Elektrobit

# ELEKTROBIT CORPORATION (EB) INTERIM REPORT JANUARY-SEPTEMBER 2013

# COMPARABLE NET SALES GREW AND OPERATING PROFIT IMPROVED FROM THE PREVIOUS YEAR

*From the beginning of 2013 EB has applied the new IFRS10 and IFRS11 standards. As a result the proportion of net sales and operating result of e.solutions GmbH, a jointly owned company of EB and AUDI, to be consolidated into Elektrobit group's consolidated financial statements has changed. For comparability, all 2012 figures presented for comparison are restated assuming that the proportionate consolidation method would have been applied already in 2012.*

*EB's figures are divided between Continuing and Discontinuing Operations as provided by the IFRS5 standard. In this interim report, Test Tools product business, sold on January 31, 2013, is classified as Discontinuing Operations.*

## SUMMARY JULY – SEPTEMBER 2013

- Net sales of the July - September 2013 from continuing operations grew to EUR 45.7 million (restated net sales of EUR 41.5 million, 3Q 2012), representing an increase of 10.1 % year-on-year.
- Operating profit from continuing operations was EUR 1.0 million (restated operating profit of EUR 2.0 million including non-recurring income of EUR 1.2 million resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 3Q 2012).
- Net cash flow was EUR 1.8 million (EUR 9.9 million including an approximately EUR 10.8 million positive cash flow effect resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 3Q 2012).
- Earnings per share from continuing operations were EUR 0.006 (EUR 0.013, 3Q 2012) and earnings per share from continuing and discontinuing operations were EUR 0.011 (EUR 0.012, 3Q 2012).
- In August EB announced to adjust its cost level due to the weakened demand outlook for the rest of the year and to aim at EUR 1.5 million cost savings by temporarily laying off at the maximum of 150 employees in Wireless Business Segment. The temporary layoffs were estimated to last no longer than until the end of January 2014.

## SUMMARY JANUARY – SEPTEMBER 2013

- Net sales of the January - September 2013 from continuing operations grew to EUR 139.8 million (restated net sales of EUR 125.6 million, 1-9 2012), representing an increase of 11.3 % year-on-year.
- Operating profit from continuing operations was EUR 2.4 million including non-recurring costs of approximately EUR 0.8 million resulting from the cost saving measures in the Wireless Business Segment in the first quarter of 2013 (restated operating profit of EUR 1.6 million including non-recurring costs of EUR 1.2 million related to collecting the receivables from TerreStar companies, and non-recurring income of EUR 1.2 million resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 1-9 2012).
- Net cash flow was EUR 29.6 million including non-recurring net cash flow of about EUR 28 million resulting from the sale of the Test Tools product business (EUR 6.4 million, 1-9 2012).
- Earnings per share from continuing operations were EUR 0.012 (EUR 0.009, 1-9 2012) and earnings per share from continuing and discontinuing operations were EUR 0.199 (EUR 0.011, 1-9 2012).
- A total of 307,690 new shares were subscribed between April 2 and October 8, 2013 by virtue of the option rights 2008A and 2008B. The share subscription prices were recorded in the Company's invested non-restricted equity fund. After the registration of the new shares, the number of shares in Elektrobit Corporation's totals 129,720,380.
- The Board of Directors proposes to the Extraordinary General Meeting to be held on December 4, 2013 that on the basis of the financial statements adopted for the financial period ended on December 31, 2012, funds from the invested non-restricted equity fund be distributed to shareholders as a repayment of capital, with the capital repayment amounting to EUR 0.11 per share. The

aggregate amount of the distribution based on the number of shares as of the date of the notice to General Meeting would amount to EUR 14,269,241.80.

| Group, continuing operations (MEUR) | 3Q 13 | 3Q 12 restated | 1-9 13 | 1-9 12 restated | 2012 restated |
|---|---|---|---|---|---|
| NET SALES | 45.7 | 41.5 | 139.8 | 125.6 | 173.9 |
| OPERATING PROFIT / LOSS | 1.0 | 2.0 | 2.4 | 1.6 | 1.1 |
| Operating profit / loss, % from net sales | 2.3 % | 4.7 % | 1.7 % | 1.2 % | 0.6 % |
| Operating profit /loss without non-recurring items | 1.0 | 0.7 | 3.3 | 1.5 | 5.1 |
| EBITDA | 3.3 | 3.7 | 9.1 | 6.6 | 8.1 |
| CASH AND OTHER LIQUID ASSETS | 43.9 | 15.7 | 43.9 | 15.7 | 14.3 |
| EQUITY RATIO (%) | 63.9 % | 55.0 % | 63.9 % | 55.0 % | 55.0 % |
| EARNINGS PER SHARE (EUR) | 0.006 | 0.013 | 0.012 | 0.009 | 0.008 |

| Automotive Business Segment (MEUR) | 3Q 13 | 3Q 12 restated | 1-9 13 | 1-9 12 restated | 2012 restated |
|---|---|---|---|---|---|
| NET SALES | 34.1 | 27.4 | 97.2 | 78.7 | 110.6 |
| OPERATING PROFIT / LOSS | 1.9 | -0.0 | 3.1 | 0.6 | 3.3 |
| Operating profit / loss, % from net sales | 5.7 % | -0.1 % | 3.2 % | 0.8 % | 2.9 % |
| EBITDA | 3.5 | 1.0 | 7.6 | 3.6 | 7.3 |

| Wireless Business Segment, continuing operations (MEUR) | 3Q 13 | 3Q 12 restated | 1-9 13 | 1-9 12 restated | 2012 restated |
|---|---|---|---|---|---|
| NET SALES | 11.6 | 14.1 | 42.8 | 47.1 | 63.5 |
| OPERATING PROFIT / LOSS | -0.9 | 2.0 | -0.8 | 1.0 | -2.2 |
| Operating profit / loss, % from net sales | -7.9 % | 14.1 % | -1.8 % | 2.0 % | -3.5 % |
| Operating profit /loss without non-recurring items | -0.9 | 0.8 | 0.1 | 1.0 | 1.8 |
| EBITDA | -0.2 | 2.7 | 1.4 | 3.0 | 0.7 |

# EB’S CEO JUKKA HARJU:

“During January-September 2013 EB’s net sales grew by 11.3 per cent year-on-year due to the continued strong growth of the Automotive Business Segment. Net sales of the Wireless Business Segment decreased year-on-year due to the decreased service demand in the authority market. EB’s operating result improved from previous year and was EUR 2.4 million positive. Operating profit of the Automotive Business Segment improved year-on-year due to the increased software license sales and improved management of projects.

EB’s outlook for net sales growth in 2013 remains good thanks to the growth of the Automotive Business Segment. In the Wireless Business Segment, product based income is expected in the fourth quarter, in addition to R&D service sales, as the product deliveries of EB’s tactical communication system will begin to Finnish Defence Forces, and a batch of the special terminal products will be delivered to a customer for the authority markets. EB has a good opportunity to reach the same operating profit level as last year without non-recurring items.”

# OUTLOOK FOR 2013

The changes resulting from the change in the method of consolidation of e.solutions GmbH, the jointly owned company with AUDI have been taken into account in the 2013 outlook for net sales and operating result presented below. More information about this has been presented in this interim report in the section "Change in the consolidation of the jointly owned company of EB and AUDI as of January 1, 2013".

EB expects for the year 2013 that net sales will grow and operating result will be at the same level as it was in 2012 without non-recurring items (restated net sales of EUR 173.9 million, and restated operating profit without non-recurring items of EUR 5.1 million, in 2012).

In the Automotive Business Segment the operating profit in 2013 is expected to accumulate mainly during the second half of the year (EUR 1.2 million, 1H 2013) due to higher software license sales during the latter half of the year and other seasonality factors. The demand for EB's automotive software solutions is estimated to remain good.

In the Wireless Business Segment the operating result in the second half of 2013 is expected to be at the same level or lower than in the first half of 2013 (EUR 0.1 million, 1H 2013). In the Wireless Business Segment the demand outlook for the rest of the year weakened in August due to the decreased order volume from a large customer of EB and due to the delays in some special terminal projects. Temporary layoffs, started due to the weakened demand, will start to generate cost savings mainly in the last quarter, thus mitigating the negative profit impact caused by the decreased R&D service demand. Product based income from the authority markets, in addition to R&D service sales is expected in the fourth quarter in the Wireless Business Segment.

More specific market outlook is presented under the "Business Segments' development during July - September 2013 and Market Outlook" section.

The non-recurring net profit of about EUR 24 million, resulted from the sale of the Test Tools product business, has no impact on the operating result of 2013 and therefore has no impact on the operating result guidance. All profits and costs related to the mentioned business are presented in the group's income statement, below operating profit under "result for the period from discontinuing operations".

The profit outlook for the year 2013 does not include possible non-recurring income or costs related to the reorganization cases of TerreStar Networks Inc. More information about the reorganization cases of TerreStar Networks and the amount of the receivables and collecting the receivables as well as other uncertainties regarding the outlook is presented in the Report by the Board of Directors 2012 available at www.elektrobit.com/annualreport.

# INVITATION TO A PRESS CONFERENCE

EB will hold a press conference on the Interim Report January-September 2013 for media, analysts and institutional investors in Finland, Oulu, Tutkijantie 8, on Thursday, November 7, 2013, at 11.00 a.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.

## 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 from continuing operations in 2012 totaled EUR 185.4 million. Restated net sales from continuing operations in 2012 totaled EUR 173.9 million. Elektrobit Corporation is listed on NASDAQ OMX Helsinki. www.elektrobit.com.

# ELEKTROBIT CORPORATION (EB) INTERIM REPORT JANUARY-SEPTEMBER 2013

*From the beginning of 2013 EB has applied the new IFRS10 and IFRS11 standards. As a result the proportion of net sales and operating result of e.solutions GmbH, a jointly owned company of EB and AUDI, to be consolidated into Elektrobit group's consolidated financial statements has changed. For comparability, all 2012 figures presented for comparison are restated assuming that the proportionate consolidation method according to the above mentioned standards would have been applied already in 2012.*

*EB's figures are divided between Continuing and Discontinuing Operations as provided by the IFRS5 standard. In this interim report, Test Tools product business, sold on January 31, 2013, is classified as Discontinuing Operations.*

# FINANCIAL PERFORMANCE DURING JANUARY-SEPTEMBER 2013, CONTINUING OPERATIONS

EB's net sales from continuing operations during January-September 2013 grew by 11.3 per cent year-on-year to EUR 139.8 million (restated net sales of EUR 125.6 million, 1-9 2012). Operating profit from continuing operations was EUR 2.4 million including the non-recurring cost of approximately EUR 0.8 million resulting from the cost saving measures in the Wireless Business Segment during the first quarter of 2013 (restated operating profit of EUR 1.6 million, including EUR 1.2 million non-recurring costs related to collecting the receivables from TerreStar Companies and non-recurring income of EUR 1.2 million resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 1-9 2012). Operating profit from continuing operations without these non-recurring costs was EUR 3.3 million (restated operating profit of EUR 1.5 million, 1-9 2012).

Net sales of the Automotive Business Segment grew in January-September 2013 to EUR 97.2 million (restated net sales of EUR 78.7 million, 1-9 2012), representing 23.4 per cent growth year-on-year. A significant proportion of the growth in the net sales came from the rapid growth of e.solutions GmbH, the jointly owned company with AUDI. The operating profit was EUR 3.1 million (restated operating profit of EUR 0.6 million, 1-9 2012). Operating profit improved year-on-year due to the increased software license sales and improved management of projects. At the beginning of 2013 EB was selected as the supplier for several long-term product development and product customization projects for leading car makers. A pricing model, where a part of the product development fee is moved to license fee based on the actual delivery volumes of new cars, was increasingly often taken into use in the largest projects. When using this pricing model, which is common in the automotive industry, the project specific positive operating result and cash flow will be typically reached first during the car production years.

The Wireless Business Segment's net sales from continuing operations in January-September 2013 decreased 9.2 per cent year-on-year, to EUR 42.8 million (EUR 47.1 million, 1-9 2012). The decrease in the net sales was due to decline in the R&D services for the authority markets. The operating loss from continuing operations of the Wireless Business Segment in January-September 2013 was EUR -0.8 million including the non-recurring cost of approximately EUR 0.8 million resulting from the cost saving measures in the first quarter of 2013 (operating profit of EUR 1.0 million including EUR 1.2 million non-recurring costs related to collecting the receivables from TerreStar Companies and non-recurring income of EUR 1.2 million resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 1-9 2012).

The EUR 31 million cash consideration paid for EB's Test Tools product business, sold to Anite Plc in January 2013, has been adjusted by EUR 0.9 million based upon the level of net working capital and cash and debt in the Test Tools product business at the date of the transaction. Adjustment improves EB's operating result from discontinuing operations in the reporting period and cash flow of the fourth quarter 2013 with EUR 0.9 million. In the aggregate, the sale of the Test Tools product business results in a non-recurring net profit of about EUR 24 million and non-recurring net cash flow of about EUR 28 million.

| CONSOLIDATED INCOME STATEMENT (MEUR) | 1-9 2013 9 months | 1-9 2012 9 months restated |
|---|---|---|
| CONTINUING OPERATIONS | | |
| Net sales | 139.8 | 125.6 |
| Operating profit / loss | 2.4 | 1.6 |
| Financial income and expenses | -0.7 | -0.1 |
| Result before tax | 1.8 | 1.5 |
| RESULT FOR THE PERIOD FROM CONTINUING OPERATIONS | 1.6 | 1.2 |
| RESULT FOR THE PERIOD FROM DISCONTINUING OPERATIONS | 24.3 | 0.3 |
| RESULT FOR THE PERIOD | 25.9 | 1.5 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 26.0 | 1.5 |
| | | |
| Result for the period attributable to: | | |
| Equity holders of the parent | 25.9 | 1.5 |
| Non-controlling interests | | |
| Total comprehensive income for the period attributable to: | | |
| Equity holder of the parent | 26.0 | 1.5 |
| Non-controlling interests | | |
| | | |
| Earnings per share from continuing operations, EUR | 0.012 | 0.009 |

- Cash flow from operating activities was EUR 8.7 million (EUR -0.2 million, 1-9 2012)
- Net cash flow was EUR 29.6 million including non-recurring net cash flow of about EUR 28 million resulting from the sale of the Test Tools product business (EUR 6.4 million, 1-9 2012).
- Equity ratio was 63.9% (55.0%, 1-9 2012).
- Net gearing was -29.8% (12.1%, 1-9 2012).

# QUARTERLY FIGURES, CONTINUING OPERATIONS

Elektrobit Group's net sales and operating result, Continuing Operations, MEUR:

| | 3Q 13 | 2Q 13 | 1Q 13 | 4Q 12 restated | 3Q 12 restated |
|---|---|---|---|---|---|
| Net sales | 45.7 | 47.9 | 46.2 | 48.2 | 41.5 |
| Operating profit (loss) | 1.0 | 0.7 | 0.7 | -0.5 | 2.0 |
| Operating profit (loss) without non-recurring costs | 1.0 | 0.7 | 1.5 | 3.6 | 0.7 |
| Result before taxes | 0.9 | 0.2 | 0.6 | -0.9 | 1.8 |
| Result for the period | 0.8 | 0.2 | 0.6 | -0.1 | 1.7 |

Non-recurring items are exceptional gains and costs that are not related to normal business operations and occur only seldom. These items include capital gains or losses, significant changes in asset values such as write-downs or reversals of write-downs, significant restructuring costs, or other items that the management considers to be non-recurring. When evaluating a non-recurring item, the euro translation value of the item is considered, and in case of a change in an asset value, it is measured against the total value of the asset.

Non-recurring items, mentioned in the tables above are as follows:

- costs related to collecting the receivables from TerreStar Companies and income resulting from the settlement payment in the reorganization cases of TerreStar Corporation during 2012,
- non-recurring items of approximately EUR 4 million in total, booked in the fourth quarter of 2012, as result of the financial challenges faced by a US based customer of EB's subsidiary, Elektrobit Inc., and
- non-recurring cost of approximately EUR 0.8 million resulting from the cost saving measures in the Wireless Business Segment in the first quarter of 2013.

These non-recurring items have been reported as part of Wireless Business Segment's operating result.

Net sales and operating profit development by Business Segments and other businesses, Continuing Operations, MEUR:

| | **3Q 13** | **2Q 13** | **1Q 13** | **4Q 12 restated** | **3Q 12 restated** |
|---|---|---|---|---|---|
| Automotive | | | | | |
| Net sales to external customers | 34.1 | 32.5 | 30.5 | 31.8 | 27.4 |
| Net sales to other segments | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Operating profit (loss) | 1.9 | 0.1 | 1.1 | 2.6 | -0.0 |
| Wireless | | | | | |
| Net sales to external customers | 11.5 | 15.4 | 15.8 | 16.4 | 14.1 |
| Net sales to other segments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit (loss) | -0.9 | 0.6 | -0.4 | -3.2 | 2.0 |
| Other businesses | | | | | |
| Net sales to external customers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit (loss) | 0.0 | 0.1 | -0.0 | 0.1 | -0.0 |
| Total | | | | | |
| Net sales | 45.7 | 47.9 | 46.2 | 48.2 | 41.5 |
| Operating profit (loss) | 1.0 | 0.7 | 0.7 | -0.5 | 2.0 |

The distribution of net sales by market areas, Continuing Operations, MEUR and %:

| | **3Q 13** | **2Q 13** | **1Q 13** | **4Q 12 restated** | **3Q 12 restated** |
|---|---|---|---|---|---|
| Asia | 1.9 | 1.7 | 1.9 | 2.4 | 3.1 |
| | 4.3 % | 3.6 % | 4.2 % | 4.9 % | 7.6 % |
| Americas | 6.0 | 6.4 | 6.2 | 6.4 | 7.6 |
| | 13.2 % | 13.4 % | 13.3 % | 13.2 % | 18.3 % |
| Europe | 37.7 | 39.7 | 38.1 | 39.5 | 30.7 |
| | 82.5 % | 83.0 % | 82.5 % | 81.9 % | 74.1 % |

# SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On January 10, 2013 EB announced to lower its profit guidance for 2012 due to the weaker than expected fourth quarter. The reason for the weakening of the fourth quarter was the non-recurring items of approximately EUR 4 million in total, booked as result of the financial challenges faced by a US based customer of EB's subsidiary, Elektrobit Inc. According to the lowered guidance, EB expected the operating result of the fourth quarter of 2012 to be approximately between EUR -0.4 million and EUR 1.1 million (EUR 3.5 million, 4Q 2011), the operating result of the second half of 2012 to be approximately between EUR 1.7 million and EUR 3.2 million (EUR 0.4 million, 2H 2011), and the operating result of the whole year 2012 to be approximately between EUR 2.2 million and EUR 3.7 million (operating loss of EUR -4.0 million in 2011). The expected operating results presented above included non-recurring items that caused the lowering of the fourth quarter profit guidance, as well as non-recurring income and costs related to the reorganization processes of TerreStar companies, booked earlier in 2012. The outlook for the net sales the Company expected to develop as earlier estimated and thus EB expected that the net sales of the fourth quarter of 2012 will be approximately EUR 57 million (EUR 49.0 million, 4Q 2011), the net sales of the second half of 2012 was expected to be approximately EUR 104 million (EUR 86.1 million, 2H 2011) and the net sales of the whole year 2012 was expected be approximately EUR 200 million (EUR 162.2 million in 2011).

On January 28, 2013 EB announced to have signed an agreement with Anite plc, under the terms of which EB agreed to sell its Test Tools product business to Anite ("the Transaction"). The Transaction comprised the sale of the shares of EB's subsidiary Elektrobit System Test Ltd., a company based in Oulu, Finland, and certain related other assets in the USA and China. EB's Test Tools product business provided radio channel emulation tools and testing solutions for the development of the wireless technologies and was part of EB's Wireless Business Segment employing a total of 54 persons in Finland, USA and China. Closing of the Transaction was agreed to take place on January 31, 2013, subject to completion of customary closing events, such as payment of the cash consideration. According to the agreement, the cash consideration payable to EB by Anite as a result of the Transaction was EUR 31.0 million on a cash and debt free basis, subject to a post completion adjustment based upon the level of net working capital and cash and debt in the Test Tools product business on January 31, 2013. The net assets of the Test Tools product business in January 31, 2013 was expected to be approximately EUR 5 million.

In addition, on January 28, 2013 EB gave advance information on its fourth quarter and full year 2012 net sales and operating results. EB announced also to report its 2012 financial results, as provided by the IFRS5 standard, divided between Continuing and Discontinuing Operations, and that the Test Tools product business is classified as Discontinuing Operations in the 2012 financial statements.

On January 31, 2013 EB announced that the sale of the Test Tools product business to Anite plc was completed. The cash consideration paid by Anite to EB as a result of the Transaction was EUR 31.0 million on a cash and debt free basis, subject to a post completion adjustment based upon the level of net working capital and cash and debt in the Test Tools product business on January 31, 2013. The closing of the Transaction resulted in a non-recurring net profit of about EUR 23 million and non-recurring net cash flow of about EUR 28 million in the first quarter of 2013.

On February 19, 2013, simultaneously with the announcement of the Financial Statement Bulletin 2012, EB announced it will apply the new IFRS10 and IFRS11 standards from the beginning of 2013 and therefore will consolidate e.solutions GmbH, the jointly owned company with Audi Electronics Venture GmbH (AEV), applying the proportionate consolidation method. 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 Elektrobit group's financial statements will decrease from the previous 100% to 51%. According to the rules of the proportionate consolidation method, the consolidated statement will also include 49% of the net sales from other Elektrobit group companies to e.solutions GmbH.

On February 19, 2013, EB announced also that it will start measures to improve its cost structure in the Wireless Business Segment. The measures were completed on April 4, 2013 and the Company estimates to reach the targeted approximately EUR 2 million annual cost savings in its Wireless Business Segment, fully effective from the second half of 2013 on. The measures resulted non-recurring costs of approximately EUR 0.8 million that affect negatively the Company's operating result of the first quarter of 2013. The underlying reasons for the measures to improve the cost structure were the changed business requirements. As part of these measures, EB reduced its personnel in the Wireless Business Segment globally by altogether 32 persons, 8 of them in Finland. In addition, EB also concentrated some of its Wireless Business Segment operations to Finland and moved the centre of its US operations from west coast to east coast, where many of the public sector customers are located.

On June 5, 2013 the Board of Directors of Elektrobit Corporation decided on the transfer of stock options 2008A and 2008B to the Finnish book-entry system and to apply for listing of 1.400.000 stock options 2008A and of 1.400.000 stock options 2008B on the official list of NASDAQ OMX Helsinki. The trading with the stock options started on June 17, 2013. The share subscription period for stock options 2008A will end on March 31, 2014. The share subscription period for stock options 2008B will end on March 31, 2015.

Pursuant to series 2008A-B stock options a total of 97,500 new shares were subscribed for between April 2 and June 20, 2013, a total of 120,834 new shares were subscribed for between June 21 and August 22, and a total of 89,356 new shares were subscribed for between August 22 and October 8, 2013. The share subscription prices were recorded in the Company's invested non-restricted equity fund. The respective increases in the number of the Company's shares were entered into the Finnish Trade Register on July 5, 2013, September 6, 2013 and October 18, 2013. The trading with the registered shares started on July 8, 2013, September 9, 2013, and on October 21, 2013 in NASDAQ OMX Helsinki Ltd. After the registration of the new shares, the number of shares in Elektrobit Corporation's totals 129,720,380. More information and the terms and conditions of stock options 2008 are available in www.elektrobit.com/investors in the Company's web pages.

On August 22, 2013 EB concluded personnel negotiations that were started on August 8, 2013 in Wireless Business Segment and decided to adjust its cost level to correspond the weakened demand outlook for the rest of the year. The temporary layoffs were estimated to last no longer than until the end of January 2014. With temporary layoffs EB aims at EUR 1.5 million cost savings, which are expected to materialize mainly during the fourth quarter. The need for temporary layoffs and thereby actual cost savings may however change as the outlook for the rest of the year specifies.

# BUSINESS SEGMENTS' DEVELOPMENT DURING JULY-SEPTEMBER 2013 AND MARKET OUTLOOK

EB's reporting is based on two segments which are the Automotive and Wireless Business Segments.

## AUTOMOTIVE

In Automotive Business Segment EB offers software products and R&D services for carmakers, car electronics suppliers and other suppliers to 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 (DA). By combining its software products and R&D services, EB is creating unique, customized solutions for the automotive industry. EB's software products are: EB street director navigation software, EB GUIDE HMI development and speech dialogue platform, EB tresos product line of software components used in ECUs and tools for their configuration, and EB Assist, an extensive product line with tooling and a software development kit for driver assistance solutions. These software products generate license fees, often combined with supply of R&D services for customized solutions.

EB and Audi's subsidiary, Audi Electronics Venture GmbH (AEV), have a jointly owned company e.solutions GmbH that is currently developing infotainment software and provides systems engineering and systems integration services for Volkswagen Group car models. EB also delivers products and R&D services to the joint venture. EB owns 51% of e.solutions GmbH and AEV 49%.

### Development of the Automotive Business in July – September 2013

EB's net sales in Automotive Business Segment continued its strong growth during the third quarter of 2013 and amounted to EUR 34.1 million (restated net sales of EUR 27.4 million, 3Q 2012), representing a growth of 24.5 % year-on-year. A significant proportion of the growth in the net sales came from the rapid growth of e.solutions GmbH, a jointly owned company with AUDI. The operating profit was EUR 1.9 million (restated operating loss of EUR -0.0 million, 3Q 2012). Operating result improved year-on-year due to the improved management of projects and slightly increased software license sales.

### Automotive Market Outlook

The demand for EB's products and services is estimated to develop positively year-on-year during 2013 in Automotive Business Segment. e.solutions GmbH, the jointly owned company with AUDI, expanded its business operations at the end of 2012, and the outlook for the jointly owned company's net sales growth in 2013 is good.

Carmakers have continued to invest in automotive software for new car models and 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 current uncertainty in the market outlook for the global car industry.

The market for electronics and software for cars is estimated to continue growing in a long term. A Roland Berger study estimates the share of electronics in cars will grow from 23 per cent in 2010 to 33 per cent until 2020. The estimated annual automotive software market growth rate from 2012 until 2020 is expected to exceed the growth rate of passenger car production volume that is estimated to be 4.5% CAGR (LMC Automotive's Q3 2013 Forecast). Growth in automotive software market is mainly driven by:

- Majority of new car innovations come from electronics and software.
- The software and hardware in electronics solutions will be gradually separated from each other in order to speed up the innovation and to improve the quality and cost efficiency.
- Consumers expect also in the car the same richness of features and user experience they know from the internet and mobile devices, Infotainment systems become increasingly common in all car price categories.
- New Active Safety Systems and Driver Assistance applications are being brought to markets.
- Connected Car solutions and cloud connections enable bringing of new applications and enhancements to car functions, for example real-time traffic information for navigation.

EB's net sales from the automotive industry is currently primarily driven by the development of software for electronic devices to be used in new car models, and sales of licenses for in-car software and software development tools. EB aims at developing its business model to be more based on software products, which is expected to increase the direct dependency of net sales on production volumes over the forthcoming years. The dependency on EB's net sales on car delivery volumes is also increased by EB's customers tending to allocate a part of the software development costs to be paid in license fees based on the actual car delivery volumes. When using this pricing model, which is common in the automotive industry, the project specific positive operating result and cash flow will be typically reached first during the car production years. However this model can offer EB also an opportunity for higher cumulative income, in case the amount of the new cars sold would be high.

# WIRELESS

In the Wireless Business Segment EB offers products and product platforms for defence, public safety and other authorities markets as well as for industrial use. Further EB offers product development services and customized solutions for wireless communications markets and for companies needing wireless connectivity for their products. EB's products in the Wireless Business Segment are the EB Tactical Wireless IP Network for tactical communications, EB Tough VoIP for tactical IP-based communication, EB Wideband COMINT Sensor for signals intelligence. The product platforms are EB Counter RCIED Platform for electronic warfare, the Android-based EB Specialized Device Platform and EB LTE Connectivity Module for specialized markets. For the latest wireless technologies and applications EB offers a broad range of R&D services such as consulting, integration, and development of software and hardware.

## Development of the Wireless Business in July – September 2013

Net sales of continuing operations of the Wireless Business Segment during the third quarter of 2013 decreased by 17.9 % year-on-year to EUR 11.6 million (EUR 14.1 million, 3Q 2012). Operating loss from continuing operations was EUR -0.9 million (operating profit of EUR 2.0 million including and non-recurring income of EUR 1.2 million resulting from the settlement payment in the reorganization cases of TerreStar Corporation, 3Q 2012). The decrease in the net sales compared to previous year was due to decline in the R&D service sale for the authority and mobile communications markets.

The demand outlook for the second half of 2013 weakened in August due to the decreased order volume from a large customer of EB and due to the delays in some special terminal projects. EB announced temporary layoffs of a maximum of 150 employees in the Wireless Business Segment in August to adjust its costs to correspond to the weakened demand outlook for the rest of the year. The temporary layoffs are estimated to last no later than until the end of January 2014. With these temporary layoffs EB targets approximately EUR 1.5 million l cost savings in its Wireless Business Segment, that are expected to materialize mainly during the fourth quarter. The need for temporary layoffs and thereby cumulating cost savings may change as the demand outlook for the rest of the year becomes more accurate.

During the third quarter of 2013 EB continued its R&D investments in products and product platforms targeted for the defense and public safety markets and related international sales and marketing efforts.

### Wireless Market Outlook

In the Wireless Business Segment, EB's customers operate in various industries, each of them having own industry specific factors driving the demand. A common factor creating demand among the whole customer base is the introduction of new technologies. The implementation of LTE (Long Term Evolution) technology continues to be the most important technological change driving the demand, and in 2013 EB's business driven by LTE is expected to stay at the same level as in 2012. Mastering of multi-radio technologies and end-to-end system architectures covering both terminals and networks has gained importance in the complex wireless technology industry.

EB aims at bringing its products both to the Finnish and to the global defense markets with the target to gradually increase the product sales in the next few years. Towards the end of the year 2013 product deliveries for the Finnish Defence Forces will start and from 2014 onwards EB aims to reach some opening deals from other countries. In 2013, the public defense budget cuts affect negatively on the demand for product development services in Europe. In Tactical Communications, the growing importance of situational awareness shared by military forces creates needs for new broadband networks, such as EB's IP (Internet Protocol) based tactical communications solutions. The defense market is characterized by long sales cycles driven by purchasing programs of national governments, and the purchases of the selected products take place over several 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, such as LTE and smart phone related operating systems and applications, 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. These markets have special requirements and the volumes are lower than in the mass-markets. The European and US public safety markets are progressing in the coming years, although slowly, towards a nationwide LTE network.

In the mobile infrastructure equipment market the use of LTE technology is expected to continue strong. This creates the need for services for LTE base station design. There is a wide range of frequencies allocated for LTE globally thus creating a need to develop multiple products to cover the market, and creating demand for R&D services for design of 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 through to 2014.

## RESEARCH AND DEVELOPMENT

EB continued its investments in R&D in the automotive software products and tools in Automotive Business Segment, and in products and product platforms for the defence and public safety markets in Wireless Business Segment.

The total R&D investments for continuing operations during January-September 2013 were EUR 15.2 million (restated EUR 16.2 million, 1-9 2012), equaling 10.8% of the net sales (restated 12.9 %, 1-9 2012). The share of R&D investments in Automotive Business Segment was EUR 12.1 million (restated EUR 13.2 million, 1-9 2012) and in Wireless Business Segment in continuing operations EUR 3.1 million (EUR 3.0 million, continuing operations, 1-9 2012).

EUR 0.0 million of R&D investments of the reporting period were capitalized (EUR 2.9 million, 1-9 2012). The amount of capitalized R&D investments at the end of September 2013 was EUR 12.3 million (EUR 13.7 million, 1-9 2012). A significant part of these capitalizations is related to customer agreements of Automotive Business Segment, where future license fees, based on the actual car delivery volumes, are expected to accumulate in the coming years. Depreciations of R&D investments were EUR 1.2 million during the reporting period (EUR 0.7 million, 1-9 2012).

## OUTLOOK FOR 2013

The changes resulting from the change in the method of consolidation of e.solutions GmbH, the jointly owned company with AUDI have been taken into account in the 2013 outlook for net sales and operating result presented below. More information about this has been presented in this interim report in the section "Change in the consolidation of the jointly owned company of EB and AUDI as of January 1, 2013".

EB expects for the year 2013 that net sales will grow and operating result will be at the same level as it was in 2012 without non-recurring items (restated net sales of EUR 173.9 million, and restated operating profit without non-recurring items of EUR 5.1 million, in 2012).

In the Automotive Business Segment the operating profit in 2013 is expected to accumulate mainly during the second half of the year (EUR 1.2 million, 1H 2013) due to higher software license sales during the latter half of the year and other seasonality factors. The demand for EB's automotive software solutions is estimated to remain good.

In the Wireless Business Segment the operating result in the second half of 2013 is expected to be at the same level or lower than in the first half of 2013 (EUR 0.1 million, 1H 2013). In the Wireless Business Segment the demand outlook for the rest of the year weakened in August due to the decreased order volume from a large customer of EB and due to the delays in some special terminal projects. Temporary layoffs, started due to the weakened demand, will start to generate cost savings mainly in the last quarter, thus mitigating the negative profit impact caused by the decreased R&D service demand. Product based income from the authority markets, in addition to R&D service sales is expected in the fourth quarter in the Wireless Business Segment.

More specific market outlook is presented under the "Business Segments' development during July - September 2013 and Market Outlook" section.

The non-recurring net profit of about EUR 24 million, resulted from the sale of the Test Tools product business, has no impact on the operating result of 2013 and therefore has no impact on the operating result guidance. All profits and costs related to the mentioned business are presented in the group's income statement, below operating profit under "result for the period from discontinuing operations".

The profit outlook for the year 2013 does not include possible non-recurring income or costs related to the reorganization cases of TerreStar Networks Inc. More information about the reorganization cases of TerreStar Networks and the amount of the receivables and collecting the receivables as well as other uncertainties regarding the outlook is presented in the Report by the Board of Directors 2012 available at www.elektrobit.com/annualreport.

# RISKS AND UNCERTAINTIES

EB has identified a number of business, market and finance related risk factors and uncertainties that can affect the level of sales and profits.

In the ongoing financial period, global economic uncertainty may affect the demand for EB's services, solutions and products and provide pressure on e.g. pricing. In the short term such uncertainty may affect, in particular, the utilization and chargeability levels and average hourly prices of R&D services. Some parts of EB's business are more sensitive than others to dependency on an individual customer. Deviation in anticipated business development with such a customer may translate as a significant deviation in the EB's outlook during the ongoing financial period and thereafter.

EB's products related businesses face such risks as high dependency on actual order and delivery volumes and timing risks and potential delays in the markets. The above-mentioned risks may affect specially the amount of the software license sales in Automotive Business Segment and the timing of the product deliveries relating to the EB Tactical Wireless IP Network system for tactical communication and certain special terminal project in Wireless Business Segment and hence accumulation of net sales during the ongoing financial period. In addition, EB and e.solutions GmbH, the jointly owned company of EB and AUDI, have some significant customer projects and deviation in their expected continuation could result also significant deviations in the Company's outlook. The progress of the customer projects and delivery capability are also affected by accessibility of key technologies and components on commercially acceptable terms, and by the performance and management of sub-contracting.

More short-term description of the risks and uncertainties are described in the report by the Board of Directors 2012. More information about risks and uncertainties affecting EB can be found on the Company's website at www.elektrobit.com. In addition, more information on TerreStar Networks Inc.'s and its parent company TerreStar Corporation's reorganization cases are presented in the October 20 and 25, November 20 and December 30, 2010, February 17, 2011, November 18, 2011, June 21, 2012, August 3, 2012, August 24, 2012 and August 28, 2012 stock exchange releases as well as in EB's interim reports and financial statements at www.elektrobit.com.

# STATEMENT OF FINANCIAL POSITION AND FINANCING

The figures presented in the statement of financial position of September 30, 2013, are compared with the statement of the financial position of December 31, 2012 (MEUR).

| | 9/2013 | 12/2012 restated |
|---|---|---|
| Non-current assets | 46.1 | 46.8 |
| Current assets | 105.0 | 77.6 |
| Assets classified as held for sale | | 7.7 |
| Total assets | 151.1 | 132.2 |
| Share capital | 12.9 | 12.9 |
| Other equity | 78.0 | 53.7 |
| Non-controlling interests | | |
| Total shareholders' equity | 91.0 | 66.6 |
| Non-current liabilities | 10.1 | 7.9 |
| Current liabilities | 50.1 | 53.2 |
| Liabilities classified as held for sale | | 4.5 |
| Total shareholders' equity and liabilities | 151.1 | 132.2 |

Net cash flow from operations during the period under review:

| | |
|---|---|
| + net profit +/- adjustment of accrual basis items | EUR +8.8 million |
| +/- change in net working capital | EUR +1.3 million |
| - interest, taxes and dividends | EUR -1.4 million |
| = cash generated from operations | EUR +8.7 million |
| - net cash used in investment activities | EUR +24.7 million |
| - net cash used in financing | EUR - 3.8 million |
| = net change in cash and cash equivalents | EUR +29.6 million |

The amount of accounts receivable and other receivables, booked in current receivables, was EUR 60.2 million (EUR 63.0 million on December 31, 2012). Accounts payable and other payables, booked in interest-free current liabilities, were EUR 40.5 million (EUR 40.6 million on December 31, 2012). The amount of non-depreciated consolidation goodwill at the end of the period under review was EUR 19.3 million (EUR 19.3 million on December 31, 2012).

The amount of gross investments in the period under review was EUR 5.8 million. Net investments for the reporting period totaled EUR 5.4 million. The total amount of depreciation of continuing operations during the period under review was EUR 6.7 million, including EUR 0.8 million of depreciation owing to business acquisitions in Automotive Business Segment.

The amount of interest-bearing debt, including finance lease liabilities, at the end of the reporting period was EUR 16.7 million (EUR 18.3 million on December 31, 2012). The distribution of net financing expenses on the income statement of continuing operations was as follows:

| | |
|---|---|
| interest dividend and other financial income | EUR 0.2 million |
| interest expenses and other financial expenses | EUR -0.5 million |
| foreign exchange gains and losses | EUR -0.4 million |

EB's equity ratio at the end of the period was 63.9% (55.0 % on December 31, 2012). The increase in equity ratio is mainly due to the sale of the Test Tools product business. The transaction resulted in a net profit of about EUR 24 million.

Cash and other liquid assets at the end of the reporting period were EUR 43.9 million (EUR 14.3 million on December 31, 2012). The increase in cash reserves is mainly due to the sale of the Test Tools product business. EB has from Nordea Bank plc a committed credit facility agreement and a revolving credit facility agreement of altogether EUR 20 million, valid until June 30, 2014. EUR 11.3 million of these facilities was used at the end of the reporting period.

EB follows a hedging strategy, the objective of which is to ensure the margins of business operations in changing market circumstances by minimizing the influence of exchange rates. In accordance with the hedging strategy, the agreed customer commitments net cash flow of the currency in question is hedged. The net cash flow is determined on the basis of sales receivables, payables, the order book and the budgeted net currency cash flow. The hedged foreign currency exposure at the end of the review period was equivalent to EUR 9.0 million.

# PERSONNEL

The parent company of the group and its subsidiaries employed an average of 1628 people between January and September 2013. In addition, e.solutions GmbH, the jointly owned company of EB and AUDI employed 294 people. At the end of September, the parent company of the group and its subsidiaries had 1685 employees and e.solutions GmbH 331 employees (1583 in group’s parent company and subsidiaries and e.solutions GmbH 233 at the end of 2012). A significant part of EB's personnel are R&D engineers.

# FLAGGING NOTIFICATIONS

On August 8, 2013 EB received a flagging announcement, pursuant to chapter 9, section 5 of the Finnish Securities Markets Act from Fortel Invest Oy that the amount of shares and votes have decreased below the 5 per cent flagging boundary.

On September 12, 2013 EB received a flagging announcement, pursuant to chapter 9, section 5 of the Finnish Securities Markets Act from Juha Sipilä that the amount of shares and votes have decreased below the 5 per cent flagging boundary.

# EVENTS AFTER THE REVIEW PERIOD

After the reporting period, on October 18, 2013, EB announced that a total of 89,356 new shares in Elektrobit Corporation were subscribed between August 22 and October 8, 2013 by virtue of the option rights 2008A and 2008B. The share subscription price, EUR 24,334.08, was recorded in the Company's invested non-restricted equity fund. The corresponding increase in the number of the Company's shares was entered into the Finnish Trade Register on October 18, 2013. Trading with the newly registered shares started on October 21, 2013 in NASDAQ OMX Helsinki Ltd. After the registration of the new shares, the number of shares in Elektrobit Corporation's totals 129,720,380.

The Board of Directors proposes to the Extraordinary General Meeting to be held on December 4, 2013 that on the basis of the financial statements adopted for the financial period ended on December 31, 2012, funds from the invested non-restricted equity fund be distributed to shareholders as a repayment of capital, with the capital repayment amounting to EUR 0,11 per share. The aggregate amount of the distribution based on the number of shares as of the date of the notice to General Meeting would amount to EUR 14,269,241.80. The repayment of capital will be paid to shareholders recorded in the company's register of shareholders on the record date of the capital repayment, December 10, 2013. The Board of Directors proposes that the distributable amount will be paid on December 17, 2013. Notice to the General Meeting has been published in a stock exchange release on November 7, 2013.

# CHANGING THE CONSOLIDATION OF THE JOINTLY OWNED COMPANY OF EB AND AUDI AS OF JANUARY 1, 2013

EB has started to apply the new IFRS10 and IFRS11 standards from the beginning of 2013 and will consolidate e.solutions GmbH, a jointly owned company with Audi Electronics Venture GmbH (AEV), applying the proportionate consolidation method. As a result of the change in the method of consolidation, the proportion of net sales and operating result of e.solutions GmbH consolidated into Elektrobit group's financial statements will decrease from the previous 100% to 51%. The change in the consolidation method has no effect on EB's net result. According to the rules of proportionate consolidation method, the consolidated statement will also include 49% of the net sales of other Elektrobit group companies to e.solutions GmbH.

In 2012, the Elektrobit group net sales from continuing operations was EUR 185.4 million and the operating profit from continuing operations was EUR 2.5 million. If the proportionate consolidation method would have been applied for e.solutions GmbH already in 2012, the consolidated net sales of Elektrobit group would have been EUR 11.6 million and the operating profit EUR 1.4 million less than was the case when the full consolidation method was applied, as presented above. In 2012, the external net sales of e.solutions GmbH was EUR 34.6 million and the operating profit EUR 2.9 million. In the financial reports of 2013, EB presents the year-on-year information of income statement and balance sheet on restated comparable basis, assuming that e.solutions GmbH would have been consolidated to EB group according to the rules of proportionate consolidation already in 2012.

Elektrobit Corporation's subsidiary company Elektrobit Automotive GmbH holds a 51% stake in e.solutions GmbH, with AEV holding the remaining 49%. Previously, since its establishment in 2009, e.solutions GmbH has been brought into the consolidated statements as subsidiary and its net sales and operating result have been consolidated in the Elektrobit group's financial statements in full.

The new IFRS10 and IFRS 11 standards for consolidated financial statements and joint arrangements will take effect on 1st of January 2014, but they may be applied as of 1st of January 2013. The accounting standard IFRS 10 sets out the rules for presenting and preparing consolidated financial statements when an entity controls one or more other entities. IFRS11 establishes principles for financial reporting by parties to a joint arrangement. According to the standard, joint arrangements are defined either as "joint ventures" or "joint operations". e.solutions GmbH is deemed to fulfil the criteria of a "joint operation", whereby it is required that a proportionate consolidation method be applied at the latest when the new standard takes effect.

Oulu November 7, 2013

Elektrobit Corporation
The Board of Members

Further Information:

Jukka Harju
CEO
Tel. +358 40 344 5466

Distribution:

NASDAQ OMX Helsinki
Major media

# ELEKTROBIT CORPORATION (EB) CONDENSED FINANCIAL STATEMENTS AND NOTES JANUARY-SEPTEMBER 2013

(unaudited)
The Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting.

| **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (MEUR)** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| **Continuing operations** | | | |
| NET SALES | 139.8 | 125.6 | 173.9 |
| Other operating income | 2.8 | 1.7 | 2.4 |
| Change in work in progress and finished goods | 0.1 | -0.1 | -0.2 |
| Work performed by the undertaking for its own purpose and capitalized | | 0.2 | 0.5 |
| Raw materials | -6.2 | -5.2 | -7.3 |
| Personnel expenses | -84.4 | -74.0 | -101.1 |
| Depreciation | -6.7 | -5.0 | -7.1 |
| Other operating expenses | -43.1 | -41.7 | -60.2 |
| OPERATING PROFIT (LOSS) | 2.4 | 1.6 | 1.1 |
| Financial income and expenses | -0.7 | -0.1 | -0.5 |
| PROFIT BEFORE TAX | 1.8 | 1.5 | 0.6 |
| Income tax | -0.1 | -0.3 | 0.5 |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | 1.6 | 1.2 | 1.1 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 24.3 | 0.3 | 1.2 |
| PROFIT FOR THE PERIOD | 25.9 | 1.5 | 2.3 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to the statement of income | | | |
| Exchange differences on translating foreign operations | 0.1 | 0.0 | 0.2 |
| Other comprehensive income for the period total | 0.1 | 0.0 | 0.2 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 26.0 | 1.5 | 2.5 |
| | | | |
| Profit for the year attributable to | | | |
| Equity holders of the parent | 25.9 | 1.5 | 2.3 |

| | | | |
|---|---|---|---|
| Non-controlling interests | | | |
| | | | |
| Total comprehensive income for the period attributable to | | | |
| Equity holders of the parent | 26.0 | 1.5 | 2.5 |
| Non-controlling interests | | | |
| | | | |
| Earnings per share from continuing operations, EUR | | | |
| Basic earnings per share | 0.012 | 0.009 | 0.008 |
| Diluted earnings per share | 0.012 | 0.009 | 0.008 |
| | | | |
| Earnings per share from discontinued operations, EUR | | | |
| Basic earnings per share | 0.188 | 0.002 | 0.009 |
| Diluted earnings per share | 0.186 | 0.002 | 0.009 |
| | | | |
| Earnings per share from continuing and discontinued operations, EUR | | | |
| Basic earnings per share | 0.200 | 0.011 | 0.018 |
| Diluted earnings per share | 0.199 | 0.011 | 0.017 |
| | | | |
| Average number of shares, 1000 pcs | 129 432 | 129 413 | 129 413 |
| Average number of shares, diluted, 1000 pcs | 130 319 | 130 232 | 130 238 |

| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION (MEUR)** | **Sept. 30, 2013** | **Sept. 30, 2013 restated** | **Sept. 30, 2013 restated** |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9.3 | 9.4 | 8.7 |
| Goodwill | 19.3 | 19.3 | 19.3 |
| Intangible assets | 16.2 | 17.7 | 17.8 |
| Other financial assets | 0.1 | 0.1 | 0.1 |
| Deferred tax assets | 1.2 | 0.0 | 0.9 |
| Non-current assets total | 46.1 | 46.6 | 46.8 |
| Current assets | | | |
| Inventories | 0.8 | 2.7 | 0.4 |
| Trade and other receivables | 60.2 | 68.6 | 63.0 |
| Financial assets at fair value through profit or loss | 35.0 | 0.1 | 9.7 |
| Cash and short term deposits | 9.0 | 15.7 | 4.6 |

| | | | |
|---|---|---|---|
| Current assets total | 105.0 | 87.0 | 77.6 |
| Assets classified as held for sale | | | 7.7 |
| TOTAL ASSETS | 151.1 | 133.6 | 132.2 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 12.9 | 12.9 | 12.9 |
| Invested non-restricted equity fund | 38.7 | 38.7 | 38.7 |
| Translation difference | 0.7 | 0.4 | 0.6 |
| Retained earnings | 38.6 | 15.1 | 14.3 |
| Non-controlling interests | | | |
| Total equity | 91.0 | 67.2 | 66.6 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 0.5 | 0.8 | 0.7 |
| Pension obligations | 2.1 | 1.3 | 1.4 |
| Provisions | 0.3 | 0.4 | 0.5 |
| Interest-bearing liabilities | 7.2 | 10.8 | 5.4 |
| Non-current liabilities total | 10.1 | 13.3 | 7.9 |
| Current liabilities | | | |
| Trade and other payables | 38.5 | 38.4 | 38.3 |
| Financial liabilities at fair value through profit or loss | | | 0.0 |
| Provisions | 2.0 | 1.7 | 2.2 |
| Interest-bearing loans and borrowings | 9.6 | 13.0 | 12.7 |
| Current liabilities total | 50.1 | 53.1 | 53.2 |
| Liabilities classified as held for sale | | | 4.5 |
| Total liabilities | 60.2 | 66.4 | 65.6 |
| TOTAL EQUITY AND LIABILITIES | 151.1 | 133.6 | 132.2 |

| **CONSOLIDATED STATEMENT OF CASH FLOWS (MEUR)** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit for the year from continuing operations | 1.6 | 1.2 | 1.1 |
| Profit for the year from discontinued operations | 24.3 | 0.3 | 1.2 |
| Adjustment of accrual basis items | -17.1 | 5.2 | 8.7 |
| Change in net working capital | 1.3 | -5.8 | -3.0 |

| | | | |
|---|---|---|---|
| Interest paid on operating activities | -1.1 | -0.8 | -0.9 |
| Interest received from operating activities | 0.2 | 0.0 | 0.1 |
| Other financial income and expenses, net received | 0.0 | 0.0 | 0.0 |
| Income taxes paid | -0.5 | -0.3 | -0.3 |
| **NET CASH FROM OPERATING ACTIVITIES** | **8.7** | **-0,2** | **6.8** |
| | | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of business unit, net of cash acquired | 29.2 | | |
| Purchase of property, plant and equipment | -3.1 | -1.7 | -2.8 |
| Purchase of intangible assets | -1.6 | -4.1 | -5.4 |
| Sale of property, plant and equipment | 0.1 | 0.3 | 0.4 |
| Sale of intangible assets | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of investments | | 0.0 | 0.0 |
| NET CASH FROM INVESTING ACTIVITIES | **24.7** | **-5.6** | **-7.8** |
| | | | |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Share-option plans exercised | 0.1 | | |
| Proceeds from borrowing | 16.6 | 16.6 | 16.6 |
| Repayment of borrowing | -16.9 | -2.2 | -7.5 |
| Payment of finance liabilities | -2.3 | -2.1 | -2.9 |
| Dividend paid | -1.3 | | |
| NET CASH FROM FINANCING ACTIVITIES | **-3.8** | **12.2** | **6.1** |
| | | | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 29.6 | 6.4 | 5.1 |
| Cash and cash equivalents at beginning of period | 14.3 | 9.2 | 9.2 |
| Cash and cash equivalents at end of period | 43.9 | 15.7 | 14.3 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (MEUR)**

A = Share capital

B = Invested non-restricted equity fund

C = Translation difference

D = Retained earnings

E = Total

F = Non-controlling interests

G = Total equity

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **restated** | | | | | | | |
| Shareholders equity on January 1, 2012 | 12.9 | 38.7 | 0.4 | 13.4 | 65.5 | 0.0 | 65.5 |
| Comprehensive income for the period | | | | | | | |
| Profit for the period | | | | 1.5 | 1.5 | | 1.5 |
| Exchange differences on translating foreign operations | | | 0.0 | | 0.0 | | 0.0 |
| Total comprehensive income for the period | | | 0.0 | 1.5 | 1.5 | | 1.5 |
| Transactions between the shareholders | | | | | | | |
| Share-related compensation | | | | 0.3 | 0.3 | | 0.3 |
| Other changes | | | | -0.0 | -0.0 | | -0.0 |
| Shareholders equity on Sept. 30, 2012 | 12.9 | 38.7 | 0.4 | 15.1 | 67.2 | 0.0 | 67.2 |

| **restated** | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| Shareholders equity on December 31, 2012 | 12.9 | 38.7 | 0.6 | 14.3 | 66.6 | 0.0 | 66.6 |
| Change in accounting policy (IAS 19) | | | | -0.6 | -0.6 | | -0.6 |
| Shareholders equity on January 1, 2013 restated | 12.9 | 38.7 | 0.6 | 13.8 | 66.0 | 0.0 | 66.0 |
| Comprehensive income for the period | | | | | | | |
| Profit for the period | | | | 25.9 | 25.9 | | 25.9 |
| Exchange differences on translating foreign operations | | | 0.1 | | 0.1 | | 0.1 |
| Total comprehensive income for the period | | | 0.1 | 25.9 | 26.0 | | 26.0 |
| Transactions between the shareholders | | | | | | | |
| Dividend distribution | | | | -1.3 | -1.3 | | -1.3 |
| Share option plans exercised | | 0.1 | | | 0.1 | | 0.1 |
| Share-related compensation | | | | 0.1 | 0.1 | | 0.1 |
| Total transactions between the shareholders | | 0.1 | | -1.2 | -1.1 | | -1.1 |
| Other changes | | | | 0.0 | 0.0 | | 0.0 |
| Shareholders equity on Sept. 30, 2013 | 12.9 | 38.7 | 0.7 | 38.6 | 91.0 | 0.0 | 91.0 |

# NOTES TO THE INTERIM FINANCIAL REPORTING

## ACCOUNTING PRINCIPLES FOR THE INTERIM FINANCIAL REPORTING:

### IFRS-amendments

IFRS 10 and IFRS 11

From the beginning of 2013 EB has applied the new IFRS10 and IFRS11 standards. As a result the proportion of net sales and operating result of e.solutions GmbH, a jointly owned company of EB and AUDI, to be consolidated into Elektrobit group's consolidated financial statements will decrease compared to previous consolidation method. The change will have no impact on consolidated net profit. For comparability, all figures presented for comparison are restated assuming that the proportionate consolidation method according to the above mentioned standards would have been applied already in 2012.

IAS 19 Employee benefits
From the beginning of 2013 EB has applied the revised IAS 19 Employee benefits -standard. The impact on the equity in the opening balance 2013 was EUR -0.6 million. Pension obligations increased by EUR 0.6 million.

The revised standards have impact on the condensed financial statements.

### Explanatory comments about the seasonality or cyclicality of reporting period operations:

The Company operates in business areas which are subject to seasonal fluctuations.

### Discontinued operations:

EB's figures are divided between Continuing and Discontinued Operations as provided by the IFRS5 standard. In this interim report, Test Tools product business, sold on January 31, 2013, is classified as Discontinued Operations.

### Payment of dividend:

The Annual General Meeting held on April 11, 2013 decided in accordance with the proposal of the Board of Directors to pay EUR 0.01 per share as dividend based on the balance sheet adopted for the financial period January 1, 2012 - December 31, 2012.

## SEGMENT-INFORMATION (MEUR)

| **OPERATING SEGMENTS** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| Automotive | | | |
| Net sales to external customers | 97.1 | 78.7 | 110.5 |
| Net sales to other segments | 0.1 | 0.0 | 0.1 |
| Net sales total | 97.2 | 78.7 | 110.6 |
| | | | |
| Operating profit (loss) | 3.1 | 0.6 | 3.3 |
| | | | |
| Wireless | | | |
| Net sales to external customers | 42.7 | 46.9 | 63.3 |
| Net sales to other segments | 0.1 | 0.2 | 0.3 |
| Net sales total | 42.8 | 47.1 | 63.5 |
| | | | |
| Operating profit (loss) | -0.8 | 1.0 | -2.2 |
| | | | |
| OTHER ITEMS | | | |

| | | | |
|---|---|---|---|
| Other items | | | |
| Net sales to external customers | 0.0 | 0.1 | 0.1 |
| Operating profit (loss) | 0.1 | -0.1 | 0.0 |
| | | | |
| Eliminations | | | |
| Net sales to other segments | -0.2 | -0.3 | -0.3 |
| Operating profit (loss) | 0.0 | 0.0 | 0.0 |
| | | | |
| Group total | | | |
| Net sales to external customers | 139.8 | 125.6 | 173.9 |
| Operating profit (loss) | 2.4 | 1.6 | 1.1 |

| **Net sales of geographical areas (MEUR)** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| Net sales | | | |
| Europe | 115.6 | 97.2 | 136.7 |
| Americas | 18.6 | 22.3 | 28.6 |
| Asia | 5.6 | 6.2 | 8.5 |
| Net sales total | 139.8 | 125.6 | 173.9 |

| **Related party transactions** | **1-9/2013 9 months** | **1-9/2012 9 months** | **1-12/2012 12 months** |
|---|---|---|---|
| Employee benefits for key management and stock option expenses total | 0.8 | 1.0 | 1.3 |

| **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME BY QUARTER (MEUR)** | **7-9/2013 3 months** | **4-6/2013 3 months** | **1-3/2013 3 months** | **10-12/2012 3 months restated** | **7-9/2012 3 months restated** |
|---|---|---|---|---|---|
| Continuing operations | | | | | |
| NET SALES | 45.7 | 47.9 | 46.2 | 48.2 | 41.5 |
| Other operating income | 0.9 | 1.0 | 0.9 | 0.7 | 0.7 |
| Change in work in progress and finished goods | 0.1 | -0.1 | 0.1 | -0.1 | 0.1 |
| Work performed by the undertaking for its own purpose and capitalized | | | | 0.4 | 0.1 |
| Raw materials | -2.0 | -1.9 | -2.3 | -2.1 | -1.4 |
| Personnel expenses | -26.6 | -28.9 | -28.9 | -27.1 | -24.1 |

| | | | | | |
|---|---|---|---|---|---|
| Depreciation | -2.3 | -2.2 | -2.2 | -2.0 | -1.7 |
| Other operating expenses | -14.7 | -15.2 | -13.2 | -18.5 | -13.2 |
| OPERATING PROFIT (LOSS) | 1.0 | 0.7 | 0.7 | -0.5 | 2.0 |
| Financial income and expenses | -0.1 | -0.5 | -0.1 | -0.4 | -0.2 |
| PROFIT BEFORE TAX | 0.9 | 0.2 | 0.6 | -0.9 | 1.8 |
| Income tax | -0.1 | 0.0 | -0.0 | 0.8 | -0.1 |
| PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS | 0.8 | 0.2 | 0.6 | -0.1 | 1.7 |
| Discontinued operations | | | | | |
| Profit for the period from discontinued operations | 0.7 | 0.0 | 23.6 | 0.9 | -0.1 |
| PROFIT FOR THE PERIOD | 1.5 | 0.2 | 24.2 | 0.8 | 1.6 |
| Other comprehensive income | -0.1 | 0.2 | -0.0 | 0.2 | -0.0 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 1.4 | 0.4 | 24.2 | 1.0 | 1.6 |
| | | | | | |
| Profit for the period attributable to: | | | | | |
| Equity holders of the parent | 1.5 | 0.2 | 24.2 | 0.8 | 1.6 |
| Non-controlling interests | | | | | |
| Total comprehensive income for the period attributable to: | | | | | |
| Equity holders of the parent | 1.4 | 0.4 | 24.2 | 1.0 | 1.6 |
| Non-controlling interests | | | | | |

| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION (MEUR)** | **Sept. 30, 2013** | **June 30, 2013** | **March 31, 2013** | **Dec. 31, 2013 restated** | **Sept. 30, 2013 restated** |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 9.3 | 9.3 | 8.6 | 8.7 | 9.4 |
| Goodwill | 19.3 | 19.3 | 19.3 | 19.3 | 19.3 |
| Intangible assets | 16.2 | 16.5 | 17.4 | 17.8 | 17.7 |
| Other financial assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Deferred tax assets | 1.2 | 1.1 | 1.0 | 0.9 | 0.0 |
| Non-current assets total | 46.1 | 46.4 | 46.5 | 46.8 | 46.6 |
| Current assets | | | | | |
| Inventories | 0.8 | 0.5 | 0.5 | 0.4 | 2.7 |
| Trade and other receivables | 60.2 | 58.0 | 59.9 | 63.0 | 68.6 |
| Financial assets at fair value through profit or loss | 35.0 | 34.8 | 34.7 | 9.7 | 0.1 |
| Cash and short term deposits | 9.0 | 7.3 | 8.8 | 4.6 | 15.7 |
| Current assets total | 105.0 | 100.5 | 104.0 | 77.6 | 87.0 |

| | | | | | |
|---|---|---|---|---|---|
| Assets classified as held for sale | | | | 7.7 | |
| TOTAL ASSETS | 151.1 | 146.9 | 150.5 | 132.2 | 133.6 |
| | | | | | |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to equity holdersof the parent | | | | | |
| Share capital | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 |
| Invested non-restricted equity fund | 38.7 | 38.7 | 38.7 | 38.7 | 38.7 |
| Translation difference | 0.7 | 0.8 | 0.6 | 0.6 | 0.4 |
| Retained earnings | 38.6 | 37.0 | 38.0 | 14.3 | 15.1 |
| Non-controlling interests | | | | | |
| Total equity | 91.0 | 89.5 | 90.2 | 66.6 | 67.2 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 0.5 | 0.5 | 0.5 | 0.7 | 0.8 |
| Pension obligations | 2.1 | 2.0 | 2.0 | 1.4 | 1.3 |
| Provisions | 0.3 | 0.4 | 0.4 | 0.5 | 0.4 |
| Interest-bearing liabilities | 7.2 | 5.0 | 9.2 | 5.4 | 10.8 |
| Non-current liabilities total | 10.1 | 7.8 | 12.1 | 7.9 | 13.3 |
| Current liabilities | | | | | |
| Trade and other payables | 38.5 | 36.0 | 35.4 | 38.3 | 38.4 |
| Financial liabilities at fair value through profit or loss | | | 0.2 | 0.0 | |
| Provisions | 2.0 | 2.1 | 2.9 | 2.2 | 1.7 |
| Interest-bearing loans and borrowings | 9.6 | 11.4 | 9.6 | 12.7 | 13.0 |
| Current liabilities total | 50.1 | 49.6 | 48.1 | 53.2 | 53.1 |
| Liabilities classified as held for sale | | | | 4.5 | |
| Total liabilities | 60.2 | 57.4 | 60.2 | 65.6 | 66.4 |
| TOTAL EQUITY AND LIABILITIES | 151.1 | 146.9 | 150.5 | 132.2 | 133.6 |

| **CONSOLIDATED STATEMENT OF CASH FLOWS BY QUARTER** | **7-9/2013 3 months** | **4-6/2013 3 months** | **1-3/2013 3 months** | **10-12/2012 3 months restated** | **7-9/2012 3 months restated** |
|---|---|---|---|---|---|
| Net cash from operating activities | 3.3 | 4.1 | 1.3 | 7.0 | 2.2 |
| Net cash from investing activities | -1.6 | -1.5 | 27.8 | -2.2 | -1.2 |
| Net cash from financing activities | 0.1 | -4.1 | 0.2 | -6.1 | 8.9 |
| Net change in cash and cash equivalents | 1.8 | -1.5 | 29.3 | -1.4 | 9.9 |

| **FINANCIAL PERFORMANCE RELATED RATIOS** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| STATEMENT OF COMPREHENSIVE INCOME (MEUR) | | | |
| Net sales | 139.8 | 125.6 | 173.9 |
| Operating profit (loss) | 2.4 | 1.6 | 1.1 |
| Operating profit (loss), % of net sales | 1.7 | 1.2 | 0.6 |
| Profit before taxes | 1.8 | 1.5 | 0.6 |
| Profit before taxes, % of net sales | 1.3 | 1.2 | 0.3 |
| Profit for the period | 1.6 | 1.2 | 1.1 |
| PROFITABILITY AND OTHER KEY FIGURES | | | |
| Interest-bearing net liabilities, (MEUR) | -27.1 | 8.1 | 4.0 |
| Net gearing, -% | -29.8 | 12.1 | 6.1 |
| Equity ratio, % | 63.9 | 55.0 | 55.0 |
| Gross investments, (MEUR) | 5.8 | 8.7 | 12.2 |
| Average personnel during the period, parent and subsidiaries | 1628 | 1512 | 1528 |
| Personnel at the period end, parent and subsidiaries | 1685 | 1558 | 1583 |
| Average personnel during the period, jointly owned company | 294 | 113 | 132 |
| Personnel at the period end, jointly owned company | 331 | 126 | 233 |

| **AMOUNT OF SHARE ISSUE ADJUSTMENT (1,000 pcs)** | **Sept. 30, 2013** | **Sept. 30, 2012** | **Dec. 31, 2012** |
|---|---|---|---|
| At the end of period | 129 631 | 129 413 | 129 413 |
| Average for the period | 129 432 | 129 413 | 129 413 |
| Average for the period diluted with stock options | 130 319 | 130 232 | 130 238 |

| **STOCK-RELATED FINANCIAL RATIOS (EUR)** | **1-9/2013 9 months** | **1-9/2012 9 months restated** | **1-12/2012 12 months restated** |
|---|---|---|---|
| Earnings per share from continuing operations, EUR | | | |
| Basic earnings per share | 0.012 | 0.009 | 0.008 |
| Diluted earnings per share | 0.012 | 0.009 | 0.008 |
| | | | |
| Earnings per share from discontinued operations, EUR | | | |
| Basic earnings per share | 0.188 | 0.002 | 0.009 |
| Diluted earnings per share | 0.186 | 0.002 | 0.009 |
| | | | |
| Earnings per share from continuing and discontinued operations, EUR | | | |

| | | | |
|---|---|---|---|
| Basic earnings per share | 0.200 | 0.011 | 0.018 |
| Diluted earnings per share | 0.199 | 0.011 | 0.017 |
| | | | |
| Equity *) per share | 0.70 | 0.52 | 0.51 |
| | | | |
| *) Equity attributable to equity holders of the parent | | | |

| **MARKET VALUES OF SHARES (EUR)** | **1-9/2013 9 months** | **1-9/2012 9 months** | **1-12/2012 12 months** |
|---|---|---|---|
| Highest | 1.48 | 0.79 | 0.79 |
| Lowest | 0.64 | 0.38 | 0.38 |
| Average | 1.04 | 0.63 | 0.64 |
| At the end of period | 1.33 | 0.66 | 0.65 |
| | | | |
| Market value of the stock, (MEUR) | 172.4 | 85.4 | 84.1 |
| Trading value of shares, (MEUR) | 21.5 | 5.2 | 6.9 |
| Number of shares traded, (1,000 pcs) | 20 757 | 8 288 | 10 750 |
| Related to average number of shares % | 16.0 | 6.4 | 8.3 |

| **SECURITIES AND CONTINGENT LIABILITIES (MEUR)** | **Sept. 30, 2013** | **Sept. 30, 2012** | **Dec. 31, 2012** |
|---|---|---|---|
| AGAINST OWN LIABILITIES | | | |
| Floating charges | 18.0 | 18.1 | 18.1 |
| Guarantees | 14.6 | 23.8 | 17.7 |
| Rental liabilities | | | |
| Falling due in the next year | 6.6 | 6.9 | 7.0 |
| Falling due after one year | 14.5 | 16.8 | 16.2 |
| Other contractual liabilities | | | |
| Falling due in the next year | 1.3 | 1.6 | 1.3 |
| Falling due after one year | 0.3 | 0.0 | 0.0 |
| | | | |
| Mortgages are pledged for liabilities totaled | 13.6 | 20.0 | 14.5 |

| **NOMINAL VALUE OF CURRENCY DERIVATIVES (MEUR)** | **Sept. 30, 2013** | **Sept. 30, 2012** | **Dec. 31, 2012** |
|---|---|---|---|
| Foreign exchange forward contracts | | | |
| Market value | 0.1 | 0.1 | 0.0 |
| Nominal value | 5.0 | 2.5 | 5.0 |

| | | |
|---|---|---|
| Purchased currency options | | |
| Market value | 0.1 | 0.0 |
| Nominal value | 4.0 | 2.0 |
| | | |
| Sold currency options | | |
| Market value | -0.0 | -0.0 |
| Nominal value | 8.0 | 2.0 |