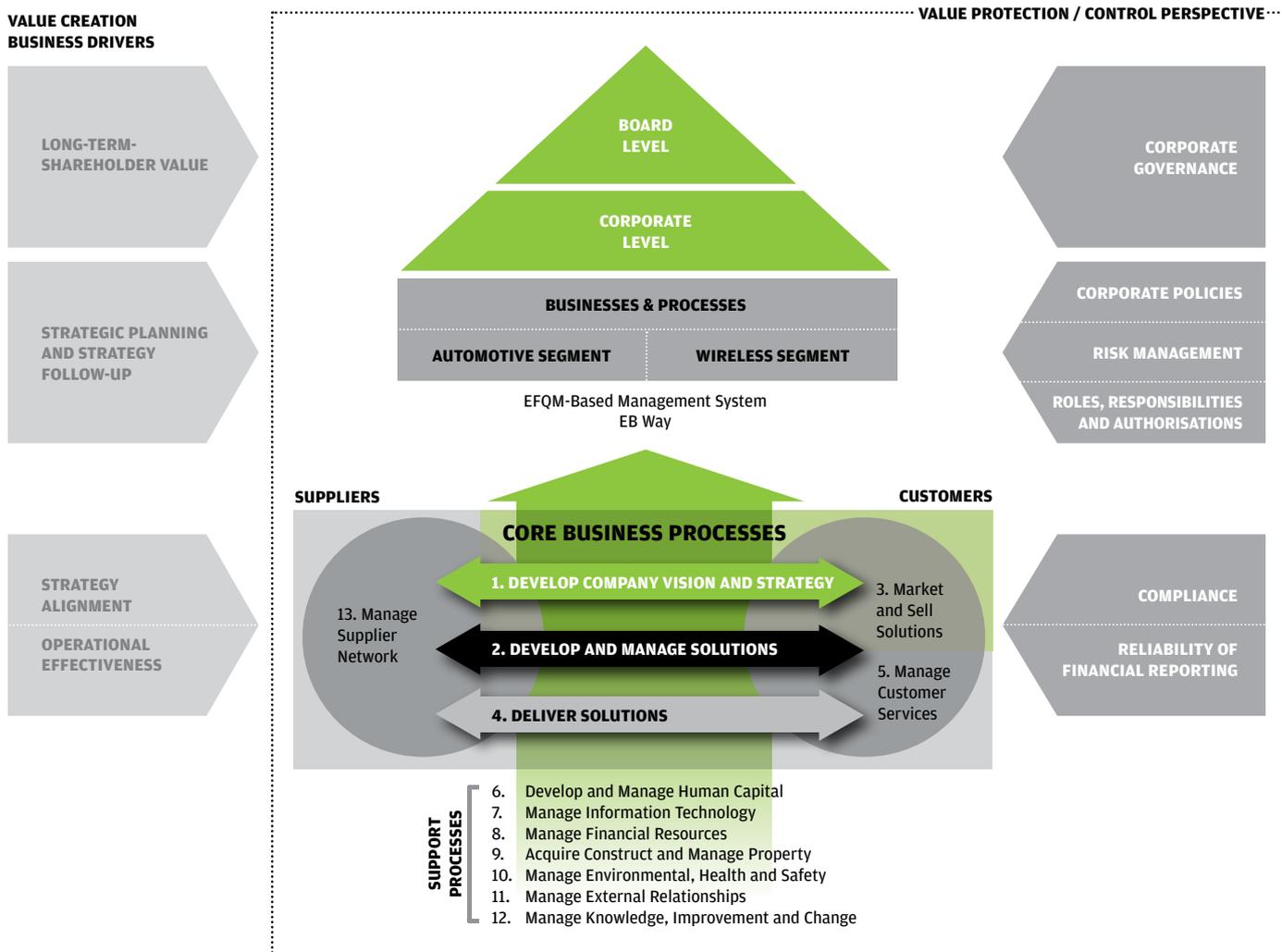
#### GENERAL DESCRIPTION OF INTERNAL CONTROL AND OPERATIONAL PROCEDURES

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



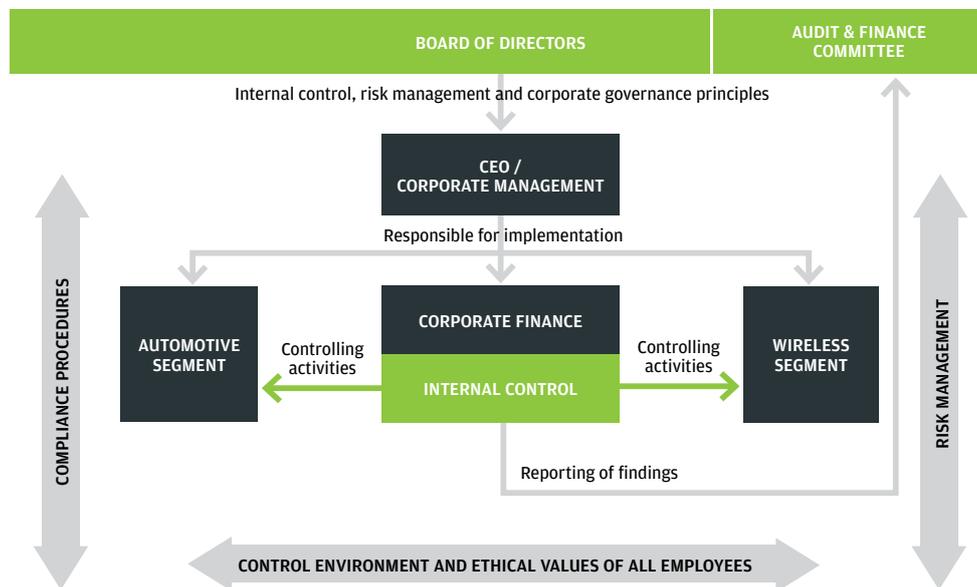
Governance and Internal Control Framework

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 organizational 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.

# Corporate Governance Statement

## Reporting Period 1.1.-31.12.2011



Key areas of the EB internal control framework in 2011

### 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 organisation

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 CEO of the business segment but matrix-wise also to the CFO of the Group.

In addition, 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 of 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 -segment is located in Finland and the financial management of the Automotive -segment in Germany. The Group's subsidiaries in China, Germany and USA have own accounting departments. Accounting functions in smaller subsidiaries in France and Japan are organized in the 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 mainly done by using the Group's common accounting system from which the actual figures are reported on a monthly basis directly to the consolidation system. Subsidiaries in Japan and France send the information in a pre-defined format directly to the group consolidation.

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 outsourced service. Purchase invoices are circulated through electronic invoice processing system.

The same bank application is used in both Finland and Germany, 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 is 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 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. The CEO and the management of the Group functions and the CEO's of the business segments, which operate under CEO, are responsible for the management of risks endangering the fulfillment of objectives set to the Company.

#### Chief Financial Officer

CFO ensures that the Group's accounting and financial reporting practices comply with the law and that the financial matters are handled in a reliable manner.

#### 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 relating 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:

- helping business segments to set up adequate control activities 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.



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