

Stock exchange release

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Board of Directors of Elektrobit Corporation (EB) has approved a plan for partial demerger and intends to list Bittium Corporation as a separate entity on the Nasdaq Helsinki, and has updated the strategic guidelines of its Business Segments

- The Board of Directors of Elektrobit Corporation ("EB" or "Company") has on February 18, 2015 approved a plan for partial demerger of the company
- The Board of Directors of EB has also updated the strategic guidelines and financial targets of EB's Business Segments for 2015 - 2017
- Based on the demerger plan, the assets and liabilities related to EB's Wireless Business Segment will be transferred to Bittium Corporation ("Bittium") an entity to be newly established in the partial demerger that will be listed on the Nasdaq Helsinki
- EB's Automotive Business Segment remains in Elektrobit Corporation, which will continue to be listed on the Nasdaq Helsinki
- The partial demerger will need to be approved by an extraordinary general meeting, which is expected to be held on June 11, 2015 and the planned effective date for the demerger is June 30, 2015
- EB's board members Jorma Halonen, Juha Hulkko, Seppo Laine, Staffan Simberg and Erkki Veikkolainen, CEO Jukka Harju as well as Varma Mutual Pension Insurance Company, Ilmarinen Mutual Pension Insurance Company, Eero Halonen and Kai Hilden, who are among the largest shareholders of the Company, together representing approximately 48,4 % (according to the Euroclear book-entry securities system on February 17, 2015) of the shares and votes in the Company, have preliminary expressed their support for the transaction

Background and strategic rationale for the demerger

For several years EB has comprised of two separately operated Business Segments, Automotive and Wireless. The Business Segments have separate strategies, own product portfolios and different customer bases. The segments' joint business and joint projects have been very limited in financial terms and, in practice, the two Business Segments operate independently of each other. The Business Segments are currently in different development phases of their respective long-term strategies. The Automotive Business Segment is a growing, leading provider of automotive software solutions and the Wireless Business Segment is developing its product and service portfolio for profitable future growth. The operative management of the Automotive Business Segment is located in Germany and the operative management of the Wireless Business Segment is located in Finland. The partial demerger would further clarify and streamline the management and governance of the separate segments. EB's current legal structure reflects the current Business Segments and both of the segments operate as separate subgroups.

From an investor perspective, the demerger would enable investors to allocate their investments to a company operating in one field of business, depending on their interests. The demerger also aims to enhance long-term value creation potential for shareholders, to increase liquidity of shares and to enable diversification of risks in two separate companies. As separate companies, the businesses would be better positioned for carrying out possible corporate transactions with companies operating in the same field of business through share exchanges by using the listed share, with a market value determined in public trading, as acquisition currency. Therefore, the demerger would provide more flexibility for both businesses to implement their strategies and it would increase their attractiveness as a partner in possible future M&A transactions supporting their strategy. In addition, the two separate companies would have the opportunity to develop their own brands as needed in their respective business. Further, the demerger may enhance financing and development opportunities of the Business Segments as well as clarify and streamline the governance models. Implementation of possible share-based compensation plans for the employees of the business segments, which could support development of share value, would also be more effective following the demerger.

The businesses of the both Business Segments continue unchanged and the demerger would not have any immediate effects on their customers. Both Business Segments have their own customer bases and EB believes that in long-term the separate companies are able to better focus on their strengths and, thus, create better products and enhance their competitiveness. Elektrobit group has a strong balance sheet, which supports the execution of the demerger according to the needs of both Business Segments. Upon completion of the demerger, the balance sheets of both EB and Bittium would provide a good basis for the operation and development of the companies.

EB after the demerger and strategic guidelines of the Automotive Business Segment

Based on the demerger plan, EB would continue its current Automotive business, where the company focuses on software solutions and provides software products and research and development services for car manufacturers and automotive electronics suppliers as well as other market participants. In 2014, Automotive Business Segment generated net sales of EUR 171.4 million, and operating profit of EUR 16.0 million. EB has published its Financial Statements Bulletin for 2014 today, which includes further information on the business and financial situation of the Automotive Business Segment.

The Board of Directors of Elektrobit Corporation has on February 18, 2015 updated the strategic guidelines of the Automotive Business Segment based on recent market trends and business plans of the Company.

The software market for passenger vehicles is expected to continue growing and to provide EB an attractive long term growth potential. The global car market is expected to grow in 2015 between 2% according to the forecast made by VDA (Verband der Automobilindustrie) and 4% according to the study "The global automotive market" by Euler Hermes. The outlook for global passenger car demand is more mixed than at the corresponding time a year ago, particularly in view of the sharp fall in the price of oil and varying economic development in different regions. However the carmakers continue to invest in automotive software for new car models and the market for software products and services is estimated to continue growing during 2015. Based on Beryll's "Future Structure of Automotive (FAST) Electronics 2025" study, electronics for automotive industry are expected to grow from EUR 215 billion in 2012 into EUR 456 billion in 2025 (CAGR 6 %).

Growth in the automotive software market in 2015 and beyond, and growth for EB, is expected to be driven mainly by the following factors:

- The majority of in-vehicle innovations come from electronics and software.
- Carmakers continue to develop modular car platforms for global markets to achieve scalability as well as good ability to handle the complexity of a growing number of car models and variants.
- Consumers expect in the car the same richness of features and user experience they know from the Internet and mobile devices, and therefore infotainment systems become increasingly common in cars of all price categories.
- Mobile connectivity will become one of the fastest-growing Internet-connected device platforms among other connected consumer electronics devices, such as media tablets and smartphones.
- Connected Car solutions and cloud connections enable introduction of new applications and enhancements to car functions, for example real-time traffic information or map updates for navigation.
- e.solutions GmbH, a company jointly owned by EB and Audi, is developing high-end infotainment software solutions for various car models of the Volkswagen group companies. The software solutions developed by e.solutions will be used in several new car models.
- Autonomous driving is becoming one of the key trends and an important area for new investments, which will drive development of new safety solutions such as Active Safety and Driver Assistance, in compliance with the functional safety requirements of the automotive industry.
- Increasing complexity of electronics and software will create more demand on developing software which fulfils the relevant data security requirements.

The markets are evolving from in-car software products and their development tools to solutions, which provide connectivity to outside information systems and services. Connected car applications enable e.g. the development of increasingly autonomous driving solutions and new value added services to car owners and to companies active in the automotive industry.

In the Automotive Business Segment, EB focuses on in-car software and aims at expanding its service offering to connected car solutions and new service applications emerging from the increasing connectivity. In addition to research and development services and software products, EB provides customized solutions based on product platforms and know-how in latest technologies and systems integration. Autonomous driving solutions are an example of a new area that EB will emphasize in the future by bringing

new technologies and product solutions to the market. EB also develops products and customized solutions together with business partners who offer complementary solutions. Co-operation is also being built-up with the EB Wireless Business Segment especially in connected car applications, and the build-up of co-operation would continue also with Bittium if the demerger is implemented.

EB's key customers are leading car manufacturers and car electronics suppliers. EB targets to expand its customer base also to companies that focus on software based services. EB will also continue to make selected R&D investments into its own products and product platforms. In the coming years, EB aims to gradually develop its business model increasingly towards software products and connectivity-related services, which will slightly increase the direct dependency of net sales to car production volumes. The share of customized product development services of net sales will continue to stay significant, as in-car software is typically tailored to the needs of each carmaker and car model. In 2014, the net sales of software products and licenses linked to car production volumes and other software license sales (volume based turnover) amounted to approximately 25 % of the segment's total net sales. In some of the Company's development projects, customer specific development costs cannot be fully invoiced during the development phase, but will be included in the license fees to be invoiced based on the actual car delivery volumes. EB is developing partnerships and will explore M&A opportunities that would strengthen its competitiveness and create new future market opportunities.

Financial targets and guidance for 2015 for EB's Automotive Business Segment

The financial target of EB's Automotive Business Segment for 2015-2017 is to grow its net sales on average by 15-20 % per annum and to reach an average operating profit of 8-10 % of annual net sales.

The guidance for 2015, as published in the Financial Statement Bulletin on February 19, 2015 is as follows: In Automotive Business Segment, the demand for R&D services and software products of the Automotive Business Segment is expected to continue as good. Net sales growth is expected to be almost at the same level as in the of previous year (net sales growth of 24.0 per cent in 2014) and operating profit is expected to be at least at the same level than in the previous year (operating profit of EUR 16.0 million, in 2014).

The operating profit outlook does not include non-recurring costs resulting from the planned partial demerger. In Elektrobit group, the total amount of non-recurring costs related to the partial demerger is estimated to be approximately EUR 2 million in 2015 in case the planned partial demerger will be implemented.

Bittium Corporation and the strategic guidelines of the Wireless Business Segment

Pursuant to the demerger plan, EB's Wireless Business Segment will be transferred into a public limited liability company named Bittium Corporation (to be established at the time of registration of the implementation of the demerger), and an application will be made for listing of its shares on the main list of Nasdaq Helsinki. Bittium offers wireless technology based products, product platforms, R&D services and customized solutions for companies and authorities in different industries. In 2014 Wireless Business Segment generated net sales of EUR 53.0 million and operating profit of EUR 1.0 million. Operating profit without non-recurring items amounted to EUR 0.5 million. EB has today published its Financial Statements Bulletin for 2014, which includes further information on the business and financial situation of the Wireless Business Segment.

The Board of Directors of Elektrobit Corporation has on February 18, 2015 updated the strategic guidelines of the Wireless Business Segment (the upcoming Bittium) as follows:

Bittium's offering to its customers is based on strong and extensive know-how in radio technology, embedded software, electronics and product integration. This know-how is a result of long-term relationship with the world's leading mobile technology companies and with the Finnish defence forces as well as research programs started already in the 1980s on radio technology focusing on e.g. spread spectrum and software radio technologies.

Bittium provides product development services and customized solutions for the wireless telecommunication market and for companies needing mobile connectivity in their products. Bittium offers products and customized products which are based on its product platforms for defense, public safety and other authorities as well as for industrial use. Manufacturing of the products has been outsourced to electronics manufacturing companies.

Rapid development of wireless technology will continue. More radio spectrum is being allocated for public mobile networks and the use of frequencies varies from country to country. Data traffic in mobile networks continues to grow fast, which creates demand for smaller network cells and low power base stations. These drivers continue to drive the need for research and development services for mobile radio network equipment. In addition, the usage of mobile networks in industrial internet solutions will increase the need for wireless solutions for industrial customers. Mobile connectivity is related to people, as well as machines and things.

Defense, security and other government agencies require more wireless communications capacity and more developed solutions at lower price points compared to the previous generations of wireless communication devices. Modern and low cost commercial mobile communications technologies offer opportunities to develop advanced and cost efficient solutions for their needs. At the same time, the increasing need for secure mobile connectivity together with more advanced solutions creates demand for services as well as new business opportunities for companies that can combine both security and latest commercial technologies in their products. The markets for defense, public safety and other public authority applications in wireless sectors are slow to evolve due to their nature. Other typical market characteristics are long lead times for purchasing decisions, which is due to the long planning processes typical of government projects. Once a supplier has been selected, product deliveries are typically executed over several years.

The demand for Bittium's R&D services in wireless telecommunications and industrial markets is as a whole expected to remain rather stable in the coming years. Net sales growth is sought from the company's own products and product platforms, which Bittium is introducing to the international defence and public authority markets. Bittium continues to make product development and marketing investments for these markets. In defence applications, Bittium offers advanced and high capacity IP based tactical communication solutions (EB Tactical Wireless IP Network, EB Tough VoIP, EB Tactical LTE Access Point, EB Tough Mobile). For use of the public safety and other authorities, Bittium offers EB Tough Mobile LTE smartphone and tailored security solutions, which supports LTE frequencies reserved for public safety authorities. These devices combine modern mobile technology with durability and high standards for information security. Based on the device, it is possible to develop tailored solutions such as satellite phones. For wearable devices and industrial applications, Bittium offers solutions based on its own EB IoT (Internet of Things) Device Platform which offers mobile connectivity.

Financial targets and guidance for 2015 for EB's Wireless Business Segment

EB's Wireless Business Segment aims to increase the share of net sales generated by its own products and product platforms. EB's target is that in 2017 the share of product based net sales will be clearly higher than in 2014, when the product based net sales amounted to 26.7 % of the net sales in the Wireless Business Segment.

The Wireless Business Segment's target in 2015-2017 is to grow its net sales by at least 10 % per annum during 2015-2017 and to reach an operating profit of 10 % of the net sales at the latest by 2017.

The guidance for 2015, as published earlier today: In the Wireless Business Segment, the demand for R&D services and products is expected to develop positively especially in the authority markets and in various applications where wireless connectivity is needed. The net sales and operating profit are expected to grow from the previous year (net sales of EUR 53.0 million and operating profit of EUR 1.0 million in 2014).

The operating profit outlook does not include non-recurring costs resulting from the planned partial demerger. In Elektrobit group, the total amount of non-recurring costs related to the partial demerger is estimated to be approximately EUR 2 million in 2015 in case the planned partial demerger will be implemented.

Implementation of the demerger

Implementation of the demerger is subject to an approval by the Extraordinary General Meeting of EB and the implementation will be registered with the Finnish Trade Register after the completion of the creditor protection procedure in accordance with Finnish Companies Act. The planned registration date is June 30, 2015. Bittium shares are expected to be listed on the main list of Nasdaq Helsinki shortly after the registration of the implementation of the demerger. EB's Board members Jorma Halonen, Juha Hulkko, Seppo Laine, Staffan Simberg and Erkki Veikkolainen, CEO Jukka Harju as well as Varma Mutual Pension Insurance Company, Ilmarinen Mutual Pension Insurance Company, Eero Halonen and Kai Hilden, who are among the largest shareholders of the Company together representing approximately 48.4 % of the shares and votes in EB (according the Euroclear book-entry securities system on February 17, 2015), have preliminary expressed their support for the transaction.

The demerger plan attached to this release includes a proposal by the Board of Directors of Elektrobit Corporation proposals to the Extraordinary General Meeting, expected to be held on June 11, 2015, for the Articles of the Association of Bittium appointment procedure of its board members and auditors, demerger consideration to EB's shareholders and the transfer of EB's assets and liabilities into Bittium, and a change of EB's domicile from Oulu to Helsinki in EB's articles of association.

The partial demerger is proposed to be implemented so that the shareholders' ownership in EB would remain unchanged. Based on the demerger plan, on the registration date of the implementation of the demerger EB's shareholders would receive one new share in Bittium as demerger consideration for each share owned in EB. No actions are required from the existing shareholders. The share option rights issued by the Company and existing at the time of the implementation of the demerger would entitle to subscribe only

for shares in the remaining EB after the implementation of the demerger, and the value of the Wireless Business Segment separated would be compensated by lowering the exercise price, as described in more detail in the demerger plan.

The effect of the demerger on the balance sheets of EB and upcoming Bittium will be defined by the situation on the implementation date. Balance sheet effects on EB and Bittium have been described in the demerger plan and its appendices.

An advance ruling issued by the given by Large Taxpayers' Office confirms the Company's view that the planned demerger will be treated as a tax neutral demerger for the Company and its shareholders in Finland. The Company has not investigated the of eventual tax consequences for the shareholders of the Company in any other country.

Further details related to the demerger, including more detailed information on EB and Bittium and their financial position, will be presented in the demerger prospectus, which will be published on or about early June 2015.

Pohjola Bank plc acts as a financial adviser for EB and as the lead manager of the demerger, and Roschier Attorneys Ltd acts as the legal adviser of the Company.

Invitation to a press conference

EB will hold a press conference on the partial demerger plan and on the Financial Statement 2014 and announced today for media, analysts and institutional investors in in Restaurant Savoy, Eteläesplanadi 14, Helsinki, Finland, on Thursday, February 19, 2015, at 2.00 p.m. (CET+1). The conference will also be held as a conference call and the presentation will be shown simultaneously in the Internet through WebEx. The conference will be held in English. For more information please go to www.elektrobit.com/investors.

Oulu, February 19, 2015

Elektrobit Corporation
The Board of Directors

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Appendix:
Demerger plan February 18, 2015

Distribution:

NASDAQ OMX Helsinki
Principal media

Elektrobit Corporation (EB)

EB creates advanced technology and turns it into enriching end-user experiences. EB is specialized in demanding embedded software and hardware solutions for wireless and automotive industries. The net sales in 2014 totaled EUR 224.1 million and operating profit was EUR 16.8 million. Elektrobit Corporation is listed on NASDAQ OMX Helsinki. www.elektrobit.com

Important notice

This announcement is not an offer of securities for sale in in the United States or any other jurisdiction where it is unlawful to do so.

No securities of Elektrobit Corporation or Bittium Corporation have been or will be registered under the US Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. No public offering of securities is being made in the United States.



This release includes forward-looking statements. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this communication and preceded by, followed by or including the words “targets”, “believes”, “expects”, “aims”, “intends”, “may”, “anticipates”, “would”, “could” or similar expressions or the negative thereof, including, without limitation, those regarding the demerger plan and its execution. By their nature, forward looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Such statements are based on numerous assumptions and estimates, which may differ materially from (and be significantly more negative than) those made in, or suggested by, the forward-looking statements contained in this release.

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Pohjola Bank plc is acting exclusively for Elektrobit Corporation and for no one else in connection with the demerger and will not regard any other person (whether or not a recipient of this release) as its client in relation thereto and will not be responsible to anyone other than Elektrobit Corporation for providing the protections afforded to its clients, nor for giving advice in relation to the demerger or any arrangement referred to herein.