

Elektrobit Corporation Financial Statement 2012



Elektrobit

Jukka Harju, CEO
February 19, 2013



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.

Agenda



- Highlights of 4Q 2012
- Financial Performance in 4Q 2012 and in 2012
- Business Segments in 4Q 2012
- Outlook for 2013
- Q&A

Major Events during 4Q 2012



- EB's net sales increased clearly compared to 4Q 2011.
 - Net sales continued to grow in the both Business Segments.
- EB's operating result was only slightly positive due to the EUR 4 million non-recurring items booked due to the financial challenges of a US-based customer.
- In January 2013 EB sold its Test Tools product business to Anite
 - Test Tools product business is classified as discontinuing operations in the 2012 financial statement
- The P/L figures presented in this 2012 financial statement presentation include only continuing operations.

Sale of the Test Tools Product Business to Anite

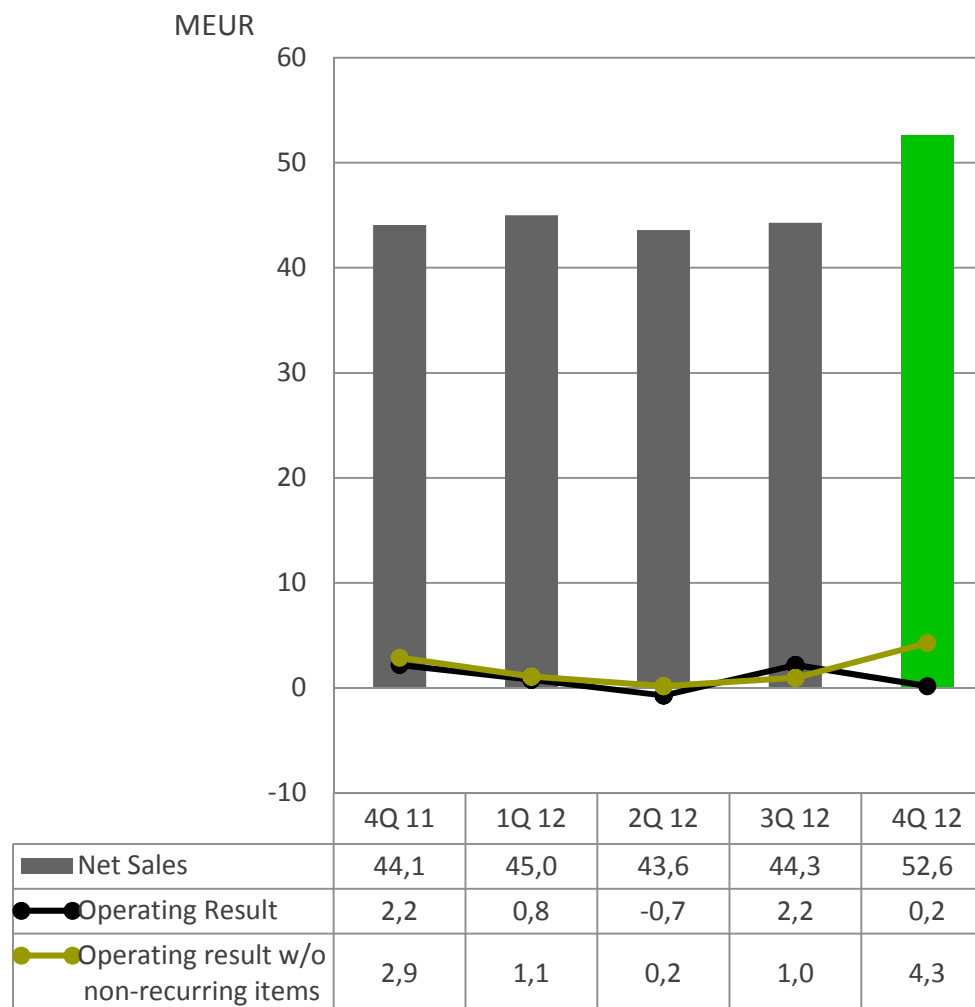


EB PropSim Product Family (EB PropSim F32, EB PropSim F8, EB PropSim FS8)

- At the end of January 2013 EB sold its Test Tools product business for EUR 31.0 million
- Results in about EUR 23 million non-recurring net profit and non-recurring EUR 28 million cash flow in 2013
- After this divestiture, the Wireless Business Segment is more focused in the markets which offer EB larger long term growth potential

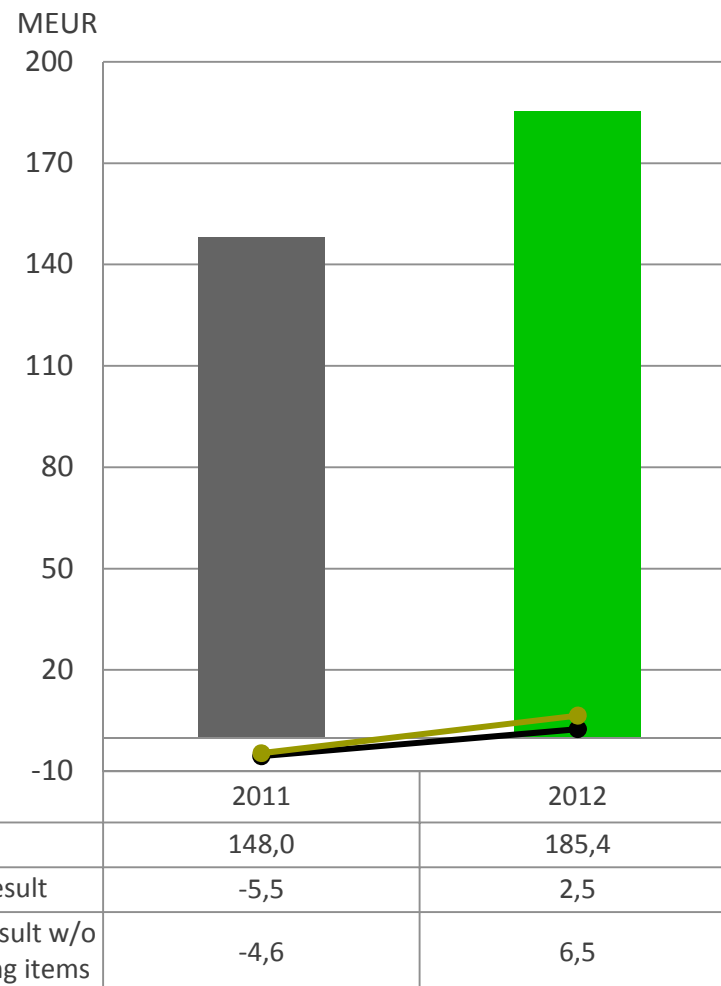
4Q 2012: Net Sales Increased Clearly Y-o-Y

- Net sales from continuing operations increased by 19.1% to MEUR 52.6 (MEUR 44.1, 4Q 2011)
- Operating profit from continuing operations was MEUR 0.2 including non-recurring items of approx. MEUR 4 in total, booked as a result of financial challenges of a US based customer (MEUR 2.2, 4Q 2011, including non-recurring costs related to collecting the receivables from TerreStar companies).
- Operating profit from continuing operations without the above mentioned non-recurring items was MEUR 4.3 (MEUR 2.9, 4Q 2011)



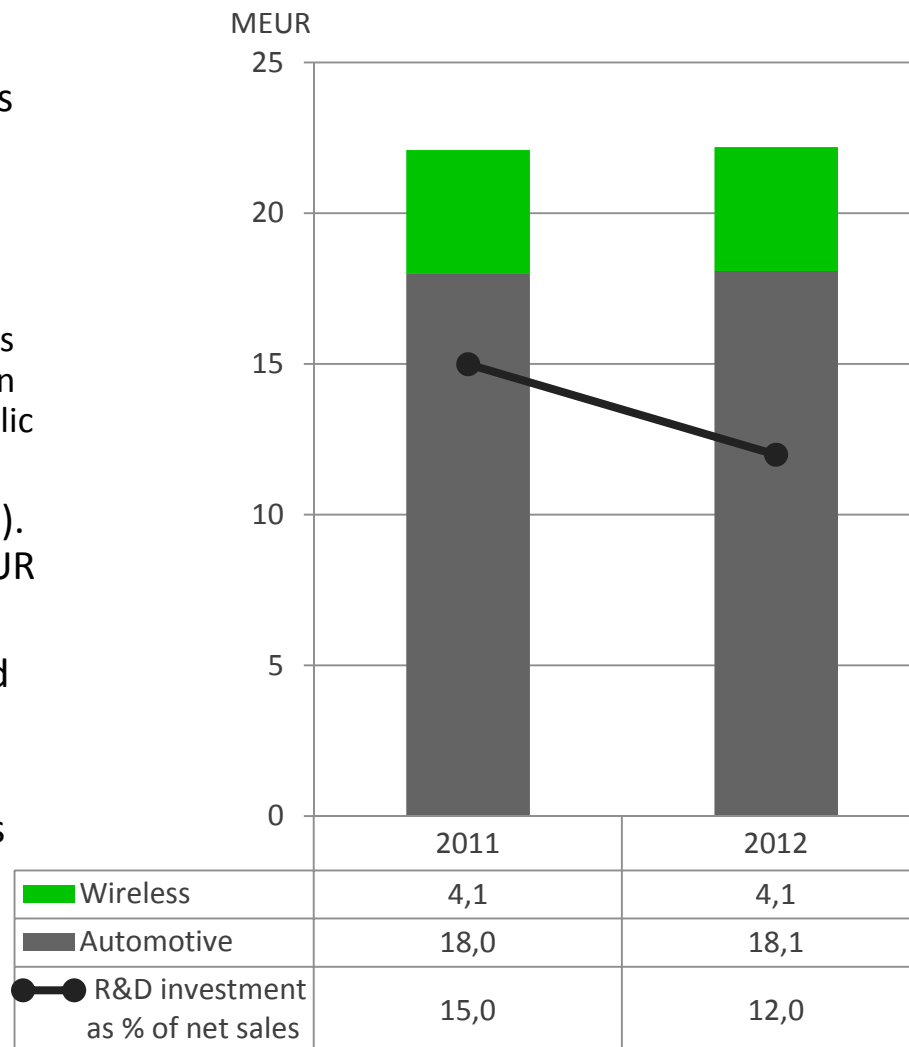
2012: Net Sales Grew and Operating Result Improved Clearly

- Net sales from continuing operations increased by 25.3 % to MEUR 185.4 (MEUR 148.0 in 2011)
- Operating result of 2012 include total MEUR 4 of non-recurring items weakening the financial performance.
 - Non-recurring costs of MEUR 1.2 related to reorganization process of TerreStar Companies (MEUR 0.2 in 2011)
 - Non-recurring income of MEUR 1.2 due to the settlement payment in the TerreStar Corporation reorganization process
 - Non-recurring items of approx. EUR 4 million in total booked as result of the financial challenges of a customer in the USA
- Operating profit from continuing operations was MEUR 2.5 including the above mentioned non-recurring items of approx. MEUR 4 in total (operating loss of MEUR -5.5 in 2011 including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar Companies).
- Operating profit from continuing operations without the above mentioned non-recurring items was MEUR 6.5 (operating loss of MEUR -4.6 in 2011)



R&D Investments Continued at the Same Level as in 2011

- R&D investments were MEUR 22.2 (MEUR 22.1 in 2011) equaling 12.0 % of the net sales (15.0 %, in 2011).
 - R&D investments in Automotive Business Segment were MEUR 18.1 (in automotive software products and tools).
 - R&D investments in Wireless Business Segment’s continuing operations were MEUR 4.1 (mainly in products and platforms for the defence and public safety markets).
- MEUR 2.9 was capitalized (MEUR 6.6 in 2011). Depreciations of R&D investments were MEUR 0.9.
- At the end of 2012 The amount of capitalized R&D expenses was MEUR 13.5.
- Significant proportion of the capitalized R&D expenses are related to Automotive Business Segment’s customer agreements with expected future license fees based on actual car delivery volumes.

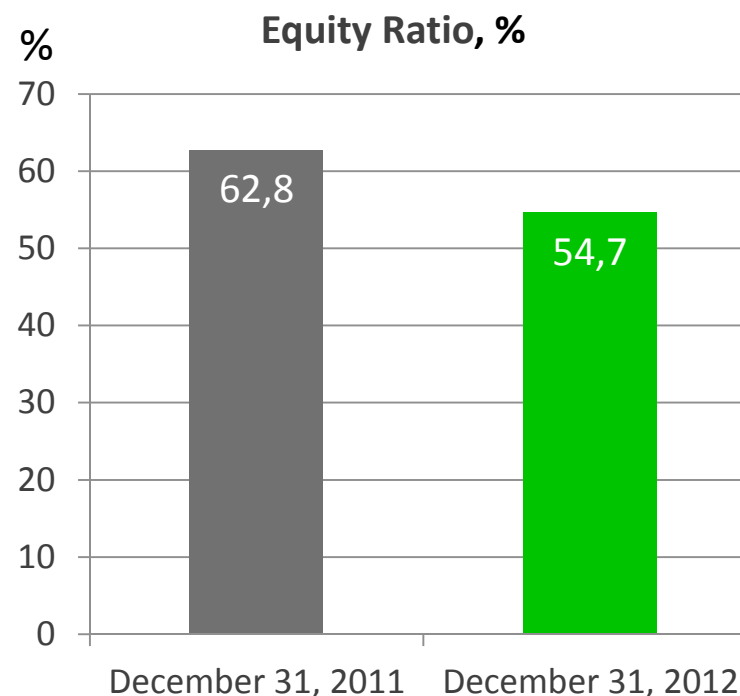
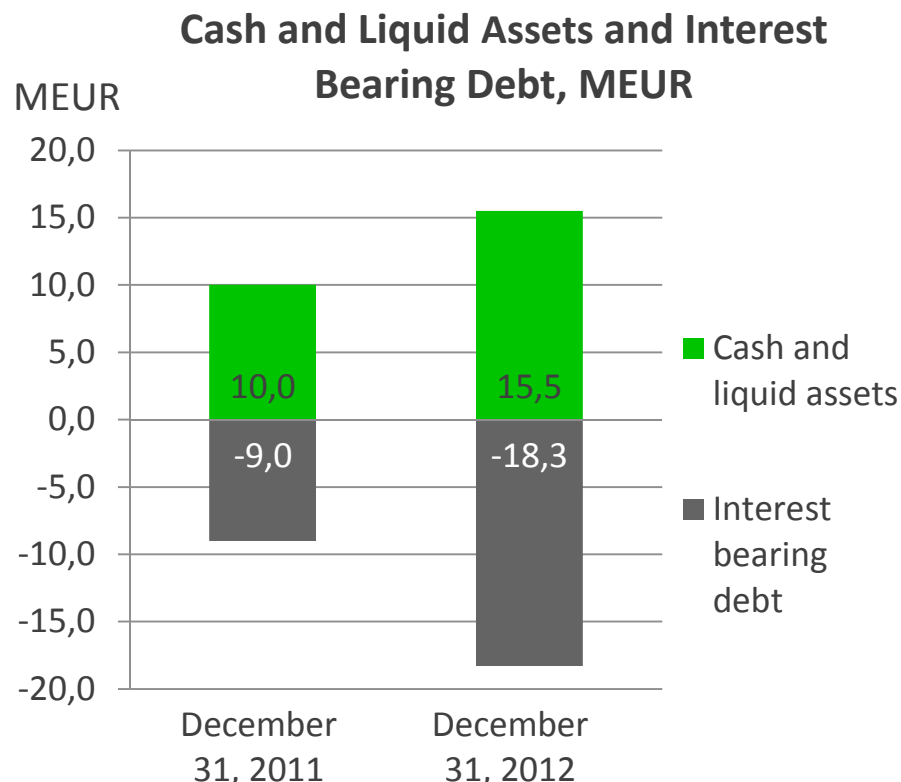


Operative Cash Flow in 2012 Was Clearly Positive

MEUR	4Q 2011	4Q 2012	Jan. -Dec. 2011	Jan. - Dec. 2012
- net profit +/- adjustment of accrual basis items	+5.5	+5.1	+2.1	+12.6
- change in net working capital	+2.0	+1.1	+0.6	-3.3
- interests, taxes, and dividends	-0.4	-0.2	+2.6	-1.3
NET CASH FROM OPERATING ACTIVITIES	+7,1	+6.0	+5.3	+8.1
- net cash from investing activities	-3.7	-2.7	-11.1	-8.7
- net cash from financing activities	-0.6	-6.1	-4.7	-6.1
NET CHANGE IN CASH AND CASH EQUIVALENTS	+2.7	-2.8	-10.6	+5.5

Full year 2012 cash flow from operating activities amounted to EUR 8.1 million (EUR 5.3 million in 2011) including the settlement payment of approximately EUR 10.8 million received from the TerreStar Corporation reorganization case in the third quarter of 2012.

Balance Sheet Remained Strong



- Net debt of MEUR 2.8.
- The increase in cash reserves is mainly caused by the MUSD 13,5 payment received from TerreStar Corporation and withdrawal of credit limits.
- MEUR 11.3 of the MEUR 20 credit facilities in use.

- Equity ratio decreased from previous year, but remained at a high level.
- The decrease in equity ratio is mainly due to increase of interest bearing debt during the reporting period.

TerreStar

- On August 28, 2012 U.S. time, EB received, based on a settlement, a cash payment of USD 13.5 million (EUR 10.8 million) in full and final satisfaction of its claim against TerreStar Corporation and in resolution of all disputes between EB and the other parties in the TerreStar Corporation Chapter 11 reorganization cases under United States Bankruptcy Code.
- This settlement payment resulted a non-recurring positive effect of approximately USD 1.6 million (EUR 1.2 million) to EB's operating result, and a non-recurring positive effect of USD 13.5 million (EUR 10.8 million) to EB's cash flow in the third quarter of 2012.
- The settlement does not include the TerreStar Networks Chapter 11 cases, which remain pending, and does not include any distribution therefrom that may be available for EB.
- Further information on TerreStar Corporation's and TerreStar Network's reorganization cases are presented in EB's interim reports and stock exchange releases, which can be found at www.elektrobit.com

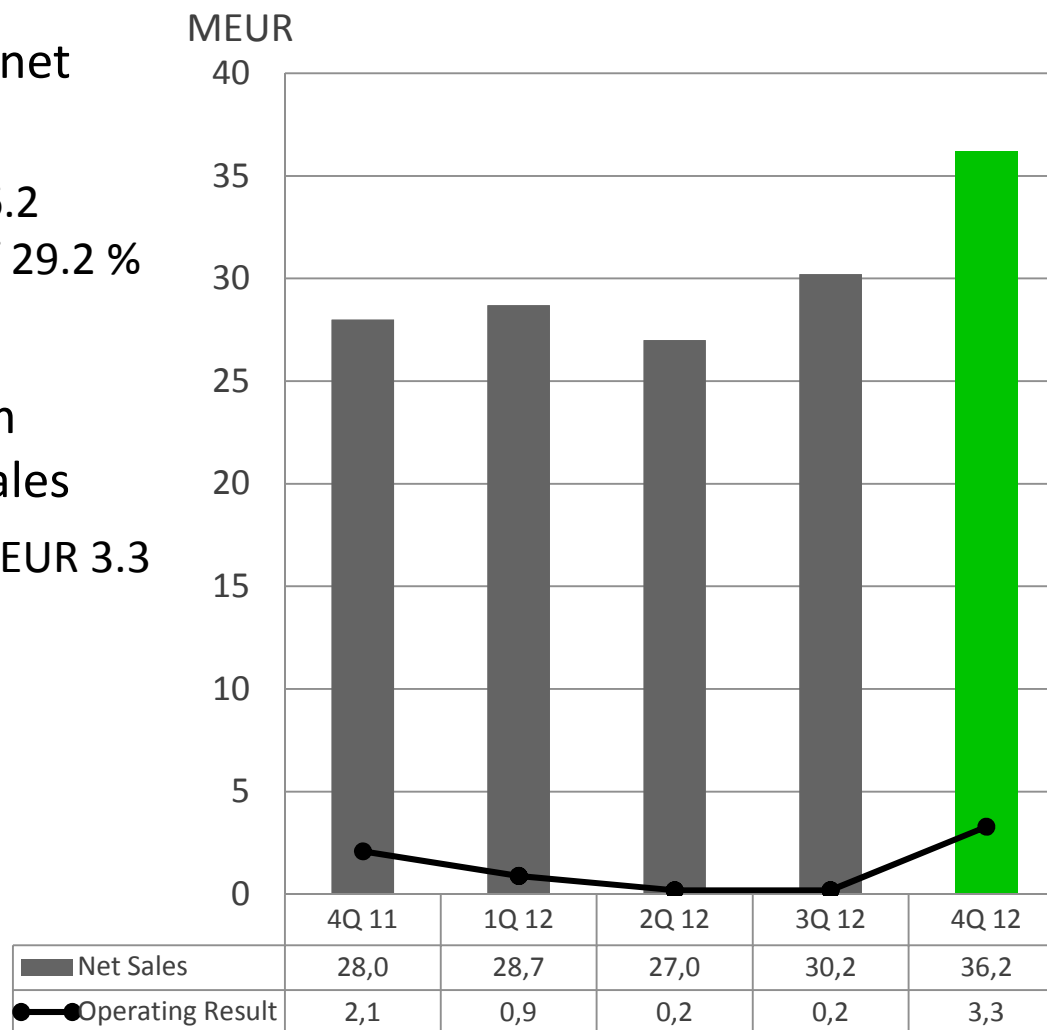
Automotive in 4Q 2012 – Major Events



- Good overall market demand continued for EB's services and own automotive grade software products.
- Net sales continued to grow during the fourth quarter in the Infotainment, Driver Assistance and ECU (Electronic Control Unit) software markets.
- Operating profit improved from 4Q 2011.
- EB launched a new version of its HMI development platform EB GUIDE 5.4. with support for speech, multi-touch and gesture interaction and a technology demonstrator for integration of web-based applications based on HTML5.
- e.solutions expanded its activities to include systems engineering and systems integration services to AUDI AG and other VW Group companies, and established a new site in Ulm, Germany with a plan to hire up to 100 R&D engineers by the end of 2013.
- In December, EB announced the new VW Golf VII, launched in autumn 2012, has EB's speech dialogue software EB GUIDE STF and navigation software, EB street director, integrated in its standard infotainment system.

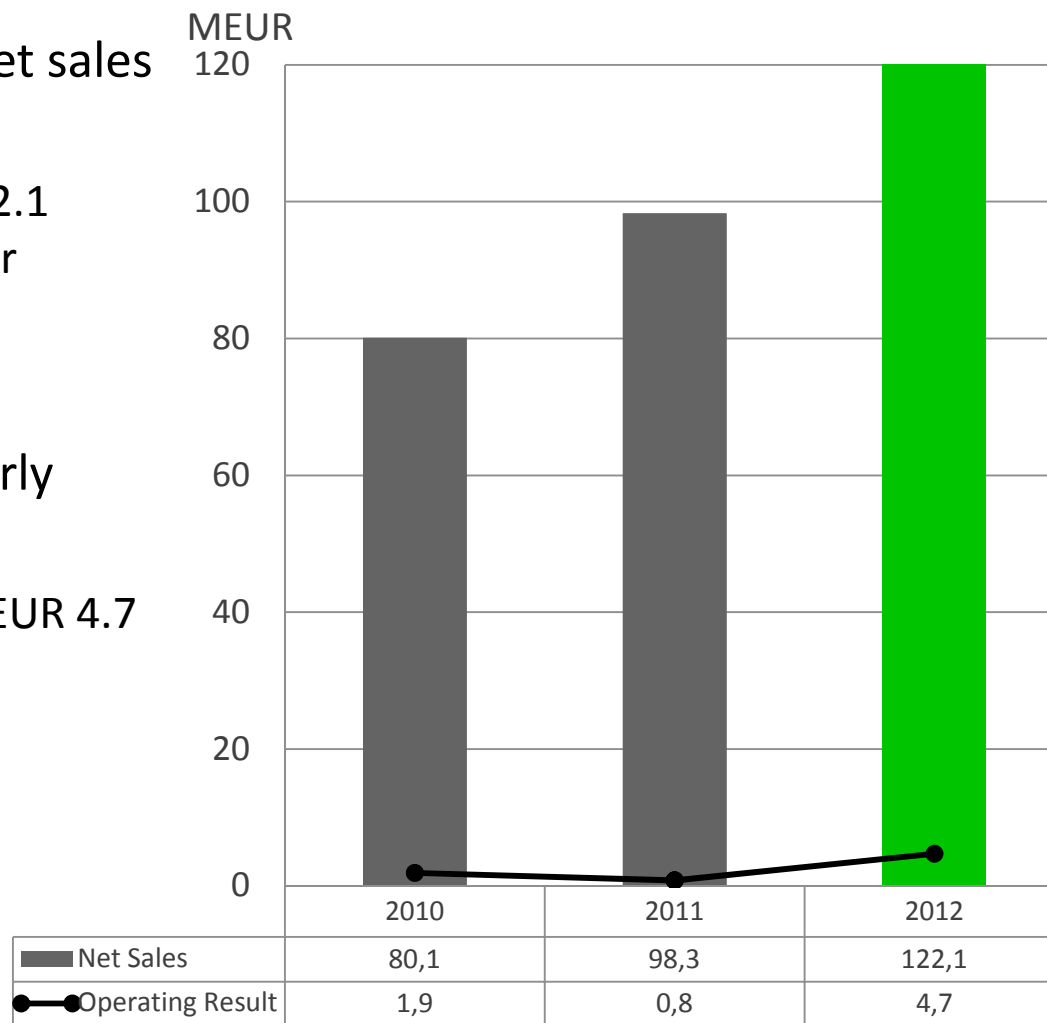
Automotive in 4Q 2012: Net Sales and Operating Profit Grew

- Strong year-on-year growth of net sales continued
 - 4Q 2012 net sales was MEUR 36.2 (MEUR 28.0, 4Q 11), increase of 29.2 %
- Operating profit improved from previous year to 9.1 % of net sales
 - 4Q 2012 operating profit was MEUR 3.3 (MEUR 2.1, 4Q 11)



Automotive in 2012: Net Sales and Operating Profit Grew

- Solid year-on-year growth of net sales continued
 - Net sales in 2012 was MEUR 122.1 (MEUR 98.3, 2011), year-on-year increase of 24.3 %
- Operating profit improved clearly from previous year
 - Operating profit in 2012 was MEUR 4.7 (MEUR 0.8, 2011)



Automotive Market Outlook

- The demand for EB's products and services is estimated to develop positively year-on-year during 2013 in the automotive market
- The market for automotive software products and services is estimated to continue growing during 2013, but at a slower pace than in the years before due to the grown economic uncertainties.
- Competition in the labor market for talented engineers continues to be tight especially in Germany
- e.solution GmbH, the jointly owned company with Audi, has a good net sales growth outlook for 2013
- The cars are becoming increasingly connected to internet and cloud based services
- Due to the increasing share of electronics and software in cars, the estimated annual automotive software market growth rate until 2019 is expected to exceed the growth rate of passenger car production volume, that is estimated to be 5.5 % CAGR (LMC Automotive's Q4 2012 Forecast)



EB tresos 6200

Wireless in 4Q 2012 – Major Events

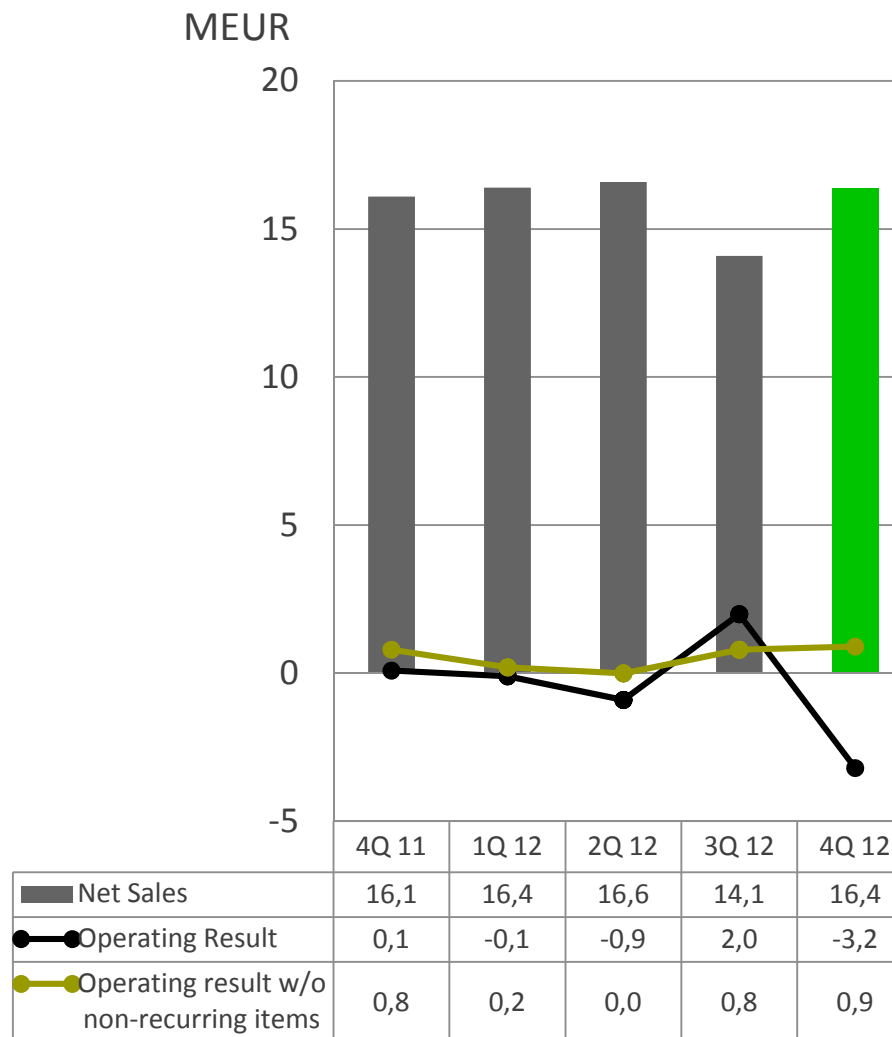


EB Tough VoIP Terminal

- Net sales from continuing operations grew slightly year-on-year.
- Operating result from continuing operations decreased and was negative due to the non-recurring items of approximately EUR 4 million booked as a result of the financial challenges of a customer in the USA.
- EB delivered the first series of tactical wireless IP Network products to Finnish Defence Forces.
- In January 2013 EB sold its Test Tools product business to Anite.
- In February 2013 EB announced its target to reduce annual costs by 2 MEUR

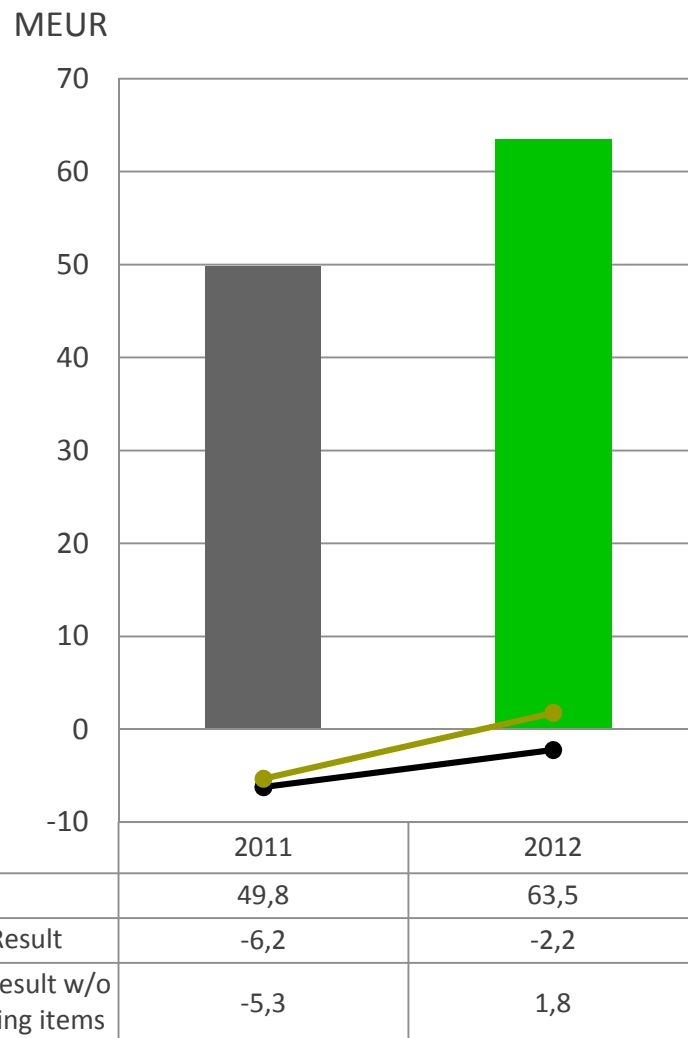
Wireless in 4Q 2012: Operating Loss due to Non-Recurring Items

- Net sales from continuing operations grew by 1.6 % year-on-year
 - 4Q 2012 net sales from continuing operations was MEUR 16.4 (MEUR 16.1, 4Q 2011)
- Operating result from continuing operations decreased year-on-year due to the non-recurring items of approximately EUR 4 million in total booked as a result of the financial challenges of a customer in the USA.
 - 4Q 2012 operating loss from continuing operations was MEUR -3.2 including MEUR 4.0 non-recurring items mentioned above (operating profit of MEUR 0.1 including MEUR 0.7 of non-recurring costs related to collecting the receivables from TerreStar companies, 4Q 2011)



Wireless in 2012: Strong Growth of Net Sales but Operative Loss due to Non-Recurring Items

- Net sales from continuing operations grew by 27.7 % year-on-year
 - Net sales from continuing operations in 2012 was MEUR 63.5 (MEUR 49.8 in 2011)
- Operating result from continuing operations was negative due to the non-recurring items of approximately EUR 4 million in total booked due to the financial challenges of a customer in the USA.
 - In 2012 the operating loss from continuing operations was MEUR -2.2 (MEUR -6.2 including non-recurring costs related to collecting the receivables from TerreStar companies, in 2011)
- The total EUR 4,0 non-recurring items include:
 - approximately EUR 4 million in total booked due to the financial challenges of a customer in the USA
 - MEUR 1.2 income resulting from the settlement payment in the reorganization case of TerreStar Corporation and MEUR 1.2 costs related to collecting the receivables from TerreStar Companies



Wireless Market Outlook



EB's products for the Defence market

- **The global defence market** is estimated to remain stable during 2013, however, the development of defence budgets varies geographically .
 - In Tactical Communications, the growing importance of situational awareness shared by military forces creates a need for new broadband networks, such as EB's IP (Internet Protocol) based tactical communications solutions.
 - EB currently aims at bringing its products to the global defence market with the target to gradually increase the product sales in the next few years.

- **For the markets of national security and other authorities**, EB offers specialized customized solutions based on its product platforms.
 - The trend of adopting new commercial technologies is expected to continue in special verticals such as public safety.
 - The specific LTE frequency band allocations for authorities create demand for customized LTE devices. .

- **In the mobile infrastructure market** the use of LTE technology is expected to continue strong creating the need for R&D services for LTE base station product variants.

- Need for R&D services for **connected devices for various end user needs** emerged during 2012 and this trend is expected to continue in 2013.

Consolidation of e.solutions GmbH to EB Changes

- EB will apply the new IFRS10 and IFRS11 standards from the beginning of 2013 and will consolidate e.solutions GmbH, the jointly owned company with Audi, applying the proportionate consolidation method.
 - EB holds a 51% stake in e.solutions GmbH, Audi holding the remaining 49%.
- Previously e.solutions GmbH has been included in EB's consolidated financial statements as subsidiary and it has been consolidated in full.
- As a result of the change in the method of consolidation, the proportion of net sales and operating result of e.solutions GmbH to be consolidated into EB's consolidated financial statements will decrease.
- The change in the method of consolidation as presented above has been taken into account in the 2013 outlook for net sales and operating result presented below and the 2012 net sales and operating result, presented for comparison, are pro forma figures, assuming that proportionate consolidation method would have been applied already in 2012.

Outlook for 2013 – Markets

- In Automotive Business Segment;
 - Carmakers continue to invest in software for new car models and the market for automotive software products and services is estimated to continue growing.
 - However the growth rate of the global automotive industry is estimated to be less than in the previous year due to the financial uncertainties in Europe.
 - Despite these uncertainties, many carmakers have continued good financial performance also during the end of 2012 and slowing down of the markets affects different car makers in different ways.
- In the Wireless Business Segment;
 - the demand growth will be driven especially by
 - the increasing use of the LTE technology that increases the performance of mobile networks, and
 - the authorities' needs for new communication solutions that use commercial technologies of smart phones and mobile networks, as well as
 - the growing need of companies to provide wireless connectivity of their devices, targeted to consumers and for professional use, to broader solutions.
 - General cost saving measures of the public sector reflects the demand in the public safety markets in Europe.

Outlook for 2013 – Financial

- EB expects for the year 2013 that net sales will grow and operating result to be at the same level as it was in 2012 without the non-recurring items (pro forma net sales of EUR 173.8 million, and pro forma operating profit without non-recurring items of EUR 5.1 million, in 2012).
- Operating result is expected to be clearly better in the second half than in the first half of 2013 , due to
 - higher product license sales during the second half of the year and other seasonality factors in the Automotive Business Segment , and
 - the planned cost saving measures in the first half in the Wireless Business Segment.
- The profit outlook for 2013 does not include the non-recurring net profit of about EUR 23 million in 1Q 2013 resulting from the sale of the Test Tools product business, or any possible non-recurring income or costs related to the reorganization cases of TerreStar Networks Inc.

Cost Saving Measures in Wireless Business Segment

- EB will start cost saving measures in Wireless Business Segment with the target at EUR 2 million annual cost savings in order to better align the operations with the current business requirements.
 - The actions are expected to cause approximately EUR 1 million non-recurring costs in the first quarter of 2013.
- As part of the measures to improve the cost structure, EB plans to reduce its personnel in the Wireless Business Segment globally by approximately 30 persons in total.
 - Hence, EB will start personnel negotiations in Finland to dismiss maximum of 9 persons.
- EB will also concentrate some of its Wireless Business Segment operations to Finland and move the centre of its US operations from west coast to east coast, where many of the public sector customers are located.

Dividend: Proposal by the Board of Directors

- According to the parent company's balance sheet at December 31, 2012, the distributable assets of the parent company are EUR 104,362,407.50 of which the loss of the financial year is EUR -119,399.75.
- The Board of Directors proposes that the Annual General Meeting to be held on April 11, 2013 resolve to pay EUR 0.01 per share, i.e. in total EUR 1,294,126.90, as dividend based on the adopted balance sheet for the financial period of January 1, 2012 – December 31, 2012.
- The dividend will be paid to the shareholders who are registered as shareholders in the company's register of shareholders as maintained by Euroclear Finland Ltd on the dividend record date, Tuesday, April 16, 2013. The Board of Directors proposes that the dividend be paid on Tuesday, April 23, 2013.
- The Board of Directors emphasized the result from the financial period ended on 31.12.2012 as a basis for its proposal for distribution of dividend.

Important Dates in 2013

Financial Reports in 2013

- Interim Report 1Q 2013 on April 26, 2013
- Interim Report 2Q 2013 on August 8, 2013
- Interim Report 3Q 2013 on November 7, 2013

Annual General Meeting of Shareholders

- Annual General Meeting 2012 on Monday, April 11, 2013 at 1.00 pm (CET+1)
- At Oulu University, in Saalastinsali, Pertti Kaiteran katu
- Registration period: until April 8, 2013 by 10 am. (CET+1)
- The Finnish book-entry account number of the shareholder is needed for voting in advance.

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