



EB, Elektrobit Corporation Interim Report Jan-Sept 2010

CEO Jukka Harju

October 28, 2010

Forward-looking Statements

Some statements made in this material relating to future circumstances or status, including, without limitation, future performance of the company, expectations regarding market growth, trend projections as well as any statements preceded by the words “expect”, “believe”, “foresee” or similar expressions are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty and actual results may, therefore, differ materially from the results that are expressed or implied by these forward-looking statements. Elektrobit Corporation disclaims all obligations to update such forward-looking statements except as required by mandatory law.



Major Events during 3Q 2010

- Net sales on the level of last year



- Strong growth in net sales of the Automotive Business Segment
- Strong balance sheet
- Clearly increased investments in own R&D in both Business Segments
- EUR 8.3 million statutory provision booked due to risk of losing receivables from TerreStar Networks

Agenda



- TerreStar Networks
- Financial Performance in 3Q and 1-9 2010
- Business Segments in 3Q 2010
- Outlook for 2H 2010
- Q&A

TerreStar Networks

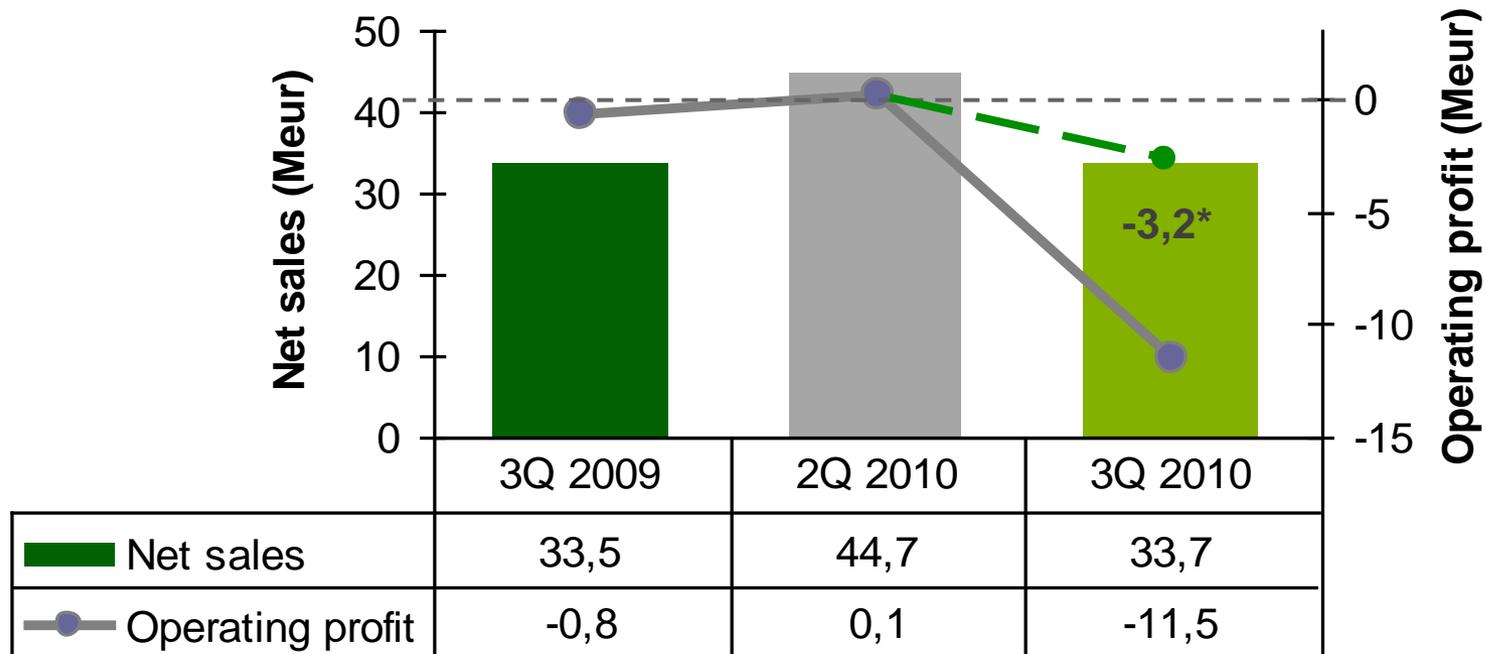
- On Oct 19, TerreStar Networks Inc., a customer of EB's subsidiary Elektrobit Inc., filed voluntary petitions for reorganization under Chapter 11* in order to strengthen their financial position.
- EB's receivables from TerreStar Networks on Oct 26, 2010
 - approx. USD 25.9 million (MEUR 18.6)
 - USD 24.2 million (MEUR 17.4) are outstanding
- TerreStar Networks' court filings do not contain a plan of reorganization
 - EB anticipates it will be presented for the approval of creditors and the Court later
 - payment of amounts owed to creditors will require approval by the United States Bankruptcy Court and, if made pursuant to a plan of reorganization, an affirmative vote of creditors
- The form or timing of EB's receivables cannot be predicted with any degree of certainty at this time
- Due to uncertainty as to how the receivables will be treated in the reorganization, **EB booked a statutory provision of EUR 8.3 million for 3Q**

More information in the stock exchange releases of Oct 20 and 25, 2010



Net Sales Remained Stable in 3Q Y-on-Y

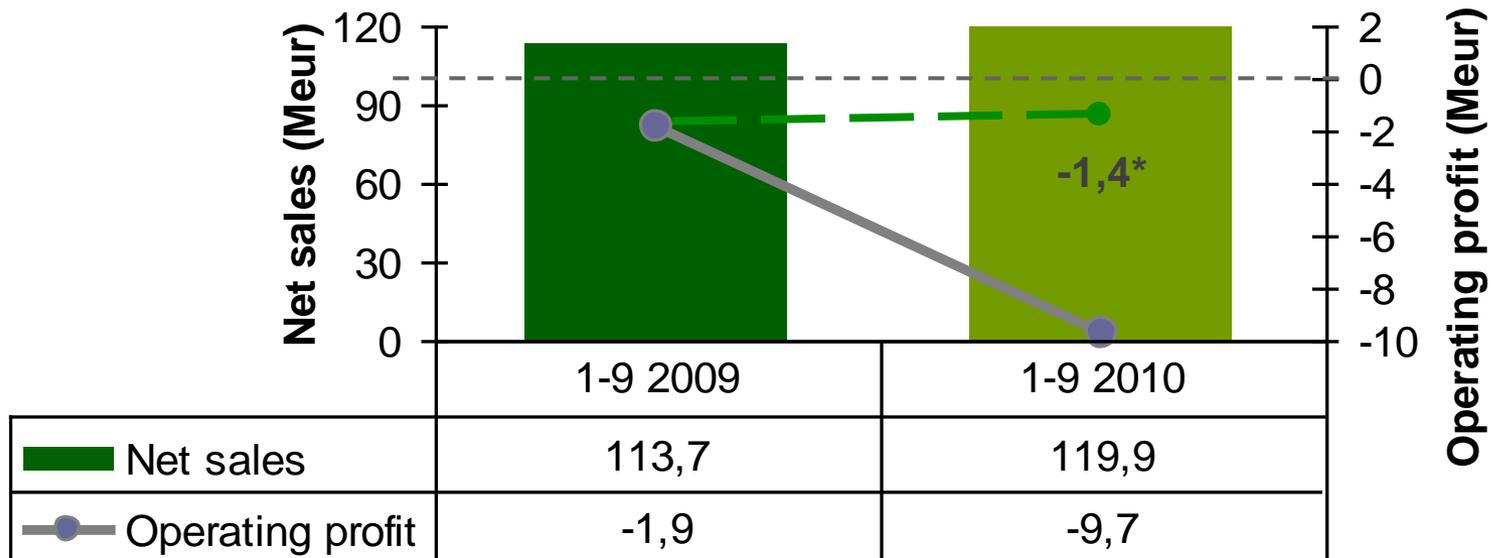
- Profitability fell due to weaker wireless business



- Net sales grew by 0.6% Y-on-Y
- *Operating loss excluding the statutory provision of MEUR 8.3 was MEUR -3.2
- Seasonal fluctuation in 3Q
- EPS at EUR -0.07 including the statutory provision

Improved Net Sales 1-9 2010

- Operating profit excluding statutory provision stable Y-on-Y



- Net sales grew by 5.5%
- * Operating loss excluding the statutory provision of MEUR 8.3 was MEUR -1.4
- EBITDA at MEUR -3.2 (MEUR 5.6 1-9 2009)
- EPS -0.08 including the statutory provision

The Equity Refund

- The Annual General Meeting of March 25, 2010 approved the proposals of the Board of Directors
 - to distribute the shareholders **EUR 0.20 per share** from the parent company's share premium fund.
 - to decrease the share premium fund by transferring to the company's invested unrestricted equity fund the funds remaining in the share premium fund after the above distribution
 - The resolution was booked on the balance sheet in March 2010
- The Finnish National Board of Patents and Registration gave its consent on August 12, 2010
- On September 2, 2010, the shareholders were **distributed EUR 25,882,538.00 in total**
- **EUR 38,696,853.50 was transferred** to the invested unrestricted equity fund

More information in the stock exchange release of Aug 13, 2010



Jan-Sept Operating Cash Flow Positive

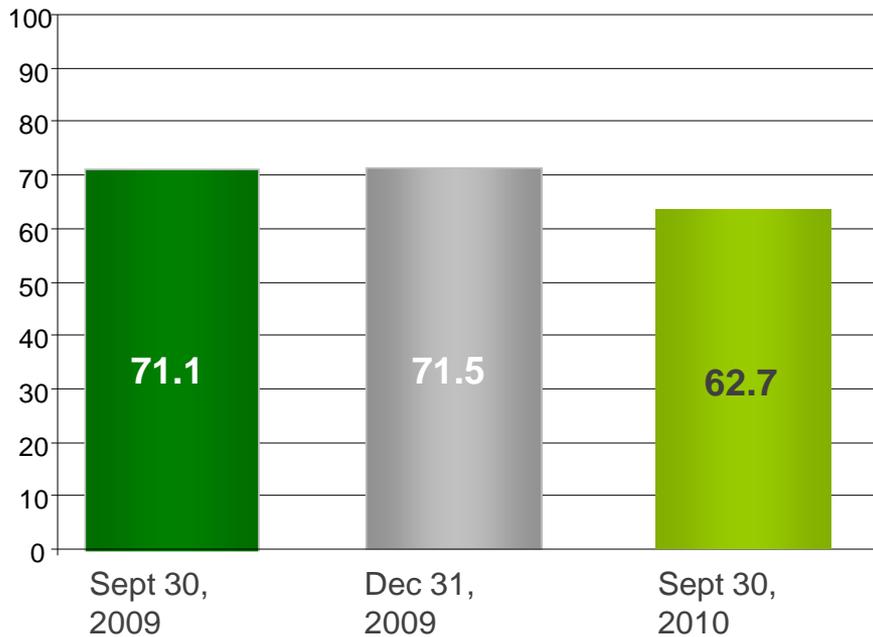
- Clear improvement Y-on-Y

MEUR	Sept 30, 2010	Sept 30, 2009	Dec 31, 2009
- net profit +/- adjustment of accrual basis items	+6.7	+3.7	+5.6
- change in net working capital	+3.7	-1.6	-3.8
- interests, taxes, and dividends	-4.1	-1.2	-1.4
NET CASH FROM OPERATING ACTIVITIES	+6.3	+0.9	+0.4
- net cash from investing activities	-5.0	-2.8	-3.4
- net cash from financing activities	-30.6	-4.6	-6.5
NET CHANGE IN CASH AND CASH EQUIVALENTS	-29.2	-6.4	-9.5

- Cash flow from business operations amounted to MEUR 6.3 (MEUR 0.9 in Sept 30, 2009).
 - Improved NWC (mainly thru increased advance payments)
 - 3Q operating cash flow at EUR 0.2 million
- Net cash flow at MEUR -29.2 mainly due to the MEUR 25.9 equity refund of Sept 2, 2010
 - Cash and other liquid assets totaled MEUR 29.8 (MEUR 62.2 in Sept 30, 2009)

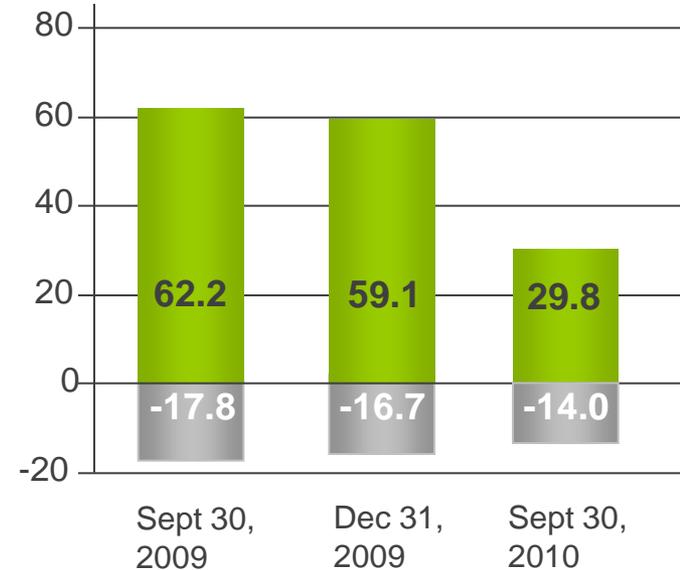
Balance Sheet Remained Strong

Equity ratio, %



- Equity ratio remained strong despite the statutory provision

Cash and liquid assets & interest bearing debt, MEUR



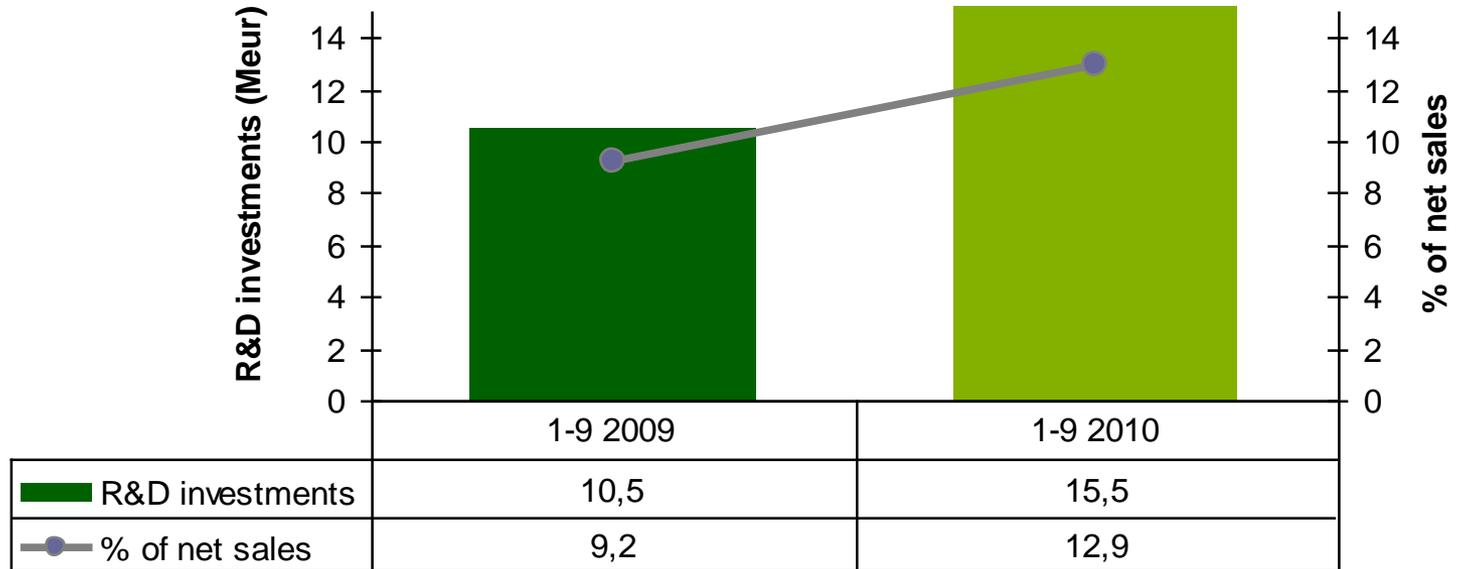
- Cash and liquid assets
- Interest bearing debt

- Net debt free balance sheet
- Equity refund of MEUR 25.9 on Sept 2, 2010



Clearly Increased Investments in Own R&D

- According to the strategy



- EB continued investing in Automotive software products and tools, radio channel emulation products and Wireless Solutions product platforms
- The R&D investments in 3Q 2010 were MEUR 5.4 (MEUR 3.5 in 3Q 2009)
- MEUR 3.3 were capitalized during 1-9 2010

Major Events during 3Q 2010

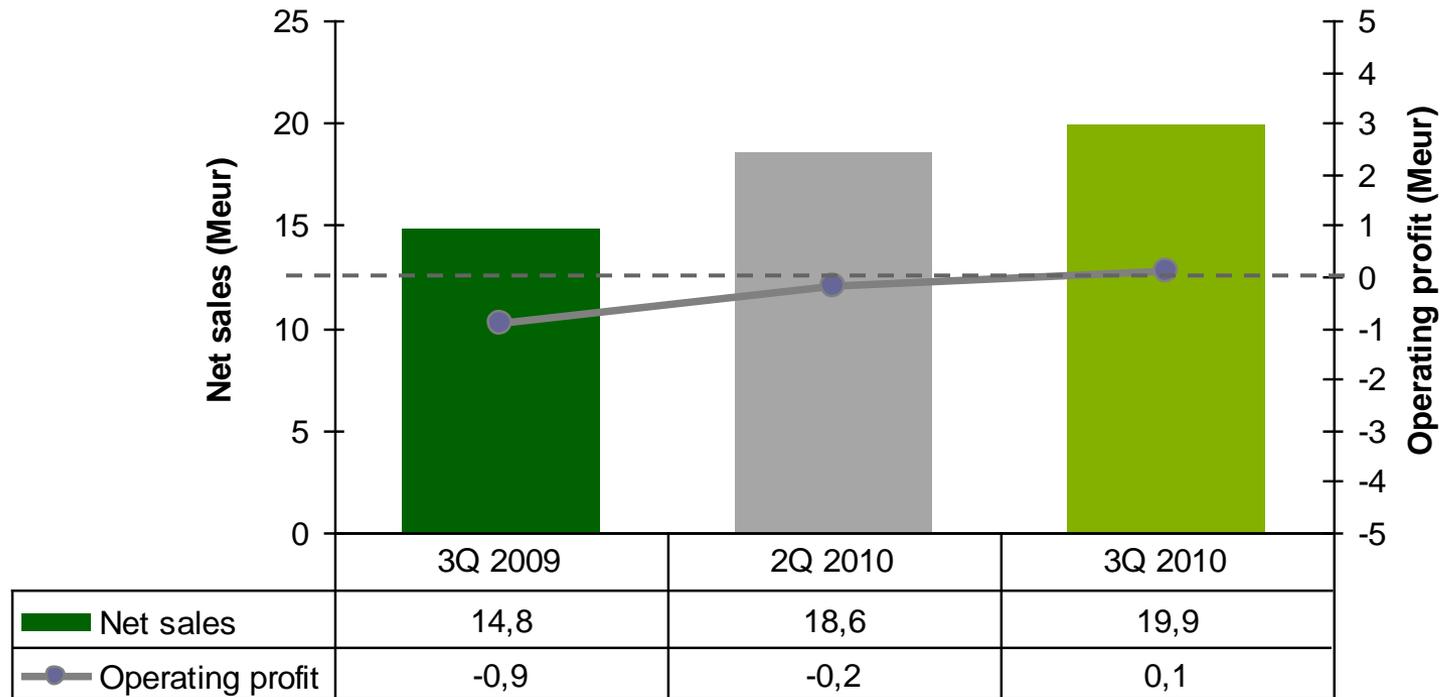
- Automotive Business Segment



- Increased sales for automotive products and services and solid overall market demand
- Navigation software and speech dialog software for the infotainment head unit of the new Audi A1
- EB is a global AUTOSAR partner for several Tier1 system vendors

Automotive Business Segment 3Q 2010

- Clear improvement Y-on-Y

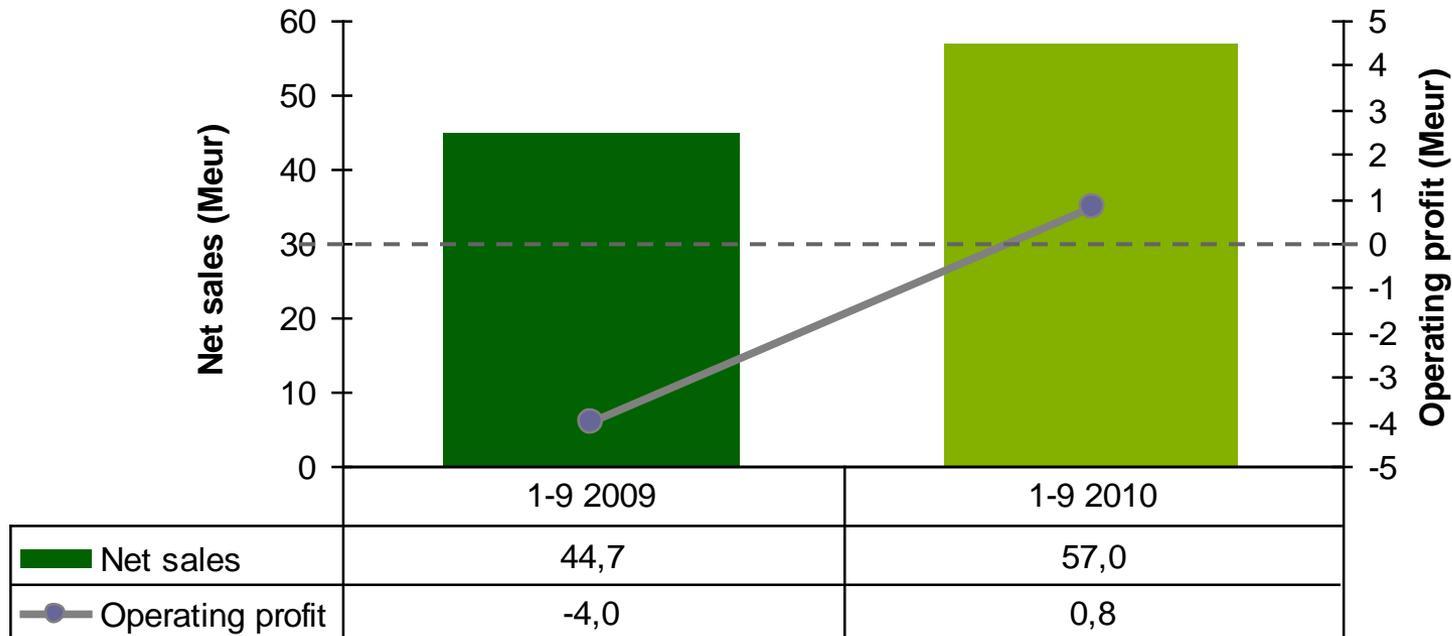


- Strong 34.4% growth in net sales Y-on-Y
- Positive operating result
- Profitability improvement Y-on-Y



Automotive Business Segment 1-9 2010

- Clear improvement in net sales and profit



- Strong 27.7% growth in net sales
- Clear improvement in profitability mainly due to increased sales and solid overall market demand

Automotive Market Outlook

The share of electronics and software in cars has grown significantly during the past years and the trend is expected to continue.



- The estimated **annual automotive software market long-term growth rate** is some 15% (Frost & Sullivan).
 - The expected underlying world **automotive market** growth rate is about 6% yearly during 2010-2015 (CSM).
 - Gradual **separation of software and hardware**
 - Increasing use of **standard software solutions**
- *Cost pressures of the industry are expected to accelerate the need of productized, efficient software solutions EB is offering.*
- Transition towards **software product business models**
- *The dependency of EB's net sales on the car production volumes is expected to increase in the coming years.*

Major Events during 3Q 2010

- Wireless Solutions



- EB-designed TerreStar GENUS smartphone became available in the USA
- Good progress in the defense market
- Stable demand for services and solutions in the device domain
- The strengthening of EB's Open Source Software capabilities continued
- Electrobit Inc.'s customer TerreStar Networks filed for reorganization, EB booked a statutory provision of MEUR 8.3 due to risk of losing receivables

Major Events during 3Q 2010

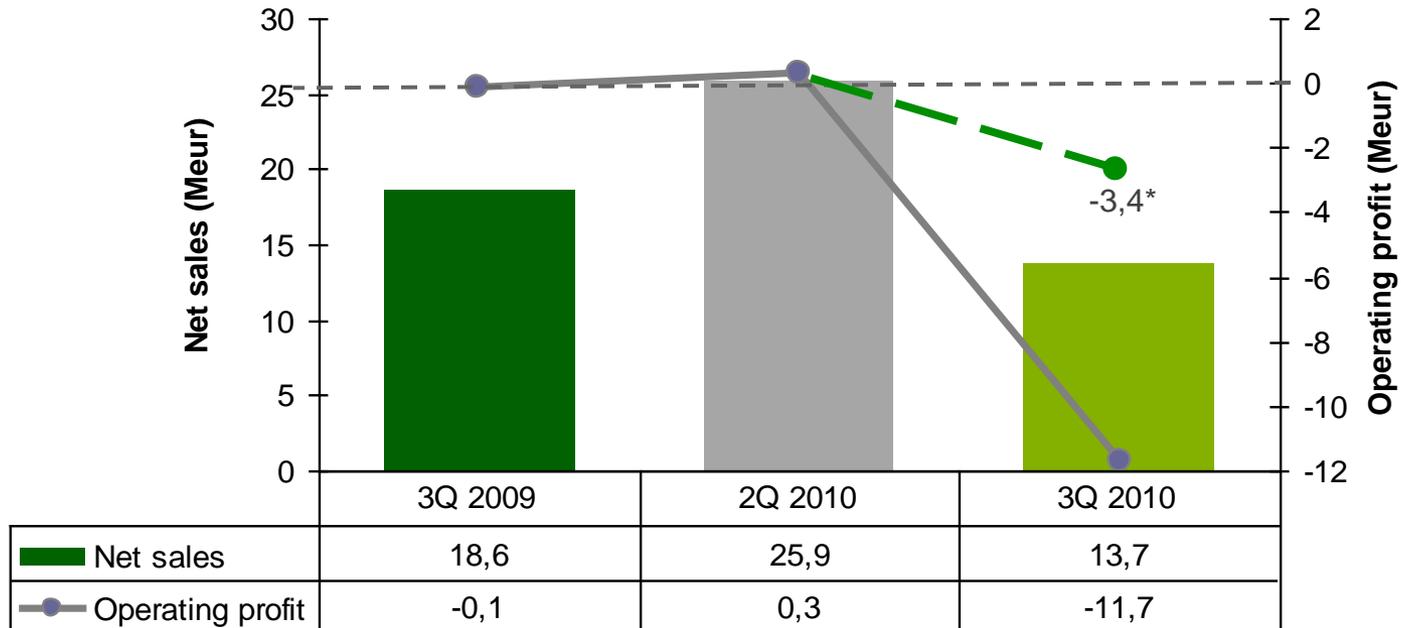
- Wireless Communications Tools



- Wireless Communications Tools demand continued to be driven by the advanced development tools for 3GPP LTE technology
- EB invested further in R&D and announced the availability of EB Prosim F8 Aerospace and Satellite channel emulation Option (ASO) for the aerospace and defense markets

Wireless Business Segment 3Q 2010

- Clearly weaker net sales and result

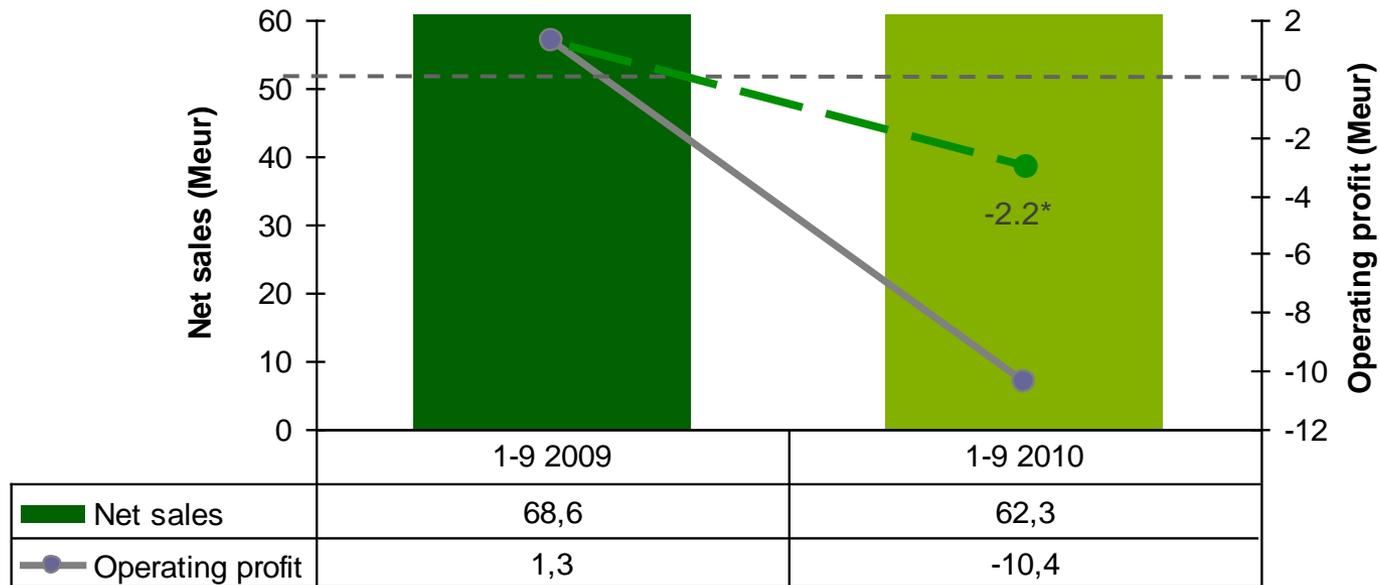


- Net sales declined by 26.4% Y-on-Y
- * Operating loss excluding the statutory provision was MEUR -3.4 (MEUR -0.1)
 - The fall was mostly due to weaker sales in the satellite terminal and mobile infrastructure markets
- Operating loss including the statutory provision was MEUR -11.7



Wireless Business Segment 1-9 2010

- Clear decline in profitability mostly due to 3Q



- Net sales declined by -9.1% Y-o-Y
- * Operating loss excluding the statutory provision was MEUR -2.2



Wireless Market Outlook

The global mobile device market volumes have continued to grow in 2010 especially in the area of smart phones. The value share is expected to move towards higher-end due to the increased demand for new features and services.



- **The global mobile infrastructure market** is expected to be flat in 2010.
- **The wireless communication R&D services market** is still challenging.
 - *OEMs are expected to increase their R&D flexibility. Open software architectures and platforms create opportunities for companies such as EB with strong integration capabilities.*
- **The mobile satellite communication service industry** is introducing new data and mobile communication services.
- **The satellite-terrestrial and Mobile Satellite Services (MSS) market** demand is expected to start moving towards the launch of commercial products and services.
 - *This can create new service and product related business opportunities for EB.*
- Need for **advanced development tools for 3GPP LTE technology** is expected to **remain** as a driver for the demand.
 - *EB provides world leading channel emulation tools for the development of MIMO based 3GPP LTE and other advanced radio technologies.*

Personnel Negotiations

announced on October 28, 2010

- EB will start personnel negotiations in order to improve its profitability and to adjust the number of personnel to the lower sales volumes
-
- EB proposes to dismiss or temporarily dismiss approximately 150 employees maximum in Wireless Solutions business and EB corporate functions
- Targeted cost savings resulting from these measures would be EUR 4 million by the end of the first half of 2011
- These measures are not expected to have material effect on the result for the second half of 2010
- EB's outlook for 2H 2010 remains as announced on Oct 25, 2010



Outlook for the Second Half of 2010

During the second half the growth of EB's sales in the Automotive Business Segment is expected to continue. Sales in EB's Wireless Business Segment is expected to be lower than in the first half of the year.



- The continuing challenges of TerreStar Networks in obtaining funding have resulted payment delays and increased the risk of credit losses. This risk may grow during the 2H 2010.
- Due to Terrestrial Networks' reorganization process, EB has lowered its Terrestrial Networks related net sales estimates for 4Q 2010.
- Considering the current estimated implications of TerreStar Networks' filing for reorganization on EB's profit and financial position in 3Q 2010, as well as on the outlook for the parties' business relations in 4Q, EB expects that
 - Net sales for 2H 2010 will be higher than in 2H 2009 (EUR 73.6 million).
 - Operating profit for 2H 2010, without the statutory provision of EUR 8.3 million, will be clearly lower than the operating profit for 2H 2009 (0.0 million). The weakening operating profit level is mainly due to lowered TerreStar Networks related net sales estimates.



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