

# Elektrobit Corporation Interim Report Jan. – Sept. 2012



Elektrobit

Jukka Harju, CEO  
November 6, 2012



## 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 3Q 2012
- Financial Performance in 3Q 2012 and in January-September 2012
- Business Segments in 3Q 2012
- Outlook for 2012
- Q&A

## Major Events during 3Q 2012

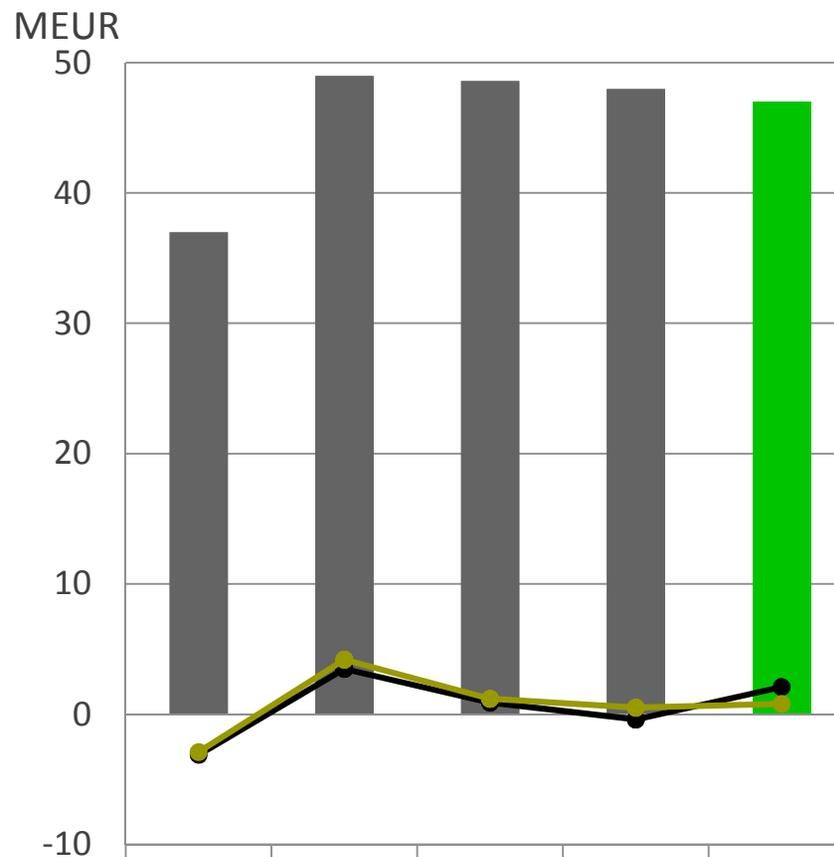


EB Prosim Product Family (EB Prosim F32, EB Prosim F8, EB Prosim FS8)

- EB's net sales increased clearly compared to 3Q 2011. Net sales continued to grow in both Business Segments.
- EB's operating result improved clearly from 3Q 2011.
- Non-recurring income and a positive cash flow impact from the settlement payment received in the reorganization case of TerreStar Corporation.

## 3Q Net Sales and Operating Result Improved Clearly Y-o-Y

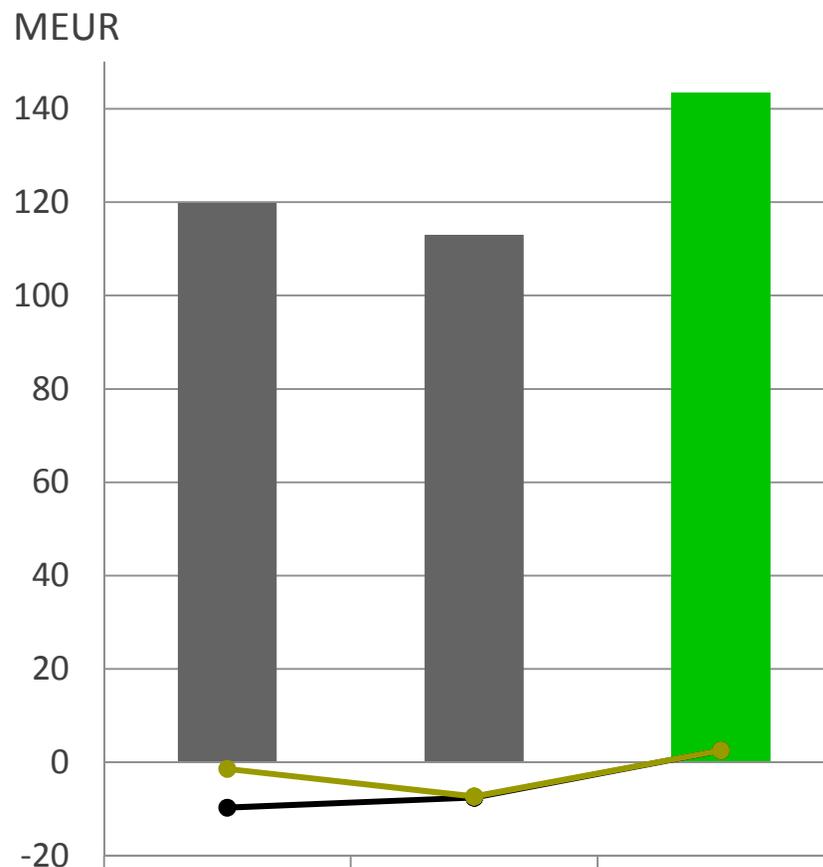
- Net sales increased by 27.0% year-on-year to MEUR 47.0 (MEUR 37.0, 3Q 2011)
- The financial figures of 3Q 2012 include approx. MEUR 1.2 non-recurring income and approx. MEUR 10.8 positive effect on cash flow due to settlement payment received in the TerreStar Corporation's reorganization process.
- Operating profit was MEUR 2.1 (operating loss of MEUR -3.1, 3Q 2011)
- Operating profit without non-recurring items related to reorganization process of TerreStar Companies was MEUR 0.8 (MEUR -2.9, 3Q 2011)



	3Q 11	4Q 11	1Q 12	2Q 12	3Q 12
■ Net Sales	37,0	49,0	48,6	48,0	47,0
●—● Operating Result	-3,1	3,5	0,9	-0,4	2,1
●—● Operating result w/o non-recurring items	-2,9	4,2	1,2	0,5	0,8

## 1-9 Strong Growth in Net Sales and Operating Result

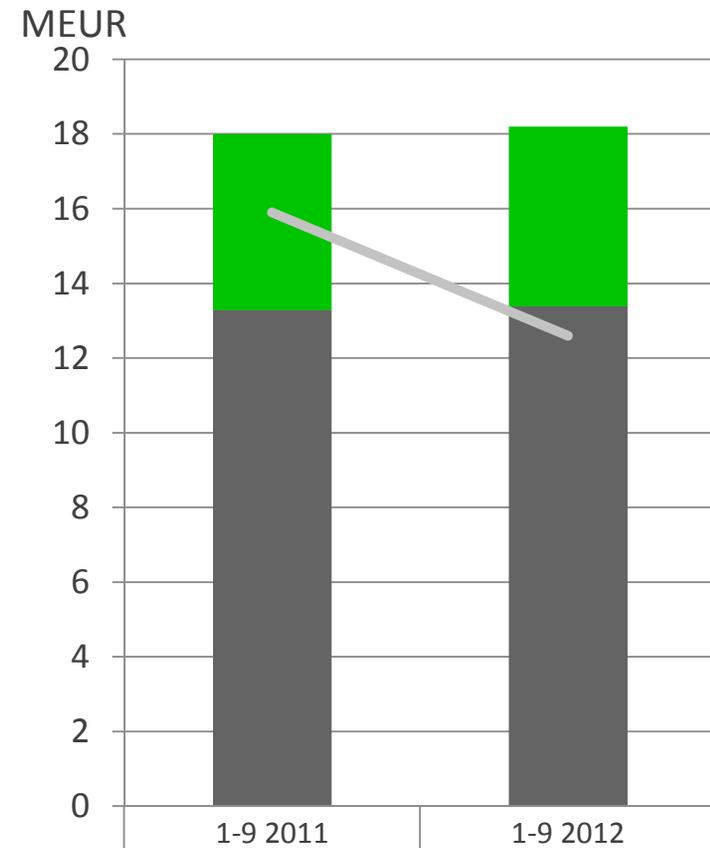
- Net sales increased by 26.9% year-on-year to MEUR 143.6 (MEUR 113.1, 1-9 2011)
- Operating profit was MEUR 2.6 (operating loss of MEUR -7.5, 1-9 2011) including:
  - Non-recurring costs of MEUR 1.2 related to reorganization process of TerreStar Companies (MEUR 0.2 in 1-9 2011)
  - Non-recurring income of MEUR 1.2 due to the settlement payment in the TerreStar Corporation reorganization process
- Operating profit without the above mentioned non-recurring items was MEUR 2.6 (MEUR -7.3 including non-recurring costs of EUR 0.2 million related to collecting the receivables from TerreStar companies, 1-9 2011)



	1-9 2010	1-9 2011	1-9 2012
Net Sales	119,9	113,1	143,6
Operating Result	-9,7	-7,5	2,6
Operating result w/o non-recurring items	-1,4	-7,3	2,6

## Strong R&D Investments Continued

- R&D investments were MEUR 18.2 (MEUR 18.0, in 1-9 2011) equaling 12.6 % of the net sales (15.9 %, in 1-9 2011).
  - R&D investments in Automotive Business Segment were MEUR 13.4 (in automotive software products and tools).
  - R&D investments in Wireless Business Segment were MEUR 4.8 (mainly in radio channel emulator products and products and platforms for defence and public safety markets).
- MEUR 2.9 was capitalized (MEUR 4.9, in 1-9 2011). The amount of capitalized R&D expenses was MEUR 13.7 at the end of September 2012. Significant proportion of capitalized R&D expenses are related to Automotive Business Segment’s customer agreements with expected future license fees based on actual car delivery volumes.



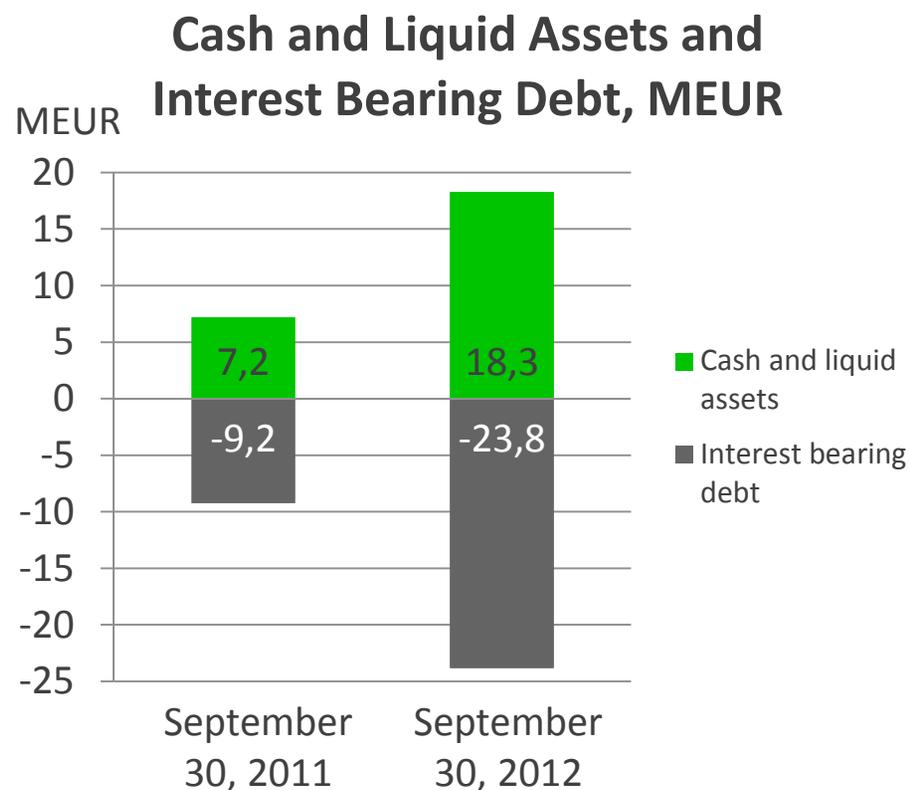
Wireless	4,7	4,8
Automotive	13,3	13,4
R&D investment as % of net sales	15,9	12,6

## Operative Cash Flow in 1-9 2012 Was Positive

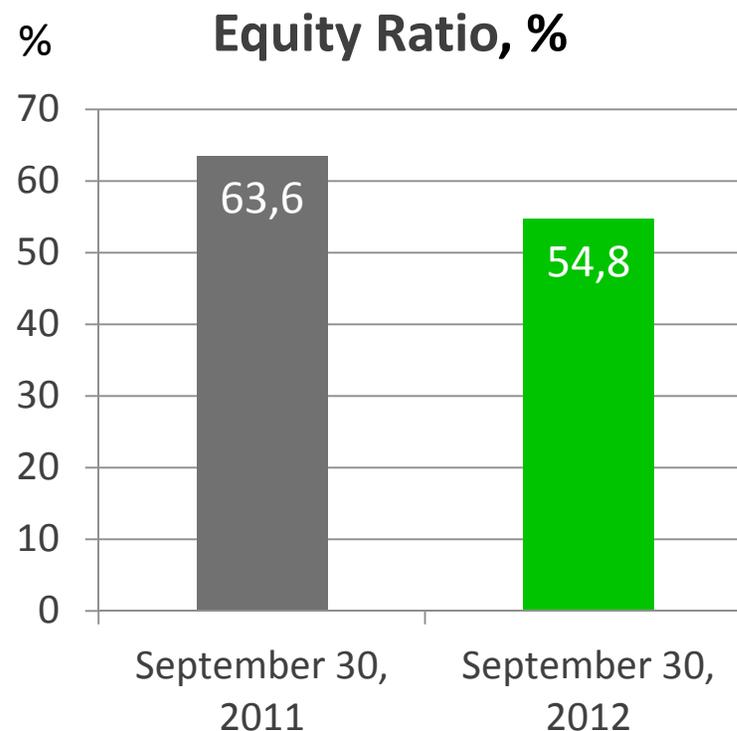
MEUR	1-9 2011	1-9 2012	Jan. - Dec. 2011
- net profit +/- adjustment of accrual basis items	-3.4	<b>+7.5</b>	+2.1
+/- change in net working capital	-1.4	<b>-4.4</b>	+0.6
- interests, taxes, and dividends	+3.0	<b>-1.1</b>	+2.6
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-1.8</b>	<b>+2.1</b>	<b>+5.3</b>
- net cash from investing activities	-7.4	<b>-5.9</b>	-11.1
- net cash from financing activities	-4.1	<b>+12.2</b>	-4.7
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-13.3</b>	<b>+8.4</b>	<b>-10.6</b>

Cash flow from operating activities amounted to EUR 2.1 million (EUR -1.8 million in 1-9 2011) including the settlement payment of approximately EUR 10.8 million received from TerreStar Corporation reorganization case in the third quarter of 2012.

## Balance Sheet Remained Strong



- Net debt of MEUR 5.5.
- The increase in cash reserves is mainly caused by the MUSD 13,5 payment received from TerreStar Corporation and withdrawal of credit limits.
- MEUR 16.1 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.
- 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.
- The settlement payment in the TerreStar Corporation Chapter 11 cases 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 the year.
- 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](http://www.elektrobit.com)

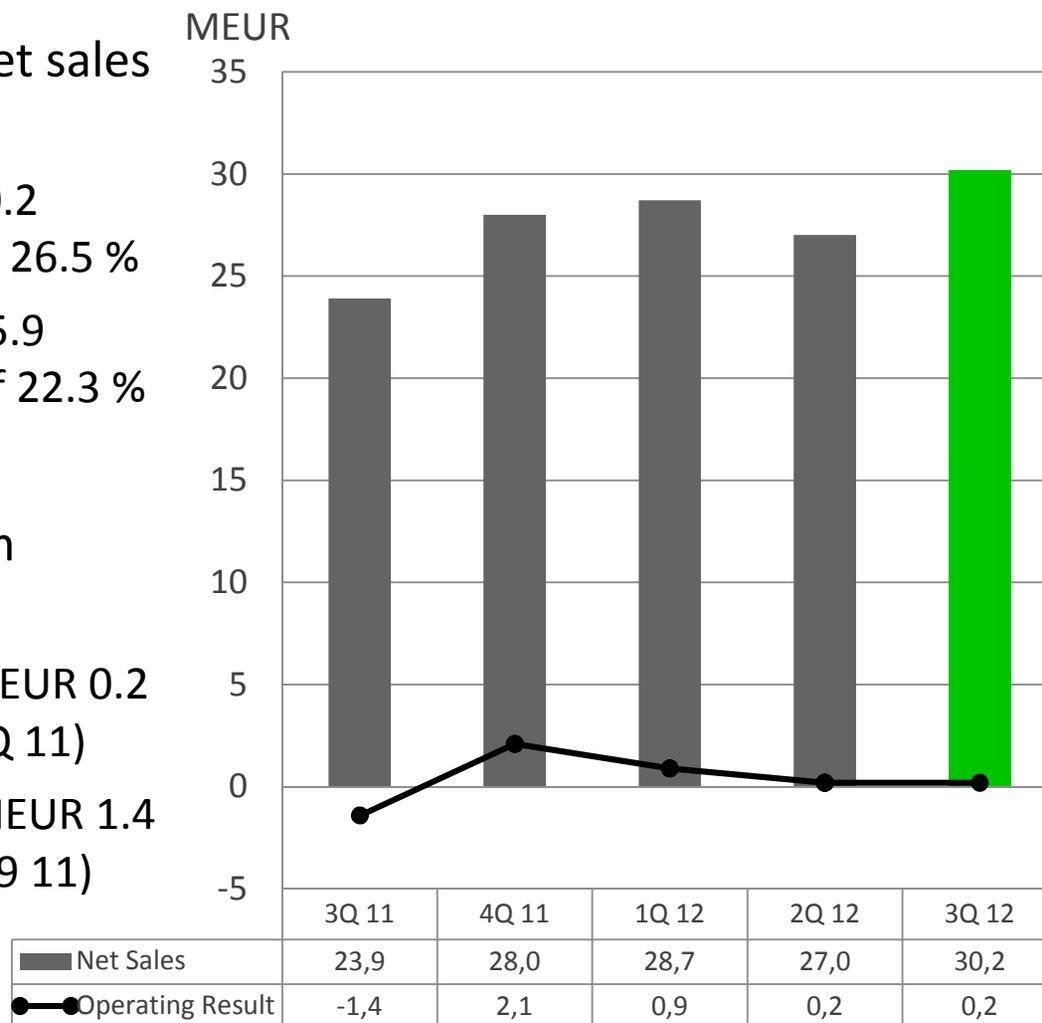
## Automotive in 3Q 2012 – Major Events



- Solid overall market demand continued for EB's services and own automotive grade software products adapted and integrated to the customer specific requirements.
- Net sales continued to grow during the second quarter in the Infotainment, Driver Assistance and ECU (Electronic Control Unit) software markets.
- Operating profit improved from 3Q 2011.
- e.solutions GmbH, the joint venture between EB and Audi, made progress according to its targets in developing the new high-end infotainment software.

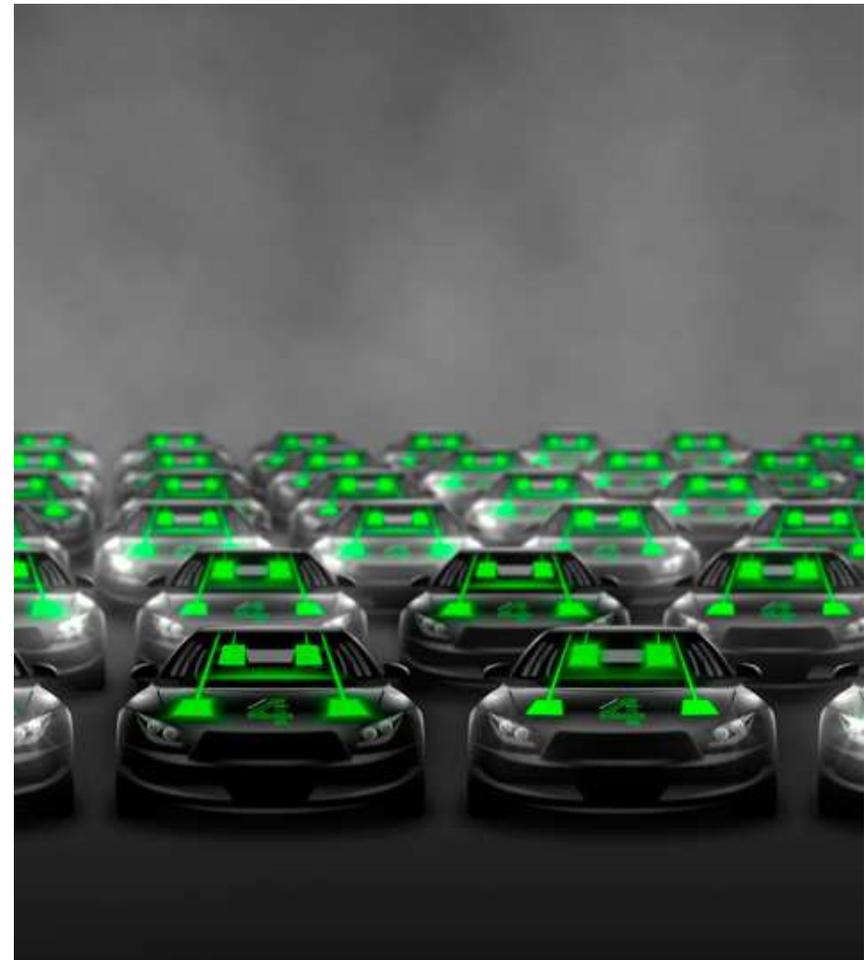
## Automotive in 3Q 2012 and Quarterly Development

- Solid year-on-year growth of net sales continued
  - 3Q 2012 net sales was MEUR 30.2 (MEUR 23.9, 3Q 11), increase of 26.5 %
  - 1-9 2012 net sales was MEUR 85.9 (MEUR 70.2, 1-9 11), increase of 22.3 %
- Operating profit improved from previous year and was positive
  - 3Q 2012 operating profit was MEUR 0.2 (operating loss of MEUR -1.4, 3Q 11)
  - 1-9 2012 operating profit was MEUR 1.4 (operating loss of MEUR -1.3, 1-9 11)



# Automotive Market Outlook

- The demand for EB's products and services is estimated to develop positively year-on-year during 2012 in Automotive Business Segment.
- Move to the greater electronic content in cars has been underway for several years in both low-end and high-end vehicles. The share of electronic components in cars is forecasted to grow from 23 % in 2010 to 33% in 2020 (Roland Berger).
- Software complexity is growing and richness of features is increasing as consumers expect the same kind of user experience as in internet and mobile devices.
- Software and hardware are gradually being separated and the use of standard software solutions is increasing.
- Cost pressures of the industry are expected to accelerate the demand of productized, efficient software solutions EB is offering.
- The dependency of EB's net sales on the car production volumes is expected to increase in the coming years.
- 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).
- Uncertainty regarding the development of the automotive market in 2013 has increased during the last months.
  - Carmakers continue to invest in automotive software for new car models but the market growth rate in 2013 may be less than in the previous year if the general economic uncertainties continue.



## Wireless in 3Q 2012 – Major Events



EB Tough VoIP Terminal

- Net sales grew strongly year-on-year mainly in mobile infrastructure R&D services, defense and public safety and test tools markets.
- Operating result increased and was positive.
- EB launched a compact-sized radio channel emulator, EB Propsim FS8 for 4G LTE product developers and mobile network operators.

# Wireless in 3Q 2012 and Quarterly Development

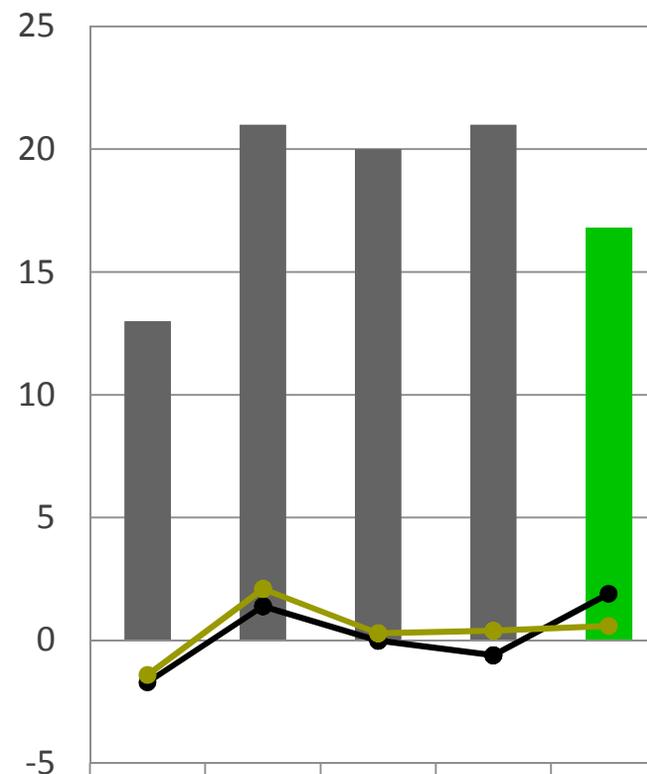
## Net sales grew clearly year-on-year

- 3Q 2012 net sales was MEUR 16.8 (MEUR 13.0, 3Q 2011), increase of 29.2%
- 1-9 2012 net sales was MEUR 57.9 (MEUR 42.9, 1-9 2011), increase of 35,0%

## Operating result grew strongly year-on-year

- 3Q 2012 operating profit was MEUR 1.9 including MEUR 1.2 non-recurring income resulting from the settlement payment in the reorganization case of TerreStar Corporation (operating loss of MEUR -1.7 including MEUR 0.2 of non-recurring costs related to collecting the receivables from TerreStar companies 3Q 2011)
- 1-9 2012 operating profit was MEUR 1.3 including MEUR 1.2 non-recurring 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 (operating loss of MEUR -6.1 including non-recurring costs of MEUR 0.2 related to collecting the receivables from TerreStar Companies, 1-9 2011)

MEUR



	3Q 11	4Q 11	1Q 12	2Q 12	3Q 12
Net Sales	13,0	21,0	20,0	21,0	16,8
Operating Result	-1,7	1,4	0,0	-0,6	1,9
Operating result w/o non-recurring items	-1,4	2,1	0,3	0,4	0,6

# Wireless Market Outlook



EB Special Terminal Platform

**Technological changes, driving the demand, are expected to continue in the wireless communications market.**

### Mobile telecommunications market

- continuing opportunities for EB's services based on broad technology and integration capabilities
- Increasing use of LTE radio technology creates needs to develop new mobile infrastructure products.
- Companies outside the traditional wireless markets have a growing interest towards connectivity solutions creating value for their own products.
- Demand for smart phone related R&D services to OEMs remains low. Due to the changes in the smart phone manufacturers' ecosystems, the demand is shifting towards device platform development for chipset manufacturers.
- In the Mobile satellite communication market, the demand for terminals for new data and mobile communications services is expected to grow slowly during next years.

### Defence and public safety markets

- The defence and public safety markets for communications, jamming and intelligence solutions is estimated to be increasingly based on commercial technologies, such as LTE and smart phone software applications, in the future.
- EB's competence and long experience of software radio based solutions is expected to bring new business opportunities.

### Radio channel testing tools market

- Need for advanced development tools for new LTE technologies, based on multi-antenna technologies, is expected to remain as a driver for the demand.
- EB provides world leading channel emulation tools for these radio technologies.

## Outlook for 2012

---

- Compared to the previous year, EB estimates that the demand for its products and services is expected to grow year-on-year during 2012 in both Automotive and Wireless Business Segments.
- For the year 2012, EB expects the net sales and operating result to grow clearly from the previous year (net sales of MEUR 162.2, operating loss of MEUR -4.0 in 2011).
- For the second half of 2012, EB expects that the net sales will grow clearly (MEUR 86.1 in 2H 2011), and operating result will be clearly positive (MEUR 0.4 in 2H 2011).
- Due to the seasonal nature of the EB's business and due to the holiday period during the third quarter, the net sales and operating result without non-recurring items in the fourth quarter are expected to be higher than in the third quarter of 2012 (net sales of MEUR 47.0, operating result without non-recurring items MEUR 0.8, 3Q, 2012).
- The profit outlook for 2012 does not include any possible income or costs related to the reorganization cases of TerreStar Networks Inc.

