Annual Report **2012**

Elektrobit

NET SALES, CONTINUING OPERATIONS

185.4 MEUR ▲ 25.3 %

OPERATING PROFIT, CONTINUING OPERATIONS

2.5 MEUR

OPERATING PROFIT WITHOUT NON-RECURRING ITEMS, CONTINUING OPERATIONS

6.5 MEUR

PERSONNEL

1870

AVERAGE AGE

37 YEARS

Contents

EB in 2012

Financial Performance in 2012

EB reports its 2012 financial results, as provided by the IFRS5 standard, divided between Continuing and Discontinuing Operations. Wireless Business Segment's Test Tools product business, sold after the reporting period on January 31, 2013, is classified as Discontinuing Operations in the financial statement 2012. More information about the sale of the Test Tools product business in chapter "Business Segments and Market Outlook" on page 14.

The figures of the 2012 include the following non-recurring items totaling approximately EUR 4 million:

- non-recurring costs of EUR 1.2 million related to collecting the receivables from TerreStar Companies during the first three quarters and non-recurring income of EUR 1.2 million and a positive cash flow impact of EUR 10.8 million resulting from the settlement payment of USD 13.5 million received in the reorganization case of TerreStar Corporation in the third quarter; and
- 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.

EB's net sales from continuing operations in 2012 grew by 25.3 per cent year-on-year to EUR 185.4 million (EUR 148.0 million in 2011). Operating profit from continuing operations, including the above mentioned non-recurring items of approximately EUR 4 million in total, was EUR 2.5 million (operating loss of EUR -5.5 million, including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar Companies, in 2011). Operating profit from continuing operations without these non-recurring items was EUR 6.5 million (operating loss of EUR -4.6 million in 2011).

Net sales of the Automotive Business Segment grew in 2012 to EUR 122.1 million (EUR 98.3 million in 2011), representing 24.3 per cent growth year-on-year. Net sales grew in the infotainment solutions, ECU and driver assistance markets; in all the main areas where the Company operates. The operating profit was EUR 4.7 million (EUR 0.8 million in 2011). Operating profit improved clearly year-on-year but was below the targets due to the higher than expected costs in some projects.

The Wireless Business Segment's net sales from continuing operations in 2012 grew 27.7 per cent year-on-year, to EUR 63.5 million (EUR 49.8 million in 2011). The net sales grew in the defense and public safety markets, as well as in the R&D Services markets for mobile infrastructure and wireless connectivity. The operating loss from continuing operations of the Wireless Business Segment in 2012 was EUR -2.2 million, including the above mentioned non-recurring items of approximately EUR 4 million in total (operating loss of EUR -6.2 million, including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar Companies, in 2011). Wireless Business Segment's operating profit from continuing operations without the above-mentioned non-recurring items was EUR 1.8 million (operating loss of EUR -5.3 million in 2011).

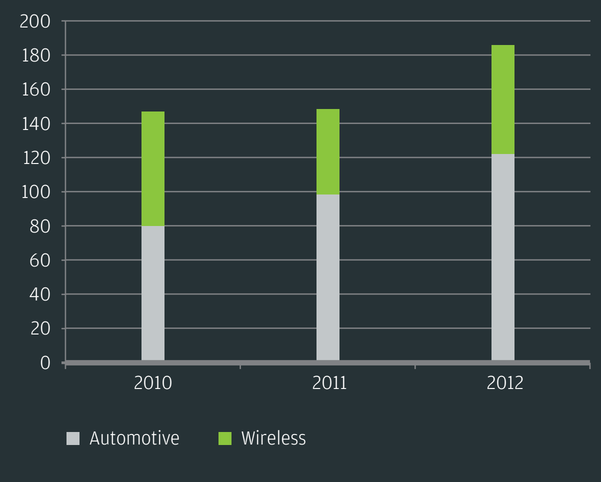
EB's EBITDA from continuing operations in 2012 was EUR 9.8 million (EUR 3.0 million in 2011). Automotive Business Segment's EBITDA was EUR 9.0 million (EUR 6.0 million in 2011) and Wireless Business Segment's EBITDA from continuing operations was EUR 0.7 million (EUR -3.3 million in 2011).

Cash flow from operating activities in 2012 was EUR 8.1 million (EUR 5.3 million in 2011) including an approximately EUR 10.8 million positive cash flow effect resulting from the settlement payment in the reorganization cases of TerreStar Corporation in the third quarter of 2012. Net cash flow in 2012 was EUR 5.5 million (EUR -10.6 million in 2011). Both cash flows include continuing and discontinuing operations.

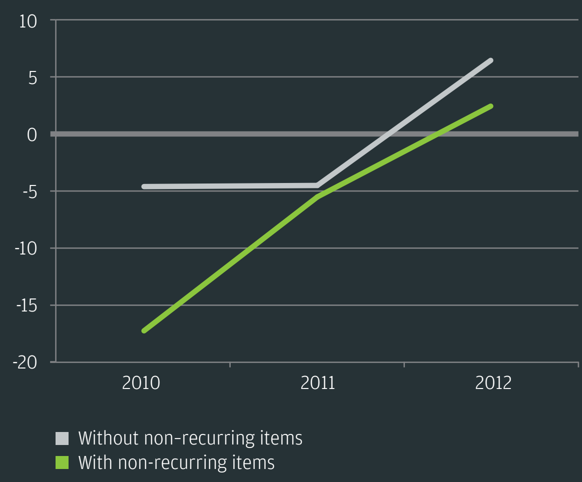
Cash and other liquid assets at the end of 2012 were EUR 15.5 million (EUR 10.0 million on December 31, 2011). The increase in cash reserves is mainly a result of USD 13.5 million payment from TerreStar Corporation and increased use of credit limits. EB has from Nordea Bank plc. a committed credit facility 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. Equity ratio was 54.7% (62.8% in 2011).

The total R&D investments in continuing operations in 2012 were EUR 22.2 million (EUR 22.1 million in 2011), equaling 12.0% of the net sales (15.0% in 2011). The share of R&D investments in Automotive Business Segment was EUR 18.1 million (EUR 18.0 million in 2011) and in Wireless Business Segment in continuing operations EUR 4.1 million (EUR 4.1 million in 2011). R&D investments in discontinuing operations were EUR 2.6 million. EUR 2.9 million of R&D investments of the reporting period were capitalized (EUR 6.6 million in 2011). Depreciations of R&D investments were EUR 0.9 million during the reporting period (EUR 1.6 million in 2011). The amount of capitalized R&D investments at the end of December 2012 was EUR 13.5 million. 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.

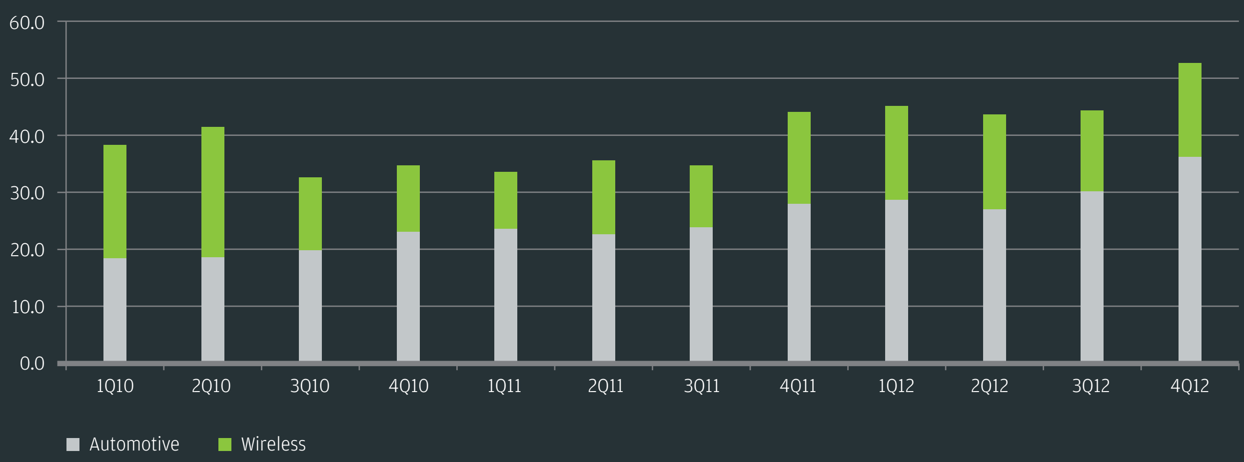
Net sales 2010–2012 (MEUR)
Continuing operations



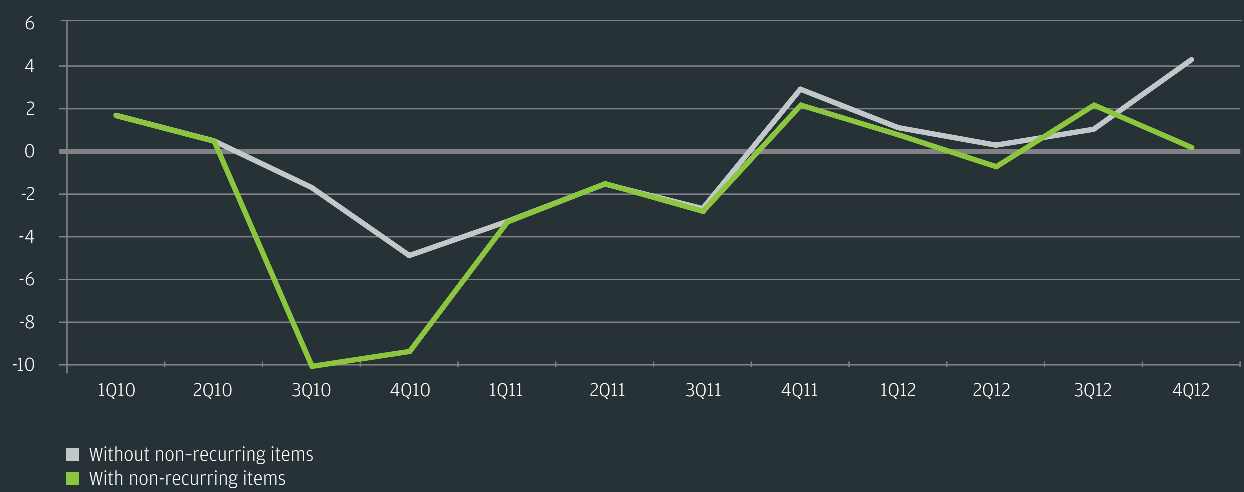
Operating result 2010–2012 (MEUR)
Continuing operations



Net sales quarterly 2010–2012 (MEUR)
Continuing operations



Operating result quarterly 2010–2012 (MEUR)
Continuing operations



Significant Events during 2012

On March 26, 2012 the Annual General Meeting approved the annual accounts for the financial year 2011, discharged the Company's management from liability, decided according to the proposal by the Company's Board of Directors that no dividend shall be paid, elected the Board members and the auditor and decided their remuneration. The Board of Directors was authorized to decide on the repurchase of the Company's own shares, the issuance of shares as well as the issuance of special rights entitling to shares.

On May 11, 2012 EB announced to have signed committed credit facility agreements with Nordea Bank Finland plc. According to the agreements, the EUR 10 million credit facility agreement, valid until June 30, 2012, was extended and, in addition, a new EUR 10 million revolving credit facility agreement was signed. These facilities, intended for general financing purposes, are valid until June 30, 2014.

On June 21, 2012 EB lowered its operating result guidance for the first half of 2012 and gave more precise guidance for the whole year 2012 so that EB expected the operating result of the second quarter of 2012 to stay below the level of the first quarter 2012 (EUR 0.9 million, 1Q 2012), and that EB expected for the first half of 2012 that net sales will grow clearly from the previous year (EUR 76.1 million, 1H 2011), and the operating result will be close to zero level (operating loss of EUR -4.4 million, 1H 2011). EB announced that due to the lowered operating result outlook for the first half of 2012, also the outlook for the whole year 2012 was lowered, however, EB still expects for the year 2012 that the net sales and operating result will grow clearly from the previous year (net sales of EUR 162.2 million, and operating loss of EUR -4.0 million in 2011). The reason for the changed operating result outlook was that the company booked a provision of EUR 0.8 million due to the estimated costs related to collecting the receivables from TerreStar Companies, and in addition, it became obvious, that the operating profit in both Automotive and Wireless Business Segments during the second quarter of 2012 will remain somewhat lower than planned mainly due to the higher than estimated project costs. Regarding the company's net sales, the outlook was not changed.

On August 2, 2012 Elektrobit Inc. (a subsidiary of Elektrobit Corporation) and TerreStar Corporation and certain of its preferred shareholders entered into a settlement between the parties in resolution of all disputes between EB and other parties in the TerreStar Corporation Chapter 11 reorganization cases under United States Bankruptcy Code. On August 24, 2012, the United States Bankruptcy Court formally approved the settlement. EB received a cash payment of USD 13.5 million (EUR 10.8 million) in full and final satisfaction of its claim against TerreStar Corporation and in resolution of all disputes between EB and other parties on August 28, 2012. The settlement does not include the TerreStar Networks Chapter 11 cases, which remain pending, and does not include any distribution therefrom that may be available for EB. The settlement payment in the TerreStar Corporation Chapter 11 cases resulted a non-recurring positive effect of approximately USD 1.6 million (EUR 1.2 million) to EB's operating result, and a non-recurring positive effect of USD 13.5 million (EUR 10.8 million) to EB's cash flow in the third quarter of 2012.

On October 26, 2012 EB announced that Elektrobit Automotive GmbH, a subsidiary of Elektrobit Corporation and Audi Electronics Venture GmbH (AEV), a subsidiary of AUDI AG, have decided to expand their joint venture activities from infotainment software to provide systems integration and systems engineering services to AUDI AG and other VW Group companies for their future connected infotainment solutions. To build the required engineering competences and capacity, the joint venture announced to establish a new site in Ulm, Germany and plans to hire up to 100 R&D engineers by the end of 2013, leveraging the existing knowledge base and competency in systems integration and software development in the Ulm area. EB announced that the expansion of the joint venture has no significant impact on the net sales, operating result and balance sheet of EB in 2012 and 2013, and thereby has no material impact on EB's financial outlook for 2012.

Collecting the Receivables from TerreStar Companies

In October 2010 EB's customer TerreStar Networks and certain other affiliates of TerreStar Corporation, and in February 2011 the parent company TerreStar Corporation, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code to strengthen their financial position. EB has claimed its receivables as well as additional costs resulting mainly from the ramp down of the business operations between the parties totaling to USD 27.9 million in the Chapter 11 cases of both TerreStar Networks and TerreStar Corporation.

On August 2, 2012 Elektrobit Inc. (a subsidiary of Elektrobit Corporation) and TerreStar Corporation and certain of its preferred shareholders entered into a settlement between the parties in resolution of all disputes between EB and other parties in the TerreStar Corporation Chapter 11 reorganization cases under United States Bankruptcy Code. On August 24, 2012, the United States Bankruptcy Court formally approved the settlement. EB received a cash payment of USD 13.5 million (EUR 10.8 million) in full and final satisfaction of its claim against TerreStar Corporation and in resolution of all disputes between EB and other parties on August 28, 2012. The settlement does not include the TerreStar Networks Chapter 11 cases, which remain pending, and does not include any distribution therefrom that may be available for EB.

The settlement payment in the TerreStar Corporation Chapter 11 cases resulted a non-recurring positive effect of approximately USD 1.6 million (EUR 1.2 million) to EB's operating result, and a non-recurring positive effect of USD 13.5 million (EUR 10.8 million) to EB's cash flow in the third quarter of 2012. Due to the uncertainties related to the accounts receivable, EB booked on inpairment of accounts receivable in the amount of EUR 8.3 million during the second half of 2010.

More information on collecting the receivables from TerreStar companies', and other matters related to risks and uncertainties, are presented in the Report by the Board of Directors on page 43–44.

Purpose and Vision

The Purpose of EB is to enrich people's lives through innovative technologies, products and solutions.

EB's vision is that we are the innovation partner for our customers by offering value creating solutions in the automotive and wireless environments.

Strategic Guidelines

According to its strategy, EB continues to focus on two Business Segments – Automotive and Wireless. EB's objective is to be a leading provider of solutions, products and services in its selected businesses. The most important short-term objective is to increase the operating profit from previous year.

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. By combining its software products and R&D services, EB is creating unique, customized solutions for the automotive industry. EB aims to develop its business model to become more software products driven, which will gradually make EB's net sales more directly dependent on car production volumes during the next few years. In the Automotive Business Segment the objective is to increase the net sales at least at the same pace with the automotive software market growth.

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets as well as for the industrial use, and product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use. EB also offers its customers EB-designed devices by utilizing manufacturing partners. EB's offering to its customers and EB's competitiveness are based on strong and broad expertise in radio technology, embedded software solutions, electronics, and product integration. In the Wireless Business Segment the objective is to gradually increase the net sales during the next few years.

EB will continue its focused R&D investments in the Automotive and Wireless Business Segments. EB will further develop partnerships and identify M&A opportunities that will increase the company's competitiveness and broaden the market opportunities.

Consolidated Statement of Comprehensive Income (MEUR)

CONTINUING OPERATIONS	2012	2011
NET SALES	**185.4**	**148.0**
Other operating income	2.3	2.3
Change in work in progress and finished goods	-0.2	0.0
Work performed by the undertaking for its own purpose and capitalized	0.6	0.4
Raw materials	-7.4	-6.7
Personnel expenses	-105.5	-92.7
Depreciation	-7.3	-8.5
Other operating expenses	-65.4	-48.4
OPERATING PROFIT	**2,5**	**-5.5**
Financial income and expenses	-0.5	-0.4
RESULT BEFORE TAX	**2.0**	**-5.9**
Income taxes	0.1	-0.6
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**2.1**	**-6.5**
Profit for the year from discontinuing operations	1.2	1.5
PROFIT FOR THE YEAR	**3.3**	**-5.1**
Other comprehensive income:		
Exchange differences on translating foreign operations	0.2	-0.2
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3.5**	**-5.2**
Profit for the year attributable to		
Equity holders of the parent	2.3	-5.3
Non-controlling interests	1.0	0.2
Total comprehensive income for the period attributable to		
Equity holders of the parent	2.5	-5.5
Non-controlling interests	1.0	0.2
Earnings per share for profit attributable to the shareholders of the parent company		
Earnings per share from continuing operations, EUR		
Basic earnings per share	0.01	-0.05
Diluted earnings per share	0.01	-0.05
Earnings per share from discontinuing operations, EUR		
Basic earnings per share	0.01	0.01
Diluted earnings per share	0.01	0.01
Earnings per share from continuing and discontinued operations, EUR		
Basic earnings per share	0.02	-0.04
Diluted earnings per share	0.02	-0.04
Net gearing, %	4.1	-1.4
Equity ratio, %	54.7	62.8

CEO's Review

EB's net sales from continuing operations during the year 2012 grew strongly by approximately 25 per cent thanks to the growth of the both Business Segments. Automotive Business Segment continued its strong growth, that has lasted for several years, in the automotive software products and R&D services in infotainment, driver assistance and Electronic Control Units (ECU) markets. It was especially delightful that the Wireless Business Segment turned to growth, which came from the defense and public safety markets, as well as from the R&D services markets for mobile infrastructure and wireless connectivity.

Thanks to the strong growth in net sales, EB's operating result in 2012 improved clearly year-on-year and was EUR 2.5 million positive. Operating result was less than targeted due to the non-recurring items and higher than expected costs in some projects. Operating result without non-recurring items was EUR 6.5 million.

In Automotive Business Segment we continued to invest significantly in R&D of our software products and announced several updates to our products, and also the availability of our navigation software in the new AUDI A3 and VW Golf VII car models. Part of the R&D investments was targeted to customer specific products, where future license fees, based on the actual car delivery volumes, are expected to accumulate in the coming years. Our jointly owned company with AUDI, e.solutions GmbH, progressed according to its targets in developing high-end infotainment systems. In October, we announced to expand the activities in e.solutions GmbH to include systems engineering and systems integration services. The outlook for growth of the jointly owned company in 2013 is good.

EB continued its R&D investments in products and product platforms for the defense and public safety markets in the Wireless Business Segment's continuing operations. During the fourth quarter, EB made the first deliveries of its Tough VoIP products and the first series of Tactical Wireless IP network communications system for the Finnish Defence Forces.

The settlement made with TerreStar Corporation in August, and the related settlement payment of approximately EUR 10.8 million for our receivables concluded our 1.5 years long process of collecting the receivables from TerreStar Corporation in its reorganization cases in the USA. The reorganization case of TerreStar Networks is still ongoing.

At the end of January 2013 EB sold its Test Tools product business for EUR 31.0 million. For EB, this transaction gives good cash consideration for the business, a significant non-recurring profit and cash increase, and it further strengthens EB's financial position. After this divestiture, our Wireless Business Segment is more focused in the markets, which offer EB larger long term growth potential. In the financial statement 2012 the sold Test Tools product business is classified as Discontinuing Operations as provided by the IFRS5 standard.

At the end of the reporting period, EB's equity ratio was 54.7 per cent. Cash and other liquid assets were EUR 15.5 million and the amount of interest-bearing debt, including finance lease liabilities, at the end of the reporting period was EUR 18.3 million. From altogether EUR 20 million of the committed credit facility agreement and a revolving credit facility agreement EUR 11.3 million was used at the end of the year.

The amount of the personnel increased by 263 employees: 235 employees in the Automotive Business Segment and 29 employees in the Wireless Business Segment. The increase took mainly place in Germany.

The demand for EB's products and services is expected to remain good during 2013 and our main target is to annually increase the operating profit from the previous year. I want to thank our personnel, our customers and partners for the good cooperation and valuable achievements in 2012.

Jukka Harju
CEO

Business Segments and Market Outlook

EB has two Business Segments: Automotive and Wireless.

Automotive Business Segment

Automotive Business Segment in 2012

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. By combining its software products and R&D services, EB is creating unique, customized solutions for the automotive industry.

EB and AUDI's subsidiary, Audi Electronics Venture GmbH (AEV), have a joint venture e.solutions GmbH that is currently developing infotainment software and provides systems engineering and systems integration services for Volkswagen Group car models. EB owns 51% of e.solutions GmbH and AEV 49%.

During 2012 carmakers continued to invest in software for new car models and the demand for EB's software products and services was at a good level. EB also continued significant R&D investments that were at the same level as during the last year.

In the beginning of 2012 EB initiated cooperation with INRIX (leading provider of traffic and driver-service information), to develop a versatile navigation solution linking map data and "smart traffic" information for a better consumer experience. With real-time traffic data from INRIX, EB street director enables innovative 3-D map displays; speed alerts, speed-limit assistance, and traffic-jam information.

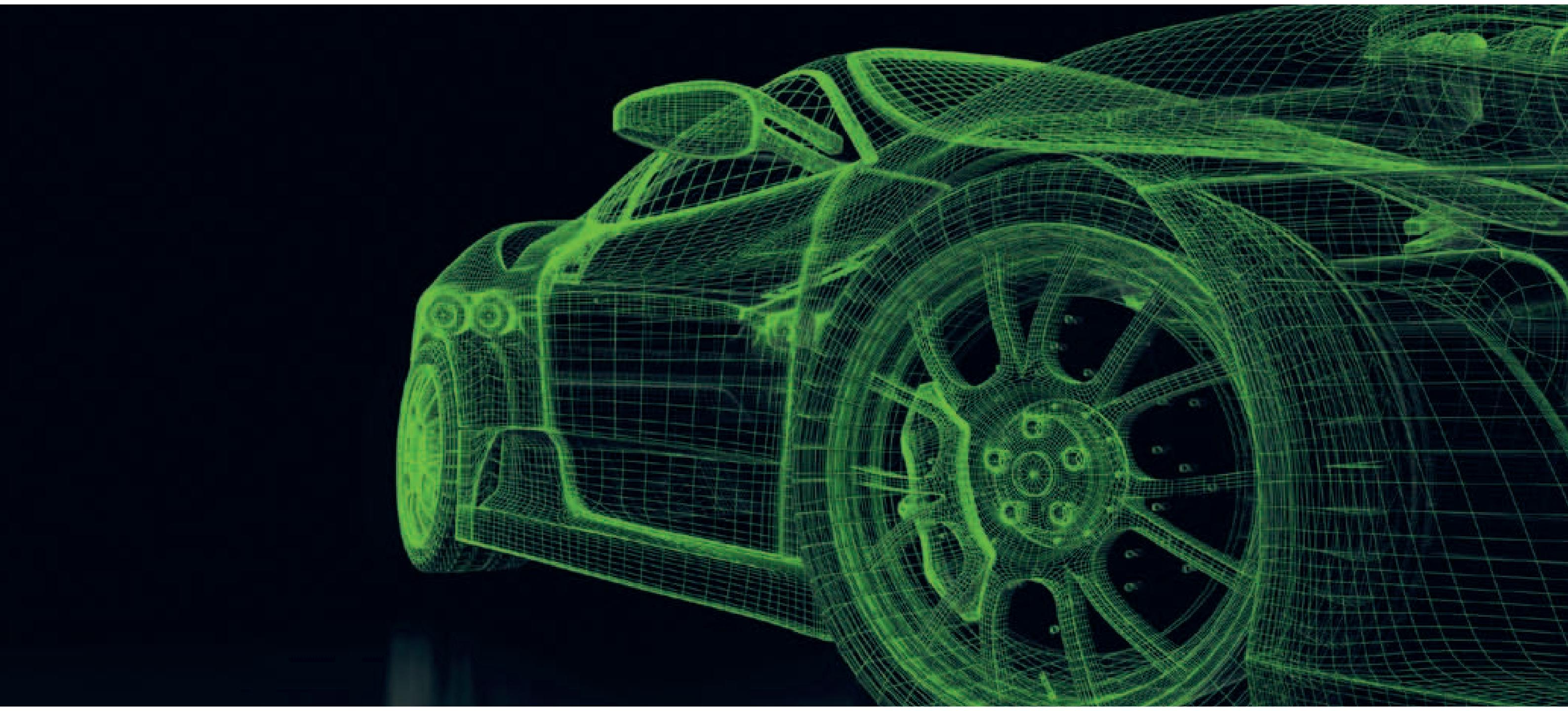
In 2012 EB released two new versions of its HMI (Human Machine Interface) development platform EB GUIDE. EB GUIDE 5.3 is the most comprehensive and powerful HMI (Human Machine Interface) development platform for the development and delivery of applications, media and advanced graphics for automotive devices. With EB GUIDE 5.3, EB is presenting a flexible, comprehensive and industry leading software tool with multi-touch features along with a more fluent presentation of vector graphics, and the drivers will benefit from the same rich experiences in their cars as in mobile phones or tablets. The next version of the development platform, EB GUIDE 5.4, was launched in the fourth quarter of 2012. The new version includes support for speech, multi-touch, and gesture interaction, as well as a technology demonstrator for integration of web-based applications based on e.g. HTML5.

In the fall 2012 AUDI announced that it will use e.solutions GmbH's infotainment system in its new A3 model's high-end infotainment system. The software from e.solutions' also includes EB street director navigation software as well as EB GUIDE STF system speech dialogue technology. The system, based on e.solutions software, offers features like 3D views, a detailed Google Earth and Google Street View display, and integrated online services like Facebook and Twitter. The new VW Golf VII was launched during the fall, integrating EB's speech and navigation technologies in its infotainment system.

In the ECU domain EB successfully delivered the first AUTOSAR 4.0 and 3.2 compliant basic software and tools, which are meeting the demand from leading carmakers. The product portfolio was also extended with software modules supporting the development of ECU according to the recently published ISO 26262 safety standard.

In the Driver Assistance domain new versions of EB's development tool were released and engineering service business was ramped up with a leading OEM.

During 2012 EB Automotive opened a legal entity in Shanghai, People's Republic of China. The demand for automotive software solutions and services in China is rising quickly. China is one of the key markets for EB. China produces about 18 million vehicles per year (JD Power: 4Q 2012 vehicle production forecast). The new office provides EB the possibility to support a



larger customer base in China and the neighboring markets in Central Asia.

e.solutions GmbH progressed well and according to its targets in developing high-end infotainment systems. In October 2012 EB announced that the activities in e.solutions GmbH will be expanded to include systems engineering and systems integration services to AUDI AG and other VW Group companies for their future connected infotainment solutions. To build the required engineering competences and capacity, the joint venture established a new site in Ulm, Germany. By the end of 2013 e.solutions is planning to hire up to 100 R&D engineers in Ulm, leveraging the existing knowledge base and competency in systems integration and software development in Ulm area. At the end of 2012, the joint venture had more than 200 employees, and its head office is located in Ingolstadt, Germany.

Automotive Business Segment in Figures

Net sales of the Automotive Business Segment continued its strong growth in 2012 to EUR 122.1 million (EUR 98.3 million in 2011), representing 24.3 per cent growth year-on-year. Net sales grew in the infotainment solutions, ECU, and driver assistance markets; all the main areas where the Company operates. The operating profit was EUR 4.7 million (EUR 0.8 million in 2011). Operating profit improved clearly year-on-year but was below he targets due to the higher than expected costs in some projects.

Automotive Business Segment's Products and Services

EB offers products and services tailored to the specific needs of carmakers and automotive suppliers that help them save costs and adapt to the constantly changing market demands. EB's products and services in the Automotive Business Segment are:

- **EB GUIDE** – an innovative, flexible HMI development and speech dialog platform;
- **EB street director** – a versatile navigation software platform with customization capabilities;
- **EB Assist ADTF** – an extensive software development kit for driver assistance solutions;
- **EB tresos** – a product line of seamlessly collaborating AUTOSAR software components used in ECUs (Electronic Control Units) and tools for their configuration;
- **Engineering services** - comprehensive services concerning the software development for infotainment, driver assistance and ECU in the automotive industry.

The Releases of Automotive Business Segment in 2012

- **In December** EB announced to have developed the navigation and user experience features in the new Volkswagen Golf VII standard infotainment system. The head unit as a complete system, the hardware, and the software was developed by Panasonic Automotive Systems. EB provided navigation, speech dialog software, and HMI tooling for this highly sophisticated system.
- **In October** EB and Audi Electronics Venture GmbH (AEV), a subsidiary of AUDI AG, decided to expand their joint venture activities in e.solutions GmbH to include systems engineering and provide systems integration services to AUDI AG and other VW Group companies for their future connected infotainment solutions. EB also announced that in order to build the required engineering competences and capacity, the joint venture will establish a new site in Ulm, Germany, with a plan to hire up to 100 R&D engineers by the end of 2013.
- **In October** EB released the latest version of the HMI development platform EB GUIDE, the EB GUIDE 5.4. This new version is a complete software solution that includes support for speech, multi-touch, gesture interaction, and a technology demonstrator for integration of web-based applications based on e.g. HTML5.
- **In June** EB announced the new version of its HMI development platform, EB GUIDE 5.3, with rich multi-touch features and performance improvements.
- **In March** EB announced the expansion into the People's Republic of China with the formation of EB Automotive Software (Shanghai) Ltd., the legal entity in Shanghai.
- **In January** EB and INRIX presented street smart automotive technology; EB street director navigation technology linking map data and "smart traffic" information from INRIX, at Consumer Electronics Show (CES) in Las Vegas, USA.

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. The uncertainty in the market outlook for the global car industry has grown recently especially in Europe where the number of cars sold is expected to decrease in 2013 from 2012, while in the USA, and China and other developing countries, the market is expected to grow. Despite the uncertainties, many carmakers have continued their good financial performance also during the second half of 2012. The slowing down of the markets affects decreasingly also to the carmakers' R&D investments. However, carmakers will continue 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.

In the labor market, particularly in Germany, competition in hiring talented engineers is still tight and is slightly slowing down the growth of the number of personnel, thereby impacting the growth of the services business. e.solutions GmbH, the joint venture with AUDI, succeeded to grow its personnel significantly during the end of 2012 after announcing the decision to expand its business, and the outlook for the joint venture's growth in 2013 is good.

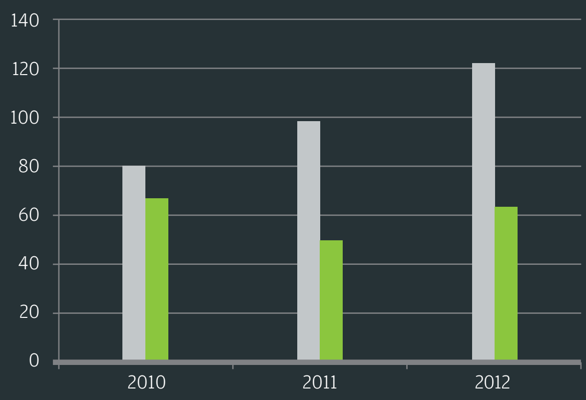
A Roland Berger study estimates the share of electronics in cars will grow from 23 per cent in 2010 to 33 per cent until 2020. The shift to greater electronic content in cars has been underway for several years and has initiated such major innovations as security systems, anti-lock brakes, engine control units, driver assistance, and infotainment. These features have become so enormously popular that they are now widely available, in both low-end and high-end vehicles, demonstrating that consumers are willing to pay for technology that enhances their driving experience. Further market growth is expected e.g. in the areas of Driver Assistance and Connected Car solutions. Connectivity with the cloud can provide several enhancements to car functions such as navigation. EB is already working with INRIX and other traffic providers to have real-time traffic information, which can provide navigation with daily relevance to the drivers. Audi Connect is one example of such advanced connected services into the car.

The increasingly sophisticated and networked features and growing performance foster the complexity of automotive electronics. At the same time consumers expect the same richness of features and user experience they know from the internet and mobile devices also within the car. Carmakers have been steadily integrating more electronic components into vehicles. These development trends are driving the industry towards gradual separation of software and hardware in electronics solutions in order to manage the architectural software layer appropriately and to aim for efficiency in innovation and implementation. The use of standard software solutions is expected to increase in the automotive industry. This enables faster innovation, improves quality and development efficiency and reduces complexity related to deployment of software.

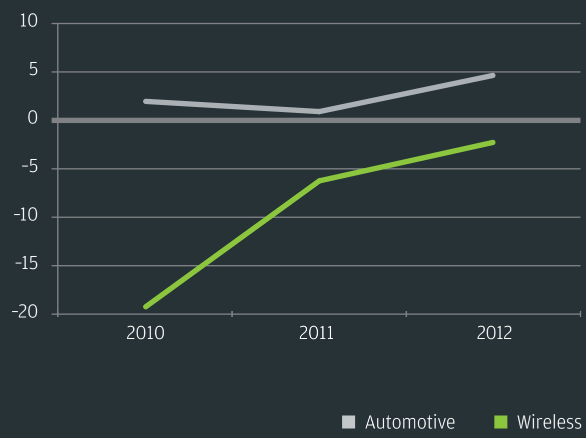
The fundamental industry migration and consequent growth of the automotive software market will continue. Cost pressures of the automotive industry are expected to accelerate the need for productized and efficient software solutions EB is offering. The estimated annual automotive software market growth rate until 2019 is expected to exceed the growth rate of passenger car production volume that is estimated to be 5.5% CAGR (LMC Automotive's Q4 2012 Forecast).

EB's net sales cumulating from the automotive industry is currently primarily driven by the development of software and software platforms for new cars and by sales of software licenses needed in product development. Hence the dependency of EB's net sales on car production volumes is currently limited. The direct dependency on production volumes will increase over the forthcoming years as a result of the EB's transition towards software product business models.

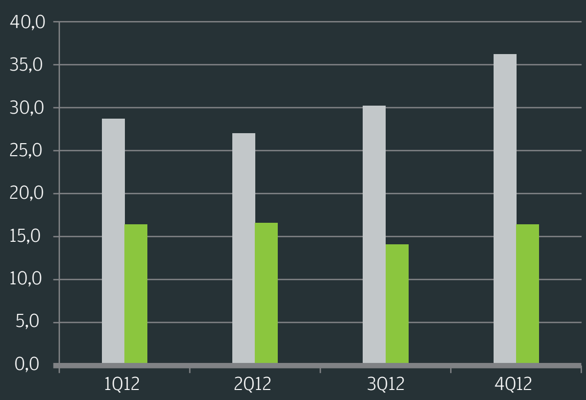
Net sales by Business Segments 2010–2012 (MEUR)
Continuing operations



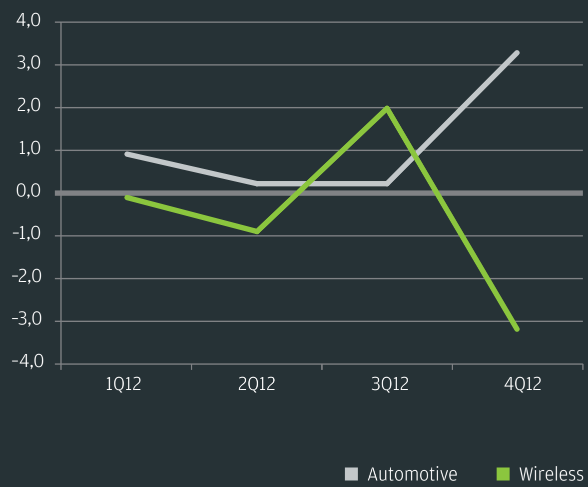
Operating result by Business Segments 2010–2012 (MEUR)
Continuing operations



Net sales by Business Segments quarterly 2012 (MEUR)
Continuing operations



Operating result by Business Segments quarterly 2012 (MEUR)
Continuing operations



EB Counter RCIED Platform,
EB Wideband COMINT Sensor and
EB Tactical Wireless IP Network products

Wireless Business Segment

Wireless Business Segment in 2012

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets as well as for the industrial use, and product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use.

During 2012 EB's net sales in Wireless Business Segment grew year-on-year due to the good demand in the mobile infrastructure R&D, defense and public safety markets. The commercialization of LTE (Long Term Evolution) technology continued to create demand for R&D services in the mobile infrastructure R&D markets. The demand for connected devices related R&D services emerged clearly during the year. Along with the growing demand, the amount of personnel in Wireless Business Segment grew by 29 new employees during last year.

Technology co-operation was started with Renesas Mobile Corporation, when EB announced it licenses Renesas multiband chipset for its mobile platform targeted to public safety markets. EB delivered Tough VoIP products and first series of Tactical Wireless IP network communications system for the Finnish Defence Forces.

In spring EB closed its Wireless Business Segment site in Espoo and consolidated operations in Finland in its larger units in Oulu, Kajaani and Tampere. All employees in Espoo site were offered positions in Company's other sites, mainly in Finland. By closing the site EB rationalized its operations and improved the cost structure.

In January 2013, one of Wireless Business Segment's US based customer faced financial challenges. Due to the significant risk of the customer's insolvency, EB booked an impairment of all accounts receivable from the customer, did not recognize revenue for the work already done for the customer project, and booked a cost reserve related to purchase obligations of the customer project. As a result EB's operating result of the fourth quarter decreased by approximately EUR 4 million in total, due to which EB had to lower its profit guidance for 2012.

Propsim product family

The Sale of the Test Tools Product Business in January 2013

On January 28, 2013 EB signed an agreement under the terms of which EB agreed to sell its Test Tools product business to Anite plc. The sale of the business was completed on January 31, 2013. EB reports its 2012 financial results, as provided by the IFRS5 standard, divided between continuing and discontinuing operations. Test Tools product business, sold after the reporting period, is classified as discontinuing operations in this financial statement. All net sales and operating result EB has reported include only figures of continuing operations.

The products of the Test Tools product business were radio channel emulators, the EB Propsim F32, F8 and FS 8 and their related test applications. The market for the Test Tool products is a global niche market where the Propsim products have gained a strong position over years. However, as the only test product line of EB, the Test Tools business offered only limited long-term growth opportunities for EB.

For EB, this transaction gives good cash consideration for the business, a significant non-recurring profit and cash increase, and it further strengthens EB's financial position. After this divestiture, the Wireless Business Segment is more focused in the markets, which offer EB larger long term growth potential.

Wireless Business Segment in Figures, Continuing Operations

The Wireless Business Segment's net sales from continuing operations in 2012 grew 27.7 per cent year-on-year, to EUR 63.5 million (EUR 49.8 million in 2011). The net sales grew in the defense and public safety markets, as well as in the R&D Services markets for mobile infrastructure and wireless connectivity.

The operating loss from continuing operations of the Wireless Business Segment in 2012 was EUR -2.2 million including non-recurring items of approximately EUR 4 million in total (operating loss of EUR -6.2 million in 2011, including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar Companies). Wireless Business Segment's operating profit from continuing operations without the non-recurring items was EUR 1.8 million (operating loss of EUR -5.3 million in 2011).

Wireless Business Segment's Products and Services

EB's products and services in the Wireless Business Segment are:

- **EB Tactical Wireless IP Network** for tactical communications
- **EB Tough VoIP** for tactical IP-based communication
- **EB Wideband COMINT Sensor** for signals intelligence
- **EB Counter RCIED Platform** for electronic warfare
- **EB Specialized Device Platform** Android-based device platform
- **EB LTE Connectivity Module** LTE based module platform

For the latest wireless technologies and applications EB offers also a broad range of R&D services such as consulting, integration, software and hardware development.

The Releases of Wireless Business Segment in 2012

- **In December** EB delivered the first series of Tactical Wireless IP Network communication systems to Finnish Defence Forces.
- **In October** EB announced the delivery of its EB Tough VoIP tactical communication systems to the Finnish Defence Forces.
- **In August** EB and TerreStar Corporation and certain of its preferred shareholders, entered into a conditional agreement of settlement of the various disputes between them in TerreStar Corporation Chapter 11 reorganization cases, which was later approved by the court and based on which EB received a cash payment of USD 13.5 million in the TerreStar Corporation reorganization cases.
- **In August** at APCO exhibition in the USA, EB demonstrated LTE band 14 functionality on its EB Specialized Device Platform, which provides customized LTE mobile devices for public safety markets.
- **In May** at Eurosatory 2012 exhibition, EB demonstrated state of the art tactical communications, electronic warfare, signals intelligence and Mobile Ad-hoc Network (MANET) test solutions.
- **In April** EB updated its defense product portfolio with the new EB Tough Voip desktop and field phone.
- **In February** EB announced that it had licensed from Renesas mobile corporation multi-band chipset for its EB Specialized Device Platform targeted to public safety market.
- **In January** EB was selected by Raptor-ID to develop the RaptorPad and RaptorOne - hightech biometric devices for the US government markets.

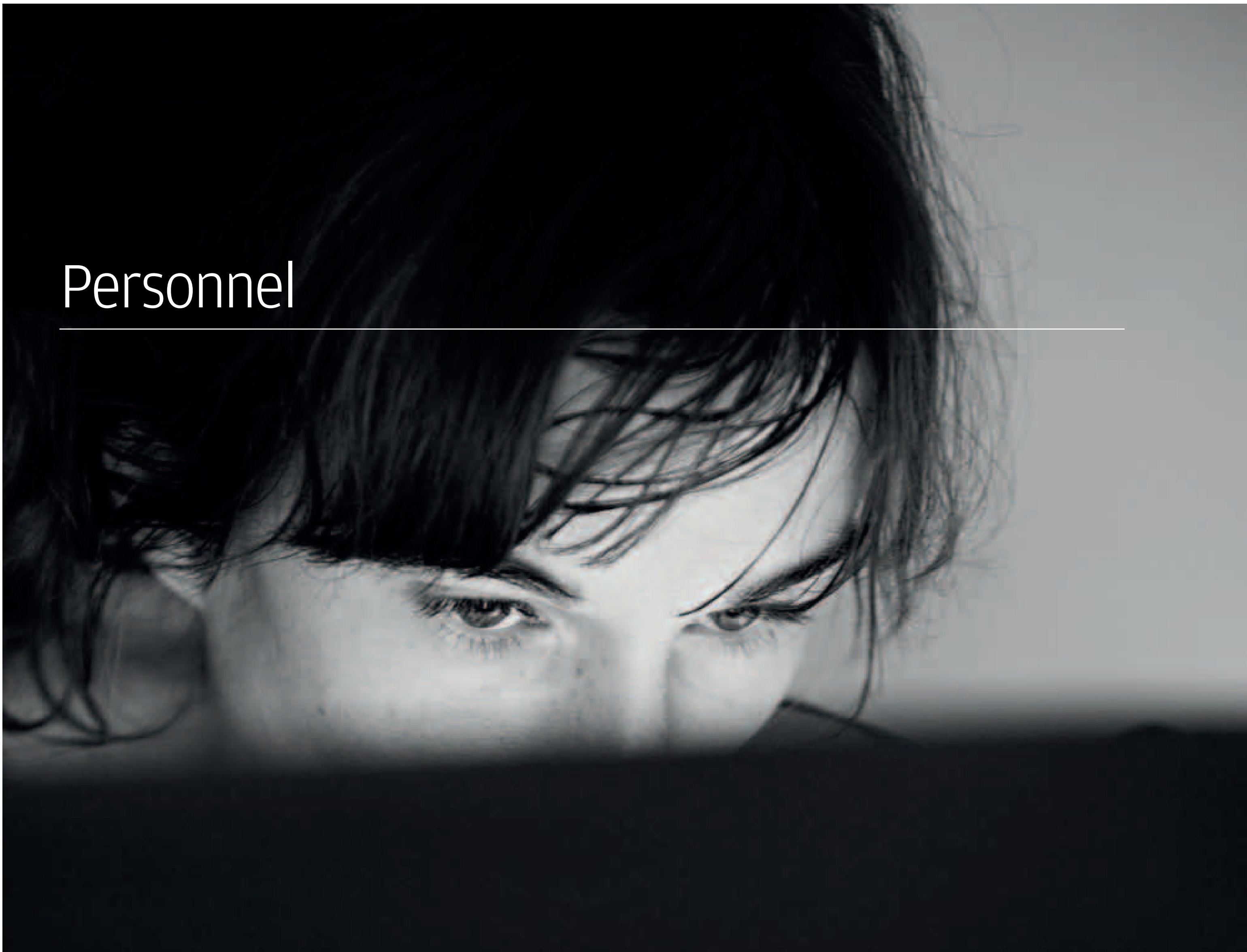
Wireless Market Outlook

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.

The global defense market is estimated to remain stable during 2013. EB currently aims at bringing its products to the global defense market with the target to gradually increase the product sales in the next few years. The development of defense budgets varies geographically with budget cuts in the western markets and increases in Asia and South America. 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 solutions based on customizing its product platforms. The trend of adopting new commercial technologies, such as LTE and smart phone related software 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 US public safety market is progressing, although slowly, towards a nationwide LTE network.

In the mobile infrastructure market the use of LTE technology is expected to continue strong. For the mobile infrastructure market 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 a need 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.



Personnel

General

At the end of 2012 EB employed 1870 professionals in Germany, Finland, Austria, France, Romania, United States, China and Japan. The number of employees grew both in Automotive Business Segment and in Wireless Business Segment. The average age of the personnel was 37. Design engineers constituted clearly the largest proportion of the personnel.

Core Competences

EB is known for its high-level competences in automotive software and radio technologies and for its strong R&D culture. Therefore continuous improvement of operations and competences is very important for the future success of the Company, as well as for partnerships, customers and the research and education communities around EB. This is implemented by developing the core competences systematically, by providing new innovative challenges and opportunities for specialists, and by encouraging them to creative thinking and effective collaboration.

EB's core competences in Automotive Business Segment are automotive-grade embedded software in Electronical Control Units (ECU), Human Machine Interface (HMI), infotainment solutions, navigation, driver assistance, and software integration. The core competences in Wireless Business Segment are radio technology, embedded software, electronics, and product integration.

Automotive Business Segment

The fast growth of the demand in automotive software solutions has enabled EB to acquire an increased number of skilled professionals; as well as subcontractors across the globe. In the labor market, particularly in Germany, competition in hiring talented engineers is still tight and is slightly slowing down the growth of the number of personnel. In 2012 Automotive Business Segment established a new site in Shanghai, People's Republic of China, to satisfy the increasing demand of software development from existing and new customers.

Leading edge technologies, training, personal growth opportunities and rewarding company culture are the key elements for attracting software engineers. EB's Automotive Business Segment invests in its own EB Academy (internal training center), personal development programs and leadership trainings to meet the challenges of a highly dynamic industrial environment.

More and more complex and bigger projects in all domains require strong project management capabilities, clear processes and new methods for software development. Therefore a segment wide project "ASWgoesSPICE" was started in 2012. The goal of the project is that by the end of the year 2014 the Segment utilizes processes and tools that correspond to international "Spice Level 3" and "Functional Safety" standards.

Wireless Business Segment

EB's Wireless business was positively impacted in 2012 by the good demand in the mobile infrastructure, authority and wireless connectivity markets. EB was able to increase design capacity in Finland by 85 new employees that were recruited during 2012 in Finland. In order to rationalize its operations and improve the cost structure, EB closed its Wireless Business Segment site in Espoo and consolidated operations in Finland in its larger units in Oulu, Kajaani and Tampere. All employees in Espoo site were offered positions in Company's other sites, mainly in Finland.

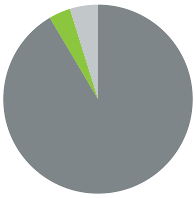
In 2012 Wireless Business Segment provided expert training focusing especially to LTE related radio technologies, RF design, and testing capabilities as well as strengthened the Scrum Master expertise. The development of engineering competences was further supported by virtual competence teams. The way Wireless Business Segment operates is based on the implementation of lean and agile methods, and trainings were continued with regard to these topics. At the same time the processes and tools utilized were fitted to support the execution, provide transparency and improve efficiency in projects.

The working atmosphere is measured annually in the EB Spirit personnel survey in the Wireless Business Segment. The personnel survey as well as the customer feedback surveys in 2012 showed strong customer orientation and good working atmosphere.

Personnel by Business Segments Dec. 31, 2012

	2012	%	2011	%
Automotive	1233	66	998	62
Wireless*	627	34	598	37
Corporate functions	10	1	11	1
*** Includes:**				
Continuing operations	573	31	544	34
Discontinuing operations	54	3	54	3

Personnel by Market Areas Dec. 31, 2012



	2012	%	2011	%
Europe	1711	91	1413	88
Asia	69	4	107	7
Americas	90	5	87	5

Shareholders

Shares and Shareholders

The Shares of Elektrobit Corporation are quoted on the NASDAQ OMX Helsinki. The Company has one series of shares. All shares entitle their holders to dividends of equal value. Each share has one vote. The share does not have a nominal value. The Company's shares have been entered into the Euroclear Finland Ltd.'s book-entry securities system.

At the end of the financial period, the fully paid share capital of the company entered into the Finnish Trade Register was EUR 12,941,269 and the total number of the shares was 129,412,690. The accounting par value of the Company's share is EUR 0.10. The Company has not its own shares in its possession.

Share Price and Trading Volumes

The closing price of Elektrobit Corporation's share was EUR 0.65 in 2012; the share reached a high of EUR 0.79 and a low of EUR 0.38. During the year, a total of 10.7 million shares with the value of EUR 6.9 million changed hands on the NASDAQ OMX Helsinki. This is 8.3 per cent of the share capital. Elektrobit Corporation's market capitalization at the end of 2012 was EUR 84.1 million.

Dividend Policy

Elektrobit Corporation follows a dividend policy that takes into account the group's net income, financial situation, need for capital and financing of growth. The Board of Directors proposes that the Annual General Meeting to be held on April 11, 2013 resolve to pay EUR 0.01 per share, i.e. in total EUR 1,294,126.90, as dividend based on the adopted balance sheet for the financial period of January 1, 2012 – December 31, 2012.

Trading Codes

Elektrobit Corporation has been listed on NASDAQ OMX Helsinki (previously Helsinki Stock Exchange) since 1998. Elektrobit Corporation's company code and trading code in the NASDAQ OMX Helsinki INET system is EBC and the trading code EBC1V.

Trading codes are:

NASDAQ OMX Helsinki	EBC1V
Reuters	EBC1V.HE
Bloomberg	EBC1VFH

Shareholders

At the end of 2012 Elektrobit Corporation had 22,871 shareholders. The ten largest shareholders owned 61.7 per cent of the shares. Private ownership was 74.3 per cent. The percentage of foreign and nominee-registered shareholders was 3.8 per cent at the end of 2012.

Shareholding of the Board of Directors and CEO

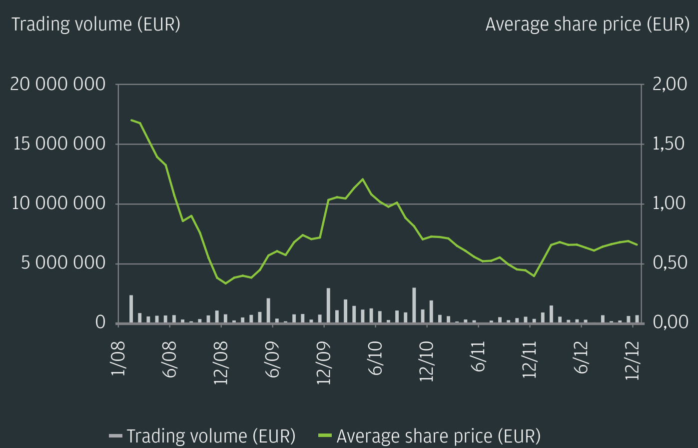
At the end of 2012, the shareholding of the Board of Directors, CEO and the companies controlled by them was 36.3 per cent, corresponding to 46,938,762 shares.

Information to Shareholders

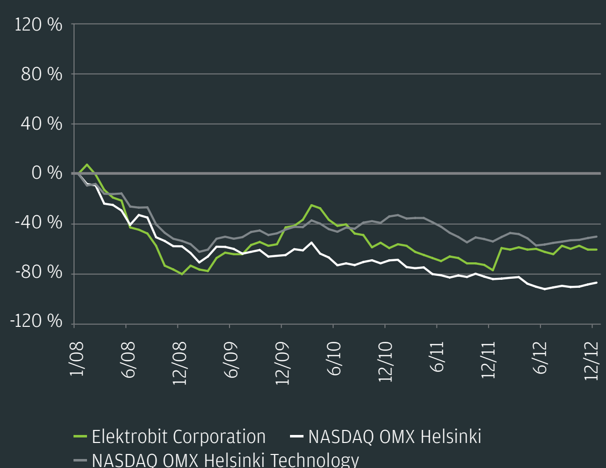
Financial Reports 2013

Elektrobit Corporation reports its financial development quarterly. In 2013 EB will publish financial reports as follows:

Trading volume and average share price 2008–2012



Share price development in NASDAQ OMX Helsinki 2008–2012



February 19th
Financial Statement Bulletin 2012
April 26th
Interim Report January–March 2013
August 8th
Interim Report January–June 2013
November 7th
Interim Report January–September 2013

Financial reports will be published simultaneously in Finnish and in English at 8.00 a.m. (CET+1) on EB's web pages at www.elektrobit.com/investors. The company will hold press conference regarding the reports on dates to be specified later.

Silent Period

Elektrobit Corporation will observe a Silent Period prior to announcing its results. The Silent Periods in 2013 are as follows:

January 29th–February 19th
April 5th–April 26th
July 18th–August 8th
October 17th–November 7th

Elektrobit Corporation's Annual General Meeting

Elektrobit Corporation's Annual General Meeting will be held on Thursday, April 11, 2013, at 1.00 p.m. (CET +1) at the University of Oulu, Saalastinsali, Pentti Kaiterankatu 1, 90570 Oulu, Finland.

Shareholders registered in the shareholders' register

Each shareholder, who is registered on Thursday 28 March 2013 in the shareholders' register of the company held by Euroclear Finland Ltd., has the right to participate in the General Meeting. A shareholder, whose shares are registered on his/her personal Finnish book-entry account, is registered in the shareholders' register of the company.

A shareholder, who is registered in the shareholders' register of the company and who wants to participate in the General Meeting, shall register for the meeting no later than on Monday 8 April 2013 by 10.00 a.m. (CET +1) by giving a prior notice of participation. The notice has to be received by the company before the end of the registration period. Such notice can be given:

a) on the company's website at www.elektrobit.com, as from 19 February 2013 at 8.00 a.m. (CET +1);
b) by telephone +358 40 344 3322 or +358 40 344 5425 on weekdays between 9.00 a.m. and 4.00 p.m. (CET +1);
c) by telefax; +358 8 343 032; or
d) by regular mail to the address Elektrobit Oyj, Yhtiökokous, Tutkijantie 8, 90590 Oulu, Finland.

In connection with the registration, a shareholder shall notify his/her name, personal identification number or business identity code, address, telephone number and the name of a possible assistant or proxy representative and the personal identification number of a proxy representative. The personal data given to Elektrobit Corporation is used only in connection with the General Meeting and with the processing of related registrations.

The shareholder, his/her authorized representative or proxy representative shall, where necessary, be able to prove his/her identity and/or right of representation at the General Meeting.

Holders of nominee registered shares

A holder of nominee registered shares has the right to participate in the General Meeting by virtue of such shares, based on which he/she on Thursday 28 March 2013 would be entitled to be registered in the shareholders' register of the company held by Euroclear Finland Ltd. The right to participate in the General Meeting requires, in addition, that the shareholder on the basis of such shares has been registered into the temporary shareholders' register held by Euroclear Finland Ltd. at the latest on Monday 8 April 2013 by 10.00 a.m. As regards nominee registered shares, this constitutes due registration for the General Meeting.

A holder of nominee registered shares is advised to request without delay the necessary instructions regarding registration in the temporary shareholder's register, the issuing of proxy documents and registration for the General Meeting from his/her custodian bank. The account management organization of the custodian bank has to register a holder of nominee registered shares, who wants to participate in the General Meeting, into the temporary shareholders' register of the company at the latest by the time stated above.

Further information on the General Meeting and participation in the General Meeting is available on the company's website www.elektrobit.com.

Proxy representative and powers of attorney

A shareholder may participate in the General Meeting and exercise his/her rights at the meeting by way of proxy representation. A proxy representative shall produce a dated proxy document or otherwise in a reliable manner demonstrate his/her right to represent the shareholder. If a shareholder participates in the General Meeting by means of several proxy representatives representing the shareholder with shares at different securities accounts, the shares by which each proxy representative represents the shareholder shall be identified in connection with the registration for the General Meeting.

Possible proxy documents should be delivered in originals to the address Elektrobit Corporation, Yhtiökokous, Tutkijantie 8, 90590 Oulu, Finland, before the end of the registration period.

Other information

Pursuant to chapter 5, section 25 of the Companies Act, a shareholder who is present at the General Meeting has the right to request information with respect to the matters to be considered at the meeting.

On the date of this notice to the General Meeting 19 February 2013, the total number of shares and votes in Elektrobit Corporation is 129,412,690.

The proposals for the decisions on the matters on the agenda of the General Meeting as well as the notice are available on Elektrobit Corporation's website at www.elektrobit.com. This annual report includes the financial statement, the Report of the Board of Directors, the auditor's report of Elektrobit Corporation and Corporate Governance. The proposals for decisions and the other above-mentioned documents are also available at the meeting. Copies of these documents and of this notice will be sent to shareholders upon request.

The minutes of the meeting will be available on the above-mentioned website as of April 25, 2013.

Press releases, reports, earnings estimates, share price ticker, contact details of analysts and other current investor material can be found on the Company's website at www.elektrobit.com. An e-mail-based subscription service for press releases and publications can be found from the Company's website as well.

Corporate Governance Statement Reporting Period Jan. 1–Dec. 31, 2012

Introduction

The governance of Elektrobit Corporation (hereinafter ”Company”) is determined by the Company’s Articles of Association, the laws of Finland (such as the Finnish Companies Act and Securities Market Act) and the Company’s Corporate Governance Code. The Company follows with some exceptions the Finnish Corporate Governance Code 2010 prepared by the Finnish Securities Market Association (“Finnish Governance Code”). The Governance Code may be viewed, inter alia, at the Finnish Securities Market Association website at www.cgfinland.fi.

The Company has departed from certain individual recommendations of the Finnish Governance Code. These departures are concerning the gender composition of the Board (Recommendation 9) and the number of the Board’s Audit and Financial Committee members (Recommendation 22) as explained in further detail below. According to the Finnish Governance Code, one element of a diverse composition of the board is to have both genders represented on the board. The Company has departed from this recommendation, as the Annual General Meeting held on March 26, 2012 did not elect both genders to the Board of Directors. The proposal adopted by the Annual General Meeting regarding the composition of the Board was made by shareholders who represented approximately 55.8 % of the shares of the Company. These shareholders were informed about the content of Recommendation 9 by the Board of Directors of the Company. According to the information received, the shareholders who made the proposal, on the one hand, wanted to emphasize the continuity of the Board composition due to foreseen focus areas in the Board work and did not, on the other hand, in view of the size and nature of the Company’s operations, consider it appropriate to increase the number of the Board members from the previous five members. The management of the Company and the composition of the Board are thereby based on strong ownership steering and, thus, the main shareholders have a significant representation in the Company’s Board. The Company does not have a nomination committee.

The members of the Audit and Financial Committee in year 2012 have been Staffan Simberg (chairman of the committee) and Seppo Laine, Authorised Public Accountant. Taking into consideration the composition and the number of Board members in 2012 and the financial expertise held in particular by Seppo Laine, the Board resolved to deviate from the Governance Code’s recommendation concerning a minimum of three committee members.

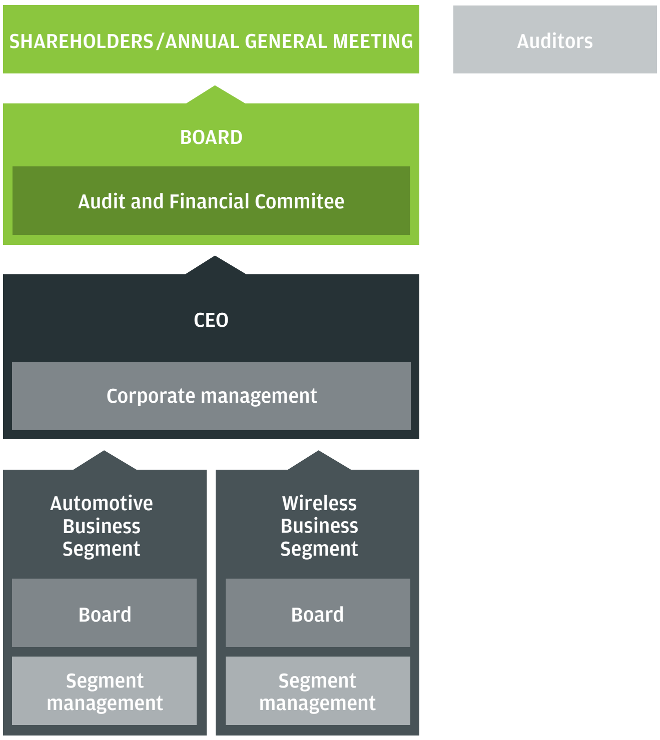
This Corporate Governance Statement has been made according to Recommendation 54 and the applicable legislation. This Statement is made separate from the Report by the Board. The Board’s Audit and Finance Committee and the Company’s auditor have reviewed this Statement.

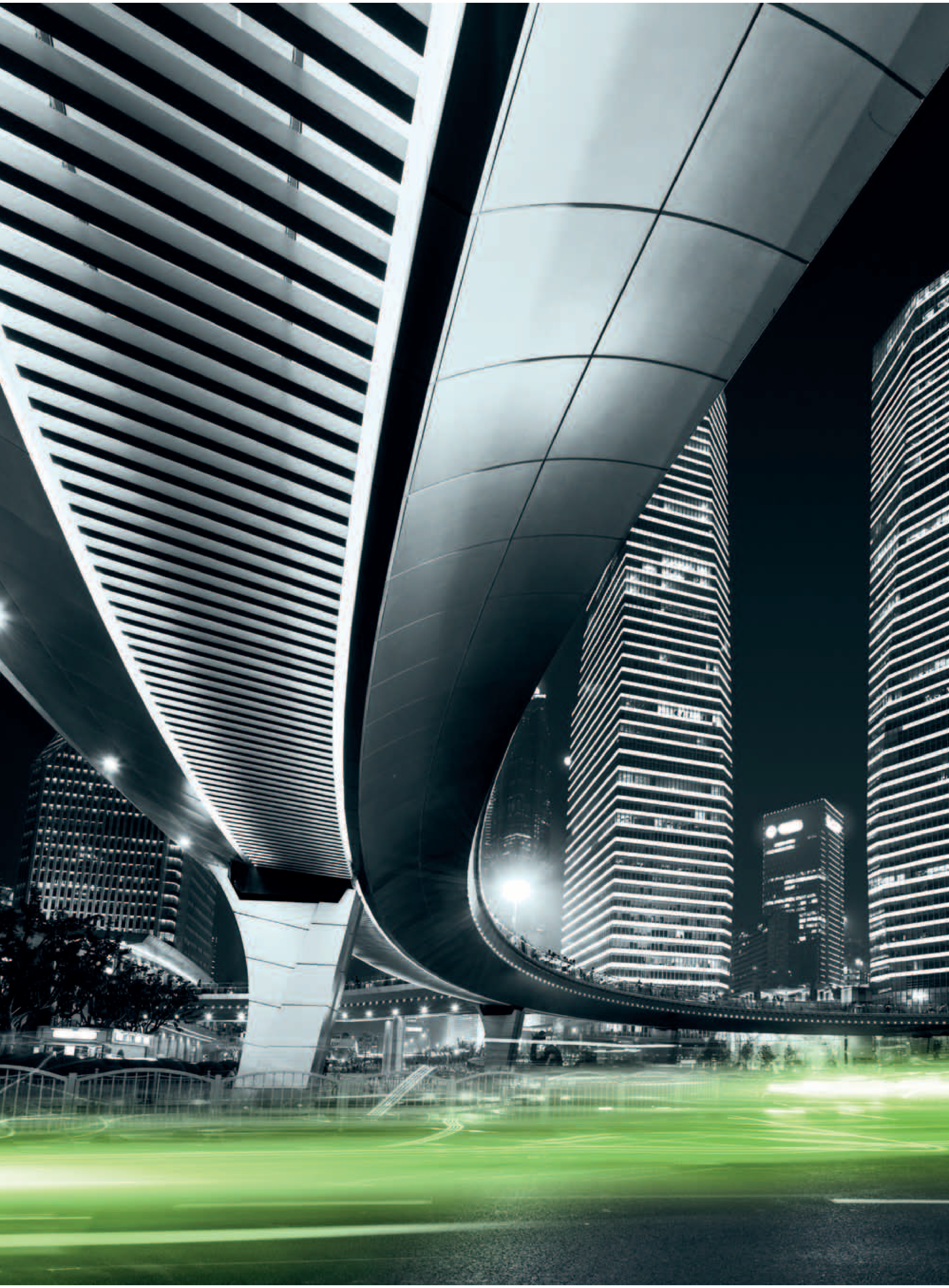
The statutory governing bodies of the Company are the Shareholders’ meeting, Board of Directors, Chief Executive Officer and the Auditor. Other corporation management, and the below described business segments’ management, support the statutory governing bodies of the Company. The Company’s domicile is Oulu.

The operative business of Elektrobit Group takes place in business segments (sub-groups) formed by branch-by-branch. The external reporting of the Group is also based on these business segments, which are Automotive and Wireless. The Presidents of the parent companies of the sub-groups report the segment business to the Board of Directors of each sub-group’s parent company (“Segment Board”). Segment Boards comprise of the Company’s CEO as the Chairman and one or more Board members of the Company and possibly also one or more external expert members. Segment Board members are elected based on preparation of the Company’s Board. Operative business decisions are made in each Business Segment.

The Company’s Corporate Governance Code and this Corporate Governance Statement are publicly available at the Company’s website at www.elektrobit.com.

The Governance of Elektrobit Corporation





The Board of Directors and the Composition and Operation of Committees Established by the Board

Board of Directors

The Board of Directors is responsible for the Company's governance and proper organization of the operations. The Board of Directors comprises of three to seven (3-7) members and in addition it may have one to three (1-3) deputy members. The Annual General Meeting shall elect the members of the Board of Directors for a term, which expires at the end of the following Annual General Meeting. The number of terms for the members of the Board of Directors is not limited. The Board of Directors selects a Chairman among its members.

The Annual General Meeting held on March 26, 2012 elected five (5) members to the Board of Directors. The following members of the Board of Directors were elected: Jorma Halonen, Juha Hulkko, Seppo Laine, Staffan Simberg and Erkki Veikkolainen. The Board of Directors elected Seppo Laine as the Chairman of the Board of Directors at its assembly meeting on March 26, 2012. The Board had the same composition already from the beginning of the year 2012 until the Annual General Meeting. In addition, the Board of Directors decided in its assembly meeting held on March 26, 2012 that Staffan Simberg (Chairman of the Committee) and Seppo Laine shall continue as members of the Audit and Finance Committee.

According to the Finnish Governance Code, one element of a diverse composition of the board is to have both genders represented on the board (Recommendation 9). The Company has departed from this recommendation, as the Annual General Meeting held on March 26, 2012 did not elect both genders to the Board of Directors. The proposal adopted by the Annual General Meeting regarding the composition of the Board was made by shareholders who represented approximately 55.8% of the shares of the Company. These shareholders were informed about the content of Recommendation 9 by the Board of Directors of the Company. According to the information received, the shareholders who made the proposal, on the one hand, wanted to emphasize the continuity of the Board composition due to foreseen focus areas in the Board work and did not, on the other hand, in view of the size and nature of the Company's operations, consider it appropriate to increase the number of the Board members from the previous five members. The management of the Company and the composition of the Board are thereby based on strong ownership steering and, thus, the main shareholders have a significant representation in the Company's Board. The Company does not have a nomination committee.

A corporate governance target is that at least half of the members of the Board of Directors are independent of immediate Company interest. In addition, at least two of the Directors representing this majority shall be independent of significant shareholders of the Company. On March 26, 2012 Jorma Halonen, Seppo Laine, Staffan Simberg and Erkki Veikkolainen were considered as independent members of the Board as regards both the Company and its significant shareholders. Juha Hulkko is not independent of significant shareholder as his ownership in the Company exceeds 10% of the Company's share capital.

Chairman of the Board of Directors

Seppo Laine

b. 1953, Authorized Public Accountant

Full-time occupation: Professional Board Member

Positions of trust: Elektrobit Corporation, Chairman of the Board of Directors, Elektrobit Corporation, Member of the Board 2008–, Member of the Audit and Financial Committee 2009–. Elektrobit Automotive GmbH, Member of the Board 2010–. Joutsen Media Oy, Chairman of the Board 2012–. Marpek Oy, Oulu ICT Oyj, Cor Group Oy, Paikallis-Sähkö Oy, and Taxpayers Association of Finland, Member of the Board.

Work history: Condia Oy, Chairman of the Board. Elektrobit Corporation, Chief Financial Officer 2000–2007. Auditing Company Ernst & Young Ltd., Director at the Oulu regional office and international partner 1995–2000. Oulun Laskenta Oy, President 1979–1995. Turun Muna Oy Jaakko Tehtaat, Financial Manager 1977–1979. Tammerneon Oy, Financial Manager 1975–1977.

Holdings: Holds 2,120,051 shares and corporation controlled by Laine 100,000 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

Other members of the Board of Directors

Jorma Halonen

b. 1948, Bachelor of Science (Economics)

Full-time occupation: Professional Board Member

Positions of trust: Elektrobit Corporation, Member of the Board of Directors 2009–. Elektrobit Automotive GmbH, Member of the Board 2011–. Ashok Leyland, India, Member of the Board of Directors 2011–. Hinduja Foundries, India, Member of the Board of Directors 2011–. Optare plc, UK, Member of the Board of Directors 2011–. Permira, Nordic Advisory Board, Member 2009–. TMD Friction Holding GmbH, Chairman of the Board of Directors 2009–. CPS Color Group Oy, Chairman of the Board of Directors 2008–. Niscayah Group Ab, Chairman of the Board of Directors 2008–. Semcon Ab, Member of the Board of Directors 2008–. National Industrial Cluster Development Program, Riyadh, Member of the Board of Directors 2008–.

Work history: Assa abloy AB (publ.), Member of the Board of Directors 2008–2010. AB Volvo, Vice President and Volvo Group, Vice President 2004–2008. Volvo Truck Corporation, Göteborg, Sweden, President and CEO 2001–2004. Scania Latin America, Sao Paulo, Brasil, President and CEO 1998–2001. Scania Latin America, Sao Paulo, Brasil, Vice President 1996–1998. Oy Scan-Automotive Ab, Oy Scan-Auto Ab (Scania importer) and Oy Saab-Auto Ab, Helsinki, Finland, President and CEO 1990–1996. Leading positions in different companies within computer and telecommunications industries, 1972–1990.

Holdings: Holds 21,000 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

Elektrobit Corporation
BOARD OF DIRECTORS

From left to right:
Staffan Simberg,
Erkki Veikkolainen,
Seppo Laine,
Juha Hulkko ja
Jorma Halonen.

Juha Hulkko
b. 1954, M.Sc. (Eng.), eMBA, Dr.tech.h.c.

Full-time occupation: Professional Board Member

Positions of trust: Elektrobit Corporation, Member of the Board of Directors 2006–. Gamga Oy, Chairman of the Board. CWC (Centre for Wireless Communications) research institute, Member of the Steering Committee. Elproto Oy, Chairman of the Board. Spinning Wire GmbH, Member of the Board.

Work history: Elektrobit Corporation, Chairman of the Board of Directors 2002–2005 and 2008–2010. Elektrobit Corporation, CEO 2005–2006. Elektrobit Ltd., one of the founders in 1985, CEO 1985–1995, Chairman of the Board 1995–2002.

Holdings: Holds 27,214,362 shares in Elektrobit Corporation.

Hulkko is independent from the Company but not from its significant shareholders as his holdings exceed 10% of the Company shares.

Staffan Simberg
b. 1949, MBA

Full-time occupation: Professional Board Member

Positions of trust: Elektrobit Corporation, Member of the Board of Directors 2008–, Audit and Financial Committee Chairman 2010–, and Member 2009–. Elektrobit Technologies Ltd., Member of the Board 2011. Simberg & Partners AB, Business Consultant and Chairman of the Board 1994–. NEZ-Invest AB, Chairman of the Board. Svensk Linjebesiktning AB, Chairman of the Board 2011–. Nordic Vehicle Conversion AB, Member of the Board 2011–. Silva AB, Member of the Board 2011–. Endomines AB (publ.), Member of the Board and Audit Committee 2011–. Karnell, investment advisor 2009–. Luoman Vesiosuuskunta, Member of the Board 2012–.

Work history: Cargotec Oyj, Industrial Advisor 2009. Metso Group, Industrial Advisor 2011. Metso Panelboard, Chairman 2008–2009. Landis & Gyr AG, Member of the Advisory Board 2007. Powermill Service group, Member of the Board 2005–2007. Dotcom Solutions AB, Member of the Board 2000–2005. Enermet group, Managing Director 2005–2007. Siar-Bossard, Associated Partner 1992–1994. Leading positions at Nokia 1978–1991.

Holdings: Corporation controlled by Simberg holds 450,000 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

Erkki Veikkolainen
b. 1952, M.Sc. (EE), eMBA

Full-time occupation: Mevita Invest Oy, CEO

Positions of trust: Elektrobit Corporation, Member of the Board of Directors 2008–. Elcoflex Oy, Chairman of the Board 2006–. Aplicom Oy (2005–), Elcoflex (Suzhou) Co. Ltd (2007–), Maustaja Oy (2006–), and Mecanova Oy (2005–), Member of the Board.

Work history: Elektrobit Corporation, Executive Vice President, Contract R&D and Test Business Units 2002–2003. Elektrobit Technologies Ltd., Managing Director 2001–2003. Elektrobit Ltd., Vice President, Business Development 1998–2001. Nokia Mobile Phones, various positions 1985–1998, latest Vice President.

Holdings: Holds 9,388,719 shares in Elektrobit Corporation.

Independent as regards both the Company and its significant shareholders.

Description of Activities

The Board of Directors has defined a working order and evaluates its performance annually. The Board of Directors shall implement the decisions of the General Meeting. The Board of Directors supervises the operations and management. The Board of Directors makes decisions on the Company's guiding principles for operation, strategy and budget. The Board of Directors decides on mergers and acquisitions and other strategic alliances as well as significant investments and significant matters regarding organization and finance. The Board of Directors supervises that the group companies' accounting and financial management is duly organized. The Board of Directors appoints the CEO and possible Deputy for him or her as well as approves the Company's organization structure.

The CEO, CFO and Chief Legal Officer (who acts as secretary of the Board of Directors) attend the meetings of the Board of Directors. The presidents of the Business Segments provide their Business Segment reviews and report on the strategy progress in the last Board meeting of each quarter. Other Group management attend the meetings when necessary or upon invitation by the Board of Directors. The Chairman of the Board approves the agendas of the meetings of the Board of Directors. The agendas are prepared by the CEO and by the Chief Legal Officer.

In 2012, the Board convened 17 times. The Board members attended to the meetings as follows:

Jan. 1–Dec. 31, 2012	Board	Audit and Finance committee
Seppo Laine	17/17	6/6
Jorma Halonen	17/17	
Juha Hulkko	17/17	
Staffan Simberg	16/17	6/6
Erkki Veikkolainen	16/17	

An annual clock, according to which the regular subjects to be handled are determined, is applied in the Board's work. In addition to the regular subjects of the annual clock, the most important subject of the Board during the year was still profitability improvement of the Group, development of a segment based management system and business portfolio and in particular evaluating and planning actions relating to the reorganization processes of the group's previously significant customer, TerreStar Networks Inc., and its parent company TerreStar Corporation, and evaluating potential profit and balance sheet implications of the reorganization processes.

The Annual General Meeting decides on the compensation of the members of the Board of Directors and such compensations can be publicly reviewed from the Company's website at www.elektrobit.com.

The Board Committees

The proper function of the corporate governance of a company requires that Board work be organized as efficiently as possible. For this reason the Company established an Audit and Financial Committee.

The Directors on the committee can concentrate on the matters delegated to the committee more extensively than the entire Board of Directors. The purpose of the committee is to enhance the efficient preparation of matters within the competence of the Board, increase transparency and ensure the quality and efficiency of the decision making of the Board.

The committee assists the Board by preparing matters falling within the competence of the Board. The Board remains responsible for the duties assigned to the committee. The committee has no autonomous decision-making power, and thus the Board makes the decisions within its competence collectively.

Taking into consideration the current composition and the number of Board members, the committee shall have at least two members appointed by the Board of Directors among its members, one of them being the Chairman of the respective committee.

The committee shall regularly report on its work to the Board. The reports shall include at least a summary of the matters addresses and measures taken by the committee.

The central duties and operating principles of the Audit and Financial Committee are described below. The Annual General Meeting decides on the compensation of the members of the Board committees and such compensations can be publicly reviewed from the Company's website at www.elektrobit.com.

The Audit and Financial Committee has the following duties:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal audit, if applicable, and risk management systems;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm and particularly the provision of related services; and
- to prepare the proposal for resolution on the election of the auditor.

The Chairman and the members of the Audit and Financial Committee are appointed by the Board of Directors of the Company. At least one committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company. The members of the Audit and Financial Committee have been Staffan Simberg (chairman of the committee) and Seppo Laine, Authorised Public Accountant. Taking into consideration the composition and the number of Board members and the financial expertise held in particular by Seppo Laine, the assembly meeting of the Board held on March 26, 2012 resolved to depart from the recommendation concerning a minimum of three committee members by the Finnish Governance Code (recommendation 22). Both members of the committee are independent of immediate interest of both the Company and its significant shareholders and they have long-term experience in business management.

In addition to committee members, other regular participants to the committee meetings are CEO and CFO of the Company and optionally external auditors. Further, the committee members may meet the external auditors without the operative management being present in such meetings.

In 2012, the Audit and Financial Committee convened six (6) times to ordinary meetings. The Committee has evaluated, prepared and reviewed the following subject matters during the financial period of January 1, 2012 – December 31, 2012:

- Published financial reporting;
- Annual audit plan for 2012;
- Observations based on auditing during the financial period;
- Observation by the internal control;
- Cash flow monitoring and definition of the financial frames for the Business Segments;
- Credit facility arrangements of the group;

- Group legal structure related questions;
- TerreStar reorganization related questions;
- Tax audit of the U.S. based subsidiary;
- Budget target setting and budgeting process;
- Rewarding principles of the management and other personnel;
- Impairment testing of the subsidiary shares and goodwill; and
- Effect of the changing IFRS-regulation on the group consolidation principles and methods.

During 2013 the Committee's focus areas are improvement of the net working capital management and earnings logic and modeling the related financial risks, managing the projects representing exceptional risks and further improving the focus areas of 2012, including, among others, functionality of risk management processes in the segment based management model; clarifying of internal control operating model; and focusing internal control measures to Business Segments.

Chief Executive Officer

The CEO is in charge of the operative management of the Company in accordance with the Finnish Companies Act, the Articles of Association as well as the instructions and orders given by the Board of Directors. The CEO is responsible for the preparation of the Board meetings and implementation of any decisions made therein. Further, the CEO is responsible for ensuring that the Company's accounting methods comply with the applicable law and that the financial matters are being handled in a reliable manner. The CEO prepares strategy, long-term planning, investments, mergers and acquisitions, financing and makes decisions thereof to the extent that such decisions are not tasks of the Board of the Directors. The CEO is responsible for financial planning, the Company's communications and investor relations.

The Board of Directors defines and approves the essential terms of the service of the CEO, including the CEO's remuneration, in a form of a written agreement. The CEO's service contract is effective until further notice and can be terminated by both the Company and the CEO with six (6) months' written notice.

The CEO is entitled to a pension under the Contracts of Employment Act and other legislation pertaining to pensions. The Finnish employee pension system (TyEL) allows for an old-age pension based on years of service and the income accumulated during those years, including the base salary, bonuses (excluding any option rights and shares subscribed on their basis) and taxable fringe benefits. The old-age pension can be taken out at one's own discretion between the ages of 63-68 (flexible retirement age).

Other Management of the Company

Corporate Management

Corporate management supports the CEO in his tasks and consists of the CFO and the Chief Legal Officer of the Group. Corporate management supports the CEO in operative management and implementation and follow-up of the CEO's competence areas, in particular as regards the management and development of the business portfolio, asset management and taxation, internal audit, Corporate Governance of the Company, investor and marketing communications and risk management.

CEO
Jukka Harju
Chief Executive Officer, 2009–
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)

Elektrobit Technologies Ltd. and Elektrobit Automotive GmbH, Chairman of the Board 2010–.

Work history: Elektrobit Corporation, Member of the Board of Directors 2006–2009. Boier Capital Ltd., Partner 2007–2009. Incap Corporation, Member of the Board 2007–2010. Elektrobit Corporation, Chief Operating Officer 2005–2006 and Executive Vice President, Business Development 2000–2004. Tellabs Ltd, Managing Director 1994–1999. Nokia Telecommunications Ltd., Vice President, Microwave Radios 1990–1994 and other duties in the same organization 1981–1990.

Holdings: Holds 7,644,630 shares in Elektrobit Corporation (including shareholdings of corporations controlled by Harju).

CFO
Veli-Pekka Paloranta
Chief Financial Officer, 2010–
b. 1972, M.Sc. (Econ.)

Elektrobit Corporation, Member of the Corporate Management Board 2010–.

Work history: Elektrobit Corporation, Director, Finance 2008–2010. JOT Automation Oy, CFO 2007–2008. Elektrobit Group Oyj, Business Controller 2000–2007.

Holdings: Holds 1,200 shares in Elektrobit Corporation. Holds 10,000 stock options 2008A, 40,000 stock options 2008B and 20,000 stock options 2008C.

CLO
Päivi Timonen
Chief Legal Officer, 2002–
b. 1970, LLM, trained on the bench

Elektrobit Corporation, Member of the Corporate Management Board 2002–.

Positions of trust: Member of the Board, Nestor Cables Oy 2012–.

Work history: Roschier Holmberg Oy, Lawyer 1998-2002.

Holdings: Holds 11,800 shares in Elektrobit Corporation. Holds 57,500 stock options 2008A, 40,000 stock options 2008B and 20,000 stock options 2008C.

Business Segments
(sub-groups)

The operative business of the Group takes place in Business Segments (sub-groups) formed by branch-by-branch. The external reporting of the Group is also based on these Business Segments, which are Automotive and Wireless. The Presidents of the parent companies of the sub-groups report the segment business to the Board of Directors of each sub-group's parent company ("Segment Board"). Segment Boards comprise of the Company's CEO as the Chairman and one or more Board members of the Company and possibly also one or more external expert members. Operative business decisions are made in each business segment.

Automotive Business Segment

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. 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 ADTF, an extensive software development kit for driver assistance solutions. These software products generate license fees, often combined with supply of R&D services for customized solutions.

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

The members of the Board of Directors of the parent company of the Automotive sub-group, Elektrobit Automotive GmbH, are Jukka Harju (Chairman of the Board), Gerhard Jakobs, Seppo Laine and Jorma Halonen. The Managing Directors of Elektrobit Automotive GmbH are Alexander Kocher (responsible for business operations as a whole), and Gregor Zink (responsible for finance and administration).

Elektrobit Automotive GmbH
MANAGEMENT BOARD*

From left to right:
Gerhard Jakobs, Jukka Harju,
Jorma Halonen ja Seppo Laine.

Chairman of the Board of Directors
Jukka Harju
Elektrobit Corporation, Chief Executive Officer
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)
For other information about Mr. Harju, please see page 25.

Member
Jorma Halonen
Elektrobit Corporation,
Member of the Board of Directors
b. 1948, M.Sc. (Econ.)
For other information about Mr. Halonen, please see page 22.

Member
Seppo Laine
Elektrobit Corporation,
Chairman of the Board of Directors
b. 1953, Authorized Public Accountant
For other information about Mr. Laine, please see page 22.

Member
Gerhard Jakobs
b. 1946, Dr. (Eng.)

Full-time occupation: Professional Board Member

Positions of Trust: Würth Electronics, Advisory Board Member 1996–.

Work history: Diehl Metal Foundation, Diehl Metal Applications, CEO 2009–2011 and Vice President of Sales & Marketing 2008–2009. FCI Corporation, FCI Automotive Europe, Vice President and Connectors Holdings, FCI Automotive Germany and FCI Automotive Austria, General Manager 1998–2008. TEMIC/Daimler Benz, TEMIC Division Mikrosystems, MBB Mikroelektronic GmbH, General Manager 1993–1998 and Vice president of Operations 1992–1993. Messerschmitt-Bölkow-Blohm (MBB)/Daimler Benz Deutsche Aerospace, Microelectronic, Director 1987–1992. MBB, Microelectronic and SC Electronic, Head of department 1986–1987, Technical Plant Development, Chief Department Manager 1985–1986, and Production Technology, Process Data and Test Technology, Head of department 1984–1985. Institute of Computer Technology, General Manager 1981–1984.

Holdings: Does not hold shares in Elektrobit Corporation.

* Organ based on the Articles of Association of Elektrobit Automotive GmbH

Elektrobit Automotive GmbH
MANAGING DIRECTORS

Managing Director
Alexander Kocher
President,
Automotive Business Segment, 2011–
b. 1960, M.Sc., Electrical Engineering

Work history: Wind River Systems, Automotive Solution, Vice President and General Manager 2008–2011. Continental, Vice President, Navigation & Maps 2007–2008. Siemens VDO, Vice President, TLA Platform 2002–2007. Siemens Automotive, Director, Systems Engineering Infotainment 2001–2002. Infineon, Director, Systems Engineering Industrial & Automotive 1998–2000. Siemens Communications and Siemens Industrial, various management positions 1986–1997.

Holdings: Does not hold shares in Elektrobit Corporation. Holds 100,000 stock options 2008A and 100,000 stock options 2008B.

Managing Director
Gregor Zink
Executive Vice President,
Automotive Business Segment, 2011–
b. 1966, MBA, M.Sc. (Econ.)

Work history: CA Germany, RAC Manager/Finance Manager 2007–2010. Aareon AG, CFO 2004–2008. ino 24 AG, Finance Manager 2002–2004. digital advertising AG, Finance Manager 2000–2001. AWT Allgemeine Wirtschaftstreuhand, Wirtschaftsprüfungs- und Steuerberatungsgesellschaf, Auditor 1996–2000. Hülzburger, Hemmer & Hoffman, Accounting and Tax Consultant 1993–1996.

Holdings: Does not hold shares in Elektrobit Corporation. Holds 70,000 stock options 2008C.

Elektrobit Technologies Ltd.
BOARD OF DIRECTORS

From left to right:
Staffan Simberg, Kai Hildén,
Jukka Harju ja Juha Hulkko.

Wireless Business Segment

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets as well as for the industrial use, and product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use. 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, and 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, software and hardware development.

The members of the Board of Directors of the parent company of the Wireless sub-group, Elektrobit Technologies Ltd., are Jukka Harju (Chairman of the Board), Kai Hilden, Juha Hulkko and Staffan Simberg. The President of Elektrobit Technologies Ltd. is Hannu Huttunen.

Chairman of the Board of Directors
Jukka Harju
Elektrobit Corporation, Chief Executive Officer
b. 1956, M.Sc. (Eng.), M.Sc. (Econ.)
For other information about Mr. Harju, please see page 25.

Member
Juha Hulkko
Elektrobit Corporation, Member of the Board
s. 1954, DI, eMBA, Dr.tech.h.c.
For other information about Mr. Hulkko, please see page 23.

Member
Staffan Simberg
Elektrobit Corporation,
member of the Board of Directors
b. 1949, MBA
For other information about Mr. Simberg, please see page 23.

Member
Kai Hildén
b. 1958, B.Sc.

Full-time occupation: Ay Matti and Kai Hildén, Entrepreneur.

Work history: Elektrobit Ltd., Managing Director 2007–2008. Extrabit Ltd., Managing Director 2006–2007. Elektrobit Ltd., Manager Finnish divisions 1997–2004. Elektrobit Ltd., Designer, Project Manager, Head of Division 1987–1997. Nokia-Mobira, Research Team Leader 1987. Nokia-Mobira, Designer, Project Manager, Head of Design 1982–1987.

Holdings: Holds 10,831,316 shares in Elektrobit Corporation.

Elektrobit Technologies Ltd.
MANAGING DIRECTOR

Hannu Huttunen
President, Wireless Business Segment, 2010–
s. 1966, M.Sc. (Econ.)

Positions of trust: Elektrometalli Oy, Member of the Board 2008–.

Work history: EXFO Inc., Wireless Division leader 2010. NetHawk Oyj, CEO 2003–2010. NetHawk Oy, Executive Vice President 2002–2003. Nokia Mobile Phones Oy, IP Convergence unit leader 2002. Nokia Mobile Phones Oy, Special Products Business unit leader 1998–2002. Nokia Mobile Phones Oy, NMT450 Business unit leader 1995–1998.

Holdings: Does not hold shares in Elektrobit Corporation. He holds 100,000 stock options 2008A and 100,000 stock options 2008B.

Main Features of Internal Control and Risk Management Processes Related to Financial Reporting Processes

Risk Management

The purpose of risk management is to secure positive development of earnings of the Company and the continuation of the business by implementing risk management cost effectively and systematically throughout the different businesses.

Risk management is part of the Company's strategic and operative planning, daily decision-making process and internal control system. Business objectives, risks and risk management operations are combined as one chain of events through risk management.

Main Principles of Organizing Risk Management

Company adheres to the risk management policy approved by the Board.

Risk management contains all actions, which are connected to setting up targets, identification of risks, measurement, review, handling, reporting, follow-up, monitoring and reacting to risks.

The aim of risk management of the Company is to:

- systematically and thoroughly identify and assess all major risks, which threaten the achievement of objectives, including risks related to business operations, property, agreements, competence, currencies, financing and strategy;
- optimize business opportunities and secure continuation of business;
- recognize and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks;
- take only calculated and assessed risks with respect to e.g. expanding the business, increasing market share and creating new businesses;
- avoid or minimize liability risks;
- ensure the safety of products, solutions and services;
- establish a safe working environment for the employees;
- minimize possibilities for unhealthy occurrences, crimes or misconduct by operating procedures, control and supervision;
- inform interest groups of risks and risk management; and
- be cost effective in risk management.

The aim of risk management is not to:

- exclude all risks at their entirety;
- adopt unnecessary control and management procedures; or
- take bureaucratic processes and procedures into use.

Main Principles of the Risk Management Process

In connection with the strategy process and annual planning the CEO of the Company and Presidents of the Group's Business Segments review business risks, which could endanger the achievement of strategic or profit targets. The businesses produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through monthly reporting by businesses in the Segment Boards (see above section Business Segments). Businesses must produce assessments of risks in their designated areas of responsibilities and provide action plans to manage risks as well as to report to the Segment Boards on measures taken, including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Company's Board of Directors.

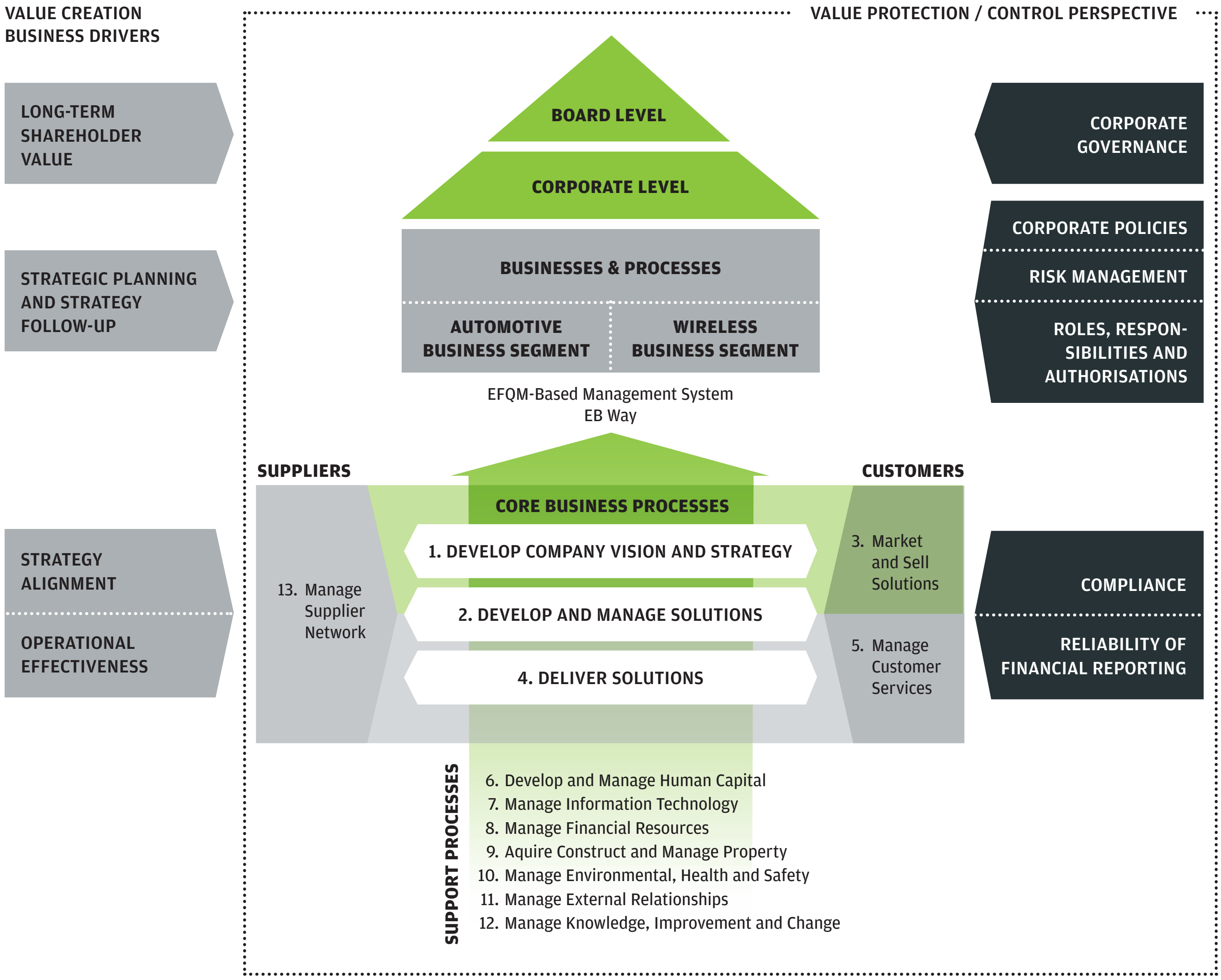
General Description of Internal Control and Operational Procedures

Internal control is a process applied by the Board of Directors, management and all levels of personnel in the Group to ensure that management has reasonable assurance that

1. operations are effective, efficient and aligned with strategy;
2. financial reporting and management information is reliable, complete and timely made; and
3. the Group is in compliance with applicable laws and regulations as well as the Company's internal policies and ethical values including sustainability.

The first category addresses the basic business objectives, including performance and profitability goals, strategy, implementation of objectives and actions and safeguarding resources. The second category relates to the preparation of reliable published financial statements, including interim reports and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The third deals with complying with those laws and regulations to which the Company is subject to.

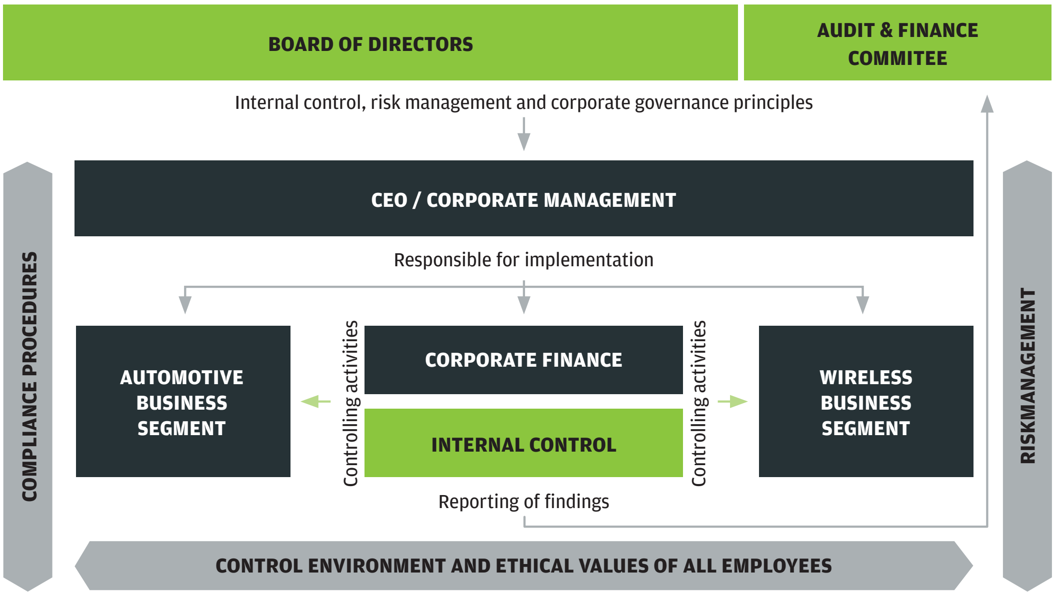
Internal Control Framework of the Company



Internal control framework of the Company

EB's internal control framework consists of:

- the internal control, risk management and corporate governance policies and principles set by the Company's Board of Directors;
- management overseeing the implementation and application of the policies and principles;
- finance function and business controllers monitoring the efficiency and effectiveness of the operations and reliability of the financial and management reporting;
- enterprise risk management process identifying, assessing and mitigating risks threatening the realization of the Company's objectives;
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values (including sustainability) are adhered to;
- effective control environment at all organizational levels including control activities tailored for defined processes and creating group minimum requirements for business and geographical areas;
- shared ethical values and strong internal control culture among all employees; and
- internal audit assignments reviewing the effectiveness of the internal controls as needed.



The key areas of EB's internal control framework 2012

Risks and Controls in Core Business Processes

Risk management procedures are in place for business processes in the form of defined control points:

- relevant process risks are identified;
- common control points/group minimum requirement control points are identified;
- common control points are implemented in business processes;
- additional control points can be determined as needed at business or functional levels.

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the Company's objectives. Control activities are set throughout the organization, at all levels and in all functions. They include various ranges of activities including but not limited to approvals, authorizations, verifications, reviews of operating performance, security of assets, and segregation of duties.

Internal Controls over Financial Reporting

The Group's external financial reporting process, internal control and risk management systems are briefly described in this section. The main focus is on financial accounting and related controls.

FINANCIAL REPORTING ORGANIZATION

The Group's financial administration is organized so that both Business Segments have their own operative financial organization, and the financial management as well as central expert functions regarding accounting, taxation, financing, and asset management, are centralized in the Group's parent company.

The financial management of the Business Segments is responsible for organizing the accounting, money transactions and other daily financial operations of the companies belonging to the segment as well as organizing the internal reporting that supports the segments' business. The financial management of the Business Segment controls and supervises the operation of the financial administration organizations of the segment companies, and it reports primarily to the President of the Business Segment, but matrix-wise also to the CFO of the Group. In addition, the tasks of the Group's parent company's financial administration consist of, inter alia, monthly consolidation of the Group entity, preparation of interim reports and consolidated financial statements, management and investment of monetary assets of the Group, management of liabilities, protection of exchange risk, and transfer pricing.

The finance function of the Group's parent company implements operative supervision under the Group's CFO who reports any supervisory findings to the Finance and Audit Committee. The Group's parent company's financial administration and financial management of the Wireless Business Segment is located in Finland, and the financial management of the Automotive Business Segment in Germany. The Group's subsidiaries in People's Republic of China, Germany and the USA have own accounting departments. Accounting functions in smaller subsidiaries in France and Japan are organized in the external accounting offices or, as in Austria, in the accounting department of the German subsidiary. The tasks and responsibilities of the accounting function of the parent company and each subsidiary are included in the job descriptions of the teams and employees.

FINANCIAL REPORTING SYSTEMS

Consolidated financial statements are prepared by using the chosen consolidation tool. The accounting of the Group's subsidiaries is mainly done by using the Group's common accounting system, from which the actual figures are reported on a monthly basis directly to the consolidation system. Subsidiaries in Japan and France send the information in a pre-defined format directly to the group consolidation.

The accounting system in use includes general ledger accounting, accounts payables and accounts receivables. Current assets and payroll accounting is organized through various programs or purchased as outsourced service. Purchase invoices are circulated through electronic invoice processing system. The same bank application is used in both Finland and Germany, the USA has a similar bank application.

Global forecasts and budgets are prepared by using the same forecast and reporting program maintained by the Group parent company. In some business segment companies, separate programs supporting internal reporting are in use.

INTERNAL CONTROLS

The Group's internal control mechanisms are based on policies, instructions, limited process descriptions, authorization matrix, financial reporting review meetings, and segregation of key accounting duties.

COMPLIANCE PROCEDURES

Compliance procedures are in place at all levels of the organization to ensure that that all applicable laws, regulations, internal policies and ethical values including sustainability are adhered to. Group functions and businesses are responsible for following up developments in legislation and regulations in their respective areas and communicating them to the organization. Businesses and corporate function directors are responsible for setting up adequate compliance controls and compliance related training in their units.

ROLES AND RESPONSIBILITIES REGARDING RISK MANAGEMENT AND INTERNAL CONTROL

The key roles and responsibilities regarding the Group's internal control and risk management are defined as follows:

BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the administration and the proper organization of the operations of the Company. According to good corporate governance, the Board also ensures that the Company has duly endorsed the corporate values applied to its operations. The Board approves the internal control, risk management and corporate governance policies. The Board establishes the risk-taking level and risk bearing capacity of the Company and re-evaluates them on a regular basis as part of the strategy and goal setting of the Company. The Board reports to the shareholders of the Company.

AUDIT AND FINANCIAL COMMITTEE

Audit and Financial Committee is responsible for the following internal control related duties:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the Company's internal control, internal audit, if applicable, and risk management systems;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement; and
- to monitor the statutory audit of the financial statements and consolidated financial statements.

More detailed descriptions of how Audit and Financial Committee is fulfilling its monitoring role are defined in Committee's annual plan. The Audit and Financial Committee reports to the Board of Directors of the Company.

CHIEF EXECUTIVE OFFICER

CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders given by the Board. CEO sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. CEO is in charge of the risk management process of the Group and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. CEO reports to the Board on risk management as part of the monthly reporting. The CEO and the management of the Group functions and the CEO's of the Business Segments, which operate under CEO, are responsible for the management of risks endangering the fulfillment of objectives set to the Company.

CHIEF FINANCIAL OFFICER

CFO ensures and controls that the Group's accounting and financial reporting practices comply with the law and that the financial reporting is reliable.

CHIEF LEGAL OFFICER

Chief Legal Officer ensures that the Group's corporate governance practices comply with the law and that legal matters of the Group are handled appropriately, in particular the contractual risks relating to business operations.

BUSINESSES SEGMENTS

Segment Boards and management of Business Segments are responsible for internal control implementation in the Business Segments. More specific internal control policies and procedures are established within each segment within the principles set by the Group functions. Additionally, the management of Business Segments and the Group Management are responsible for implementing risk management practices in planning cycle and daily operations, and ensure the adherence of

- laws,
- regulations,
- internal policies, and
- ethical values

in their designated responsibility areas. Some areas of risk management, in particular the management of financial risks and insurances, have been centralized for the purpose of scale advantage and for securing sufficient Group-level control.

FINANCE FUNCTION

Group's parent company's finance function is responsible for:

- ensuring a setup of adequate control activities for business segments in cooperation with the business management;
- operative follow-up of the adequacy and effectiveness of control activities; and
- ensuring that external reporting is correct, timely and in compliance with regulations.

Finance function does not have a separate internal control function. Group CFO reports any supervisory findings to the Finance and Audit Committee.

INTERNAL AUDIT

The Company has no specific internal audit organization. This is taken into account in the content and scope of the annual audit plan. On the one hand external auditing focuses on specific areas in turn to be audited, and on the other hand, on separately agreed priority areas.

Report by the Board of Directors 2012

Net Sales and Operating Result of 2012 from the Continuing Operations grew clearly from the previous year.

2012 in Brief

EB reports its 2012 financial results, as provided by the IFRS5 standard, divided between Continuing and Discontinuing Operations. Test Tools product business, sold after the reporting period on January 31, 2013, is classified as Discontinuing Operations in this report. Summary of Continuing and Discontinuing Operations is presented under section "Financial performance during January–December 2012, continuing operations".

The figures of 2012 include the following non-recurring items totaling approximately EUR 4 million: 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 and a positive cash flow impact of EUR 10.8 million resulting from the settlement payment of USD 13.5 million received in the reorganization case of TerreStar Corporation in the third quarter; and 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.

Net sales from Continuing Operations in the reporting period was EUR 185.4 million (EUR 148.0 million in 2011), representing an increase of 25.3 % year-on-year. Net sales of Automotive Business Segment grew to EUR 122.1 million (EUR 98.3 million in 2011), representing a 24.3 % growth year-on-year. The Wireless Business Segment's net sales from Continuing Operations grew by 27.7 %, to EUR 63.5 million (EUR 49.8 million in 2011).

Operating profit from Continuing Operations was EUR 2.5 million including the above mentioned non-recurring items of approximately EUR 4 million in total (operating loss of EUR -5.5 million, including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar companies, in 2011). Operating profit from Continuing Operations without these above mentioned non-recurring items was EUR 6.5 million (operating loss of EUR -4.6 million in 2011).

On May 11, 2012 EB signed committed credit facility agreements with Nordea Bank Finland plc. According to the agreements, the EUR 10 million credit facility agreement, valid until June 30, 2012, was extended and, in addition, a new EUR 10 million revolving credit facility agreement was signed. These facilities, intended for general financing purposes, are valid until June 30, 2014.

On June 21, 2012 EB lowered its operating result guidance for the first half of 2012 and gave more precise guidance for the whole year 2012 so that EB expected the operating result of the second quarter of 2012 to stay below the level of the first quarter 2012 (EUR 0.9 million, 1Q 2012), and that EB expected for the first half of 2012 that net sales will grow clearly from the previous year (EUR 76.1 million, 1H 2011), and the operating result will be close to zero level (operating loss of EUR -4.4 million, 1H 2011). EB announced that due to the lowered operating result outlook for the first half of 2012 also the outlook for the whole year 2012 was lowered, however, EB still expects for the year 2012 that the net sales and operating result will grow clearly from the previous year (net sales of EUR 162.2 million, and operating loss of EUR -4.0 million in 2011). The reason for the changed operating result outlook was that the company booked a provision of EUR 0.8 million due to the estimated costs related to collecting the receivables from TerreStar Companies, and in addition it became obvious that the operating profit in both Automotive and Wireless Business Segments during the second quarter of 2012 will remain somewhat lower than planned mainly due to the higher than estimated project costs. Regarding the company's net sales, the outlook was not changed.

On August 2, 2012 Elektrobit Inc., a subsidiary of Elektrobit Corporation, and TerreStar Corporation and certain of its preferred shareholders entered into a settlement between the parties in resolution of all disputes between EB and other parties in the TerreStar Corporation Chapter 11 reorganization cases under United States Bankruptcy Code. On August 24, 2012, the United States Bankruptcy Court formally approved the settlement. EB received a cash payment of USD 13.5 million (EUR 10.8 million) in full and final satisfaction of its claim against

TerreStar Corporation and in resolution of all disputes between EB and other parties on August 28, 2012. The settlement does not include the TerreStar Networks Chapter 11 cases, which remain pending, and does not include any distribution therefrom that may be available for EB. The settlement payment in the TerreStar Corporation Chapter 11 cases resulted a non-recurring positive effect of approximately USD 1.6 million (EUR 1.2 million) to EB's operating result, and a non-recurring positive effect of USD 13.5 million (EUR 10.8 million) to EB's cash flow in the third quarter of 2012.

On October 26, 2012 Elektrobit Automotive GmbH, a subsidiary of Elektrobit Corporation, and Audi Electronics Venture GmbH (AEV), a subsidiary of AUDI AG, decided to expand their joint venture activities from infotainment software to provide systems integration and systems engineering services to AUDI AG and other VW Group companies for their future connected infotainment solutions. To build the required engineering competences and capacity, the joint venture announced to establish a new site in Ulm, Germany and plans to hire up to 100 R&D engineers by end of 2013, leveraging the existing knowledge base and competency in systems integration and software development in Ulm area. The expansion of the joint venture was estimated not to have significant impact on EB's net sales, operating result or balance sheet in 2012 and 2013.

Financial performance during January-December 2012, Continuing Operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (MEUR)	1–12/2012 12 MONTHS	1–12/2011 12 MONTHS
CONTINUING OPERATIONS		
Net sales	185.4	148.0
Operating profit / loss	2.5	-5.5
Financial income and expenses	-0.5	-0.4
Result before tax	2.0	-5.9
Result for the year from continuing operations	**2.1**	**-6.5**
Result for the year from discontinuing operations	**1.2**	**1.5**
Result for the year	**3.3**	**-5.1**
Total comprehensive income for the year	**3.5**	**-5.2**
Result for the year attributable to:		
Equity holders of the parent	2.3	-5.3
Non-controlling interests	1.0	0.2
Total comprehensive income for the year attributable to:		
Equity holder of the parent	2.5	-5.5
Non-controlling interests	1.0	0.2
Earnings per share from Continuing Operations, EUR	0.01	-0.05

- Cash flow from operating activities was EUR 8.1 million (EUR 5.3 million in 2011) including an approximately EUR 10.8 million positive cash flow effect resulting from the settlement payment in the reorganization cases of TerreStar Corporation in the third quarter of 2012. Both cash flows include Continuing and Discontinuing Operations.
- Equity ratio was 54.7% (62.8% in 2011).
- Net gearing was 4.1% (-1.4% in 2011).

Quarterly figures, Continuing Operations

ELEKTROBIT GROUP'S NET SALES AND OPERATING RESULT, CONTINUING OPERATIONS, MEUR:

	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11
Net sales	52.6	44.3	43.6	45.0	44.1
Operating profit (loss)	0.2	2.2	-0.7	0.8	2.2
Operating profit (loss) without non-recurring costs	4.3	1.0	0.2	1.1	2.9
Result before taxes	-0.2	2.0	-0.3	0.4	2.4
Result for the period	1.3	1.8	-0.1	0.3	3.2

WIRELESS BUSINESS SEGMENT, NET SALES AND OPERATING RESULT WITHOUT NON-RECURRING ITEMS, CONTINUING OPERATIONS, MEUR

	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11
Net sales	16.4	14.1	16.6	16.4	16.1
Operating profit (loss)	-3.2	2.0	-0.9	-0.1	0.1
Operating profit (loss) without non-recurring items	0.9	0.8	0.0	0.2	0.8

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 costs related to collecting the receivables from TerreStar Companies and income resulting from the settlement payment in the reorganization cases of TerreStar Corporation, which are reported as a part of the Wireless Business Segment's operating result, and 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. These non-recurring items have been reported as part of Wireless Business Segment's operating result.

THE DISTRIBUTION OF NET SALES BY BUSINESS SEGMENTS, CONTINUING OPERATIONS, MEUR:

	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11
Automotive	36.2	30.2	27.0	28.7	28.0
Wireless	16.4	14.1	16.6	16.4	16.1
Corporation total	52.6	44.3	43.6	45.0	44.1

THE DISTRIBUTION OF NET SALES BY MARKET AREAS, CONTINUING OPERATIONS, MEUR AND %:

	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11
Asia	2.4 (4,5%)	3.1 (7,1%)	1.1 (2,6%)	1.9 (4,2%)	3.1 (7,0%)
Americas	6.4 (12,1%)	7.6 (17,2%)	7.5 (17,2%)	7.1 (15,9%)	6.3 (14,2%)
Europe	43.8 (83,4%)	33.5 (75,7%)	34.9 (80,2%)	36.0 (79,9%)	34.8 (78,8%)

NET SALES AND OPERATING PROFIT DEVELOPMENT BY BUSINESS SEGMENTS AND OTHER BUSINESSES, CONTINUING OPERATIONS, MEUR:

	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11
Automotive					
Net sales to external customers	36.2	30.2	27.0	28.7	28.0
Net sales to other segments	0.0	0.0	0.0	0.0	0.0
Operating profit (loss)	3.3	0.2	0.2	0.9	2.1
Wireless					
Net sales to external customers	16.4	14.1	16.6	16.3	16.1
Net sales to other segments	0.0	0.0	0.0	0.2	0.1
Operating profit (loss)	-3.2	2.0	-0.9	-0.1	0.1
Other businesses					
Net sales to external customers	0.0	0.0	0.0	0.0	0.0
Operating profit (loss)	0.1	-0.0	-0.0	-0.0	0.0
Total					
Net sales	52.6	44.3	43.6	45.0	44.1
Operating profit (loss)	0.2	2.2	-0.7	0.8	2.2

SUMMARY OF CONTINUING AND DISCONTINUING OPERATIONS, MEUR

	2012	4Q 12	3Q 12	2Q 12	1Q 12
Net sales					
Continuing Operations	185.4	52.6	44.3	43.6	45.0
Discontinuing Operations	16.1	5.4	2.7	4.4	3.6
Total	201.5	57.9	47.0	48.0	48.6
Operating profit / loss					
Continuing operations	2.5	0.2	2.2	-0.7	0.8
Discontinuing operations	1.3	1.0	-0.1	0.3	0.1
Total	3.7	1.2	2.1	-0.4	0.9

Business Segments

EB's reporting is based on two Business Segments, which are the Automotive and Wireless. (Corresponding figures are for 2011 unless otherwise indicated.)

Automotive Business Segment

January-December 2012

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. 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 ADTF, an extensive 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 joint venture e.solutions GmbH that is currently developing infotainment software and provides systems engineering and systems integration services for Volkswagen Group car models. EB owns 51% of e.solutions GmbH and AEV 49%. During 2009–2012 e.solutions has been included as subsidiary in Elektrobit Corporation's consolidated financial statements. From the beginning of 2013 on, e.solutions GmbH will be consolidated in Elektrobit Corporation's financial statements according to IFRS standards' proportionate consolidation method in accordance with EB's 51% holding of e.solutions GmbH. At the end of 2012, the joint venture had more than 200 employees, and its head office is located in Ingolstadt, Germany. EB also delivers products and R&D services to the joint venture.

Automotive business continued to grow steadily in the infotainment, driver assistance and ECU (Electronic Control Unit) software markets. Net sales of the Automotive Business Segment grew in January–December 2012 to EUR 122.1 million (EUR 98.3 million), representing 24.3 per cent growth year-on-year. The operating profit was EUR 4.7 million (EUR 0.8 million). The net sales of the Automotive Business Segment grew according to its targets. The operating profit improved clearly from the previous year, but remained lower than targeted due to certain bigger than expected project related costs.

In March EB established a subsidiary in People's Republic of China, EB Automotive Software (Shanghai) Ltd. The new office provides the possibility for EB to support a larger customer base in China and neighboring markets in Central Asia.

e.solutions GmbH progressed well and according to its targets in developing the high-end infotainment system. During the year AUDI announced that it will be used in the new A3 model's high-end infotainment system.

In October EB GUIDE 5.4 was launched. This new version of EB GUIDE is a complete software solution that includes support for speech, multi-touch, and gesture interaction, as well as a technology demonstrator for integration of web-based applications based on e.g. HTML5.

The new VW Golf VII, launched in autumn 2012, has EB's speech dialogue software EB GUIDE STF and navigation software EB street director integrated in its standard infotainment system.

In October the joint venture activities in e.solutions GmbH were expanded to include systems engineering and provision of systems integration services to AUDI AG and other VW Group companies for their future connected infotainment solutions. To build the required engineering competences and capacity, the joint venture established a new site in Ulm, Germany. By end of 2013 e.solutions is planning to hire up to 100 R&D engineers in Ulm, leveraging the existing knowledge base and competency in systems integration and software development.

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. The uncertainty in the market outlook for the global car industry has recently grown especially in Europe where the number of cars sold is expected to decrease in 2013 from 2012, while in the USA, and China and other developing countries, the market is expected to grow. Despite the uncertainties, many carmakers have continued good financial performance also during the second half of 2012. The slowing down of the markets affects decreasingly also to the carmakers' R&D investments. However, carmakers will continue 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.

In the labor market, particularly in Germany, competition in hiring talented engineers is still tight and is slightly slowing down the growth of the amount of personnel, thereby impacting the growth of the services business. e.solutions GmbH, the joint venture with AUDI, succeeded to grow its personnel significantly during the end of 2012 after announcing the decision to expand its business, and the outlook for the joint venture's growth in 2013 is good.

A Roland Berger study estimates that the share of electronics in cars will grow from 23 per cent in 2010 to 33 per cent until 2020. The move to greater electronic content in cars has been underway for several years and has resulted in such major innovations as security systems, anti-lock brakes, engine control units, driver assistance, and infotainment. These features have become so enormously popular that they are now widely available in both low-end and high-end vehicles, demonstrating that consumers are willing to pay for technology that enhances their driving experience. Further market growth is expected e.g. in the areas of Driver Assistance and Connected Car solutions. Connectivity with the cloud can provide several enhancements to car functions such as navigation. EB is already working with INRIX and other traffic providers to have real-time traffic information, which can provide navigation with daily relevance to the drivers. AUDI Connect is one example of advanced connected services into the car.

The increasingly sophisticated and networked features and growing performance foster the complexity of automotive electronics. At the same time consumers expect the same richness of features and user experience they know from the internet and mobile devices also within the car. Carmakers have been steadily integrating more electronic components into vehicles. These development trends are driving the industry towards a gradual separation of software and hardware in electronics solutions in order to manage the architectural software layer appropriately and to aim for efficiency in innovation and implementation. The use of standard software solutions is expected to increase in the automotive industry. This enables faster innovation, improves quality and development efficiency and reduces complexity related to deployment of software.

The fundamental industry migration and consequent growth of the automotive software market will continue. Cost pressures of the automotive industry are expected to accelerate the need for productized and efficient software solutions EB is offering. The estimated annual automotive software market growth rate until 2019 is expected to exceed the growth rate of passenger car production volume that is estimated to be 5.5% CAGR (LMC Automotive's Q4 2012 Forecast).

EB's net sales cumulating from the automotive industry is currently primarily driven by the development of software and software platforms for new cars and by sales of software licenses needed in product development. Hence the dependency of EB's net sales on car production volumes is currently limited; however, the direct dependency on production volumes is expected to increase over the forthcoming years as a result of the EB's transition towards software product business models.

Wireless Business Segment

January-December 2012

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets and for industrial use, as well as product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use. EB's products in the Wireless Business Segment are EB Tactical Wireless IP Network for tactical communications, EB Tough Voip for tactical IP-based communication, and EB Wideband COMINT Sensor for signals intelligence. The product platforms are EB Counter RCIED Platform for electronic warfare, 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, software and hardware development.

EB signed an agreement with Anite plc on January 28, 2013, under the terms of which EB agreed to sell its Test Tools product business to Anite. The deal was completed on January 31, 2013. EB reports its 2012 financial results, as provided by the IFRS5 standard, divided between Continuing and Discontinuing Operations. Test Tools product business is classified as Discontinuing Operations in this financial statement. The following figures include only the net sales and operating result of Continuing Operations.

The figures of the 2012 for Wireless business segment include the following non-recurring items totaling approximately EUR 4 million:

- non-recurring costs of EUR 1.2 million related collecting the receivables from TerreStar companies and non-recurring income of EUR 1.2 million and a positive cash flow impact of EUR 10.8 million resulting from the settlement payment of USD 13.5 million received in the reorganization case of TerreStar Corporation in the third quarter; and
- 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.

The Wireless Business Segment's net sales from continuing operations in January-December 2012 grew 27.7 per cent year-on-year, to EUR 63.5 million (EUR 49.8 million). The net sales grew in the defense and public safety markets, and in the mobile infrastructure markets.

The operating result of the Wireless Business Segment remained negative due to above-mentioned non-recurring items of approximately EUR 4 million in total. Without these non-recurring items, the operating result of the Wireless Business Segment would have improved nearly as planned. The operating loss from continuing operations of the Wireless Business Segment in January-December 2012 was EUR -2.2 million including the above mentioned non-recurring items of approximately EUR 4 million in total (operating loss of EUR -6.2 million including EUR 0.9 million non-recurring costs related to collecting the receivables from TerreStar companies). Wireless Business Segment's operating profit from continuing operations without the above-mentioned non-recurring items was EUR 1.8 million (operating loss of EUR -5.3 million).

EB continued its R&D investments in the Wireless segment's continuing operations in products and product platforms targeted for the defense and public safety markets, and in the discontinuing operations in radio channel emulation products.

In January EB announced a partnership with Renesas Mobile to provide its Specialized Device Platform with LTE capabilities, and that Raptor ID chose the Specialized Device Platform for its new biometric mobile devices for the US governmental markets.

In March EB announced to close down its Wireless Business Segment Espoo site in Finland in order to rationalize its operations and improve the cost structure. The personnel negotiations concluded in April concerned 25 employees, and all were offered a position at Company's other sites. 14 employees continued at other EB sites, six employees were dismissed and the rest were employed outside EB.

In April EB announced updates to its Tough VoIP product family with new versions of the Field and Desktop phone. EB also announced the EB Propsim F32, a new radio channel emulator product with the highest emulation capacity in the market.

In September EB announced the new EB Propsim FS8, a compact sized radio channel emulator for 4G LTE product developers and mobile network operators, complementing its radio channel emulator product family.

In December EB made the first deliveries of its Tough VoIP products and the first series of Tactical Wireless IP network communications system products to the Finnish Defence Forces.

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.

The global defense market is estimated to remain stable during 2013. EB currently aims at bringing its products to the global defense market with the target to gradually increase the product sales in the next few years. The development of defense budgets varies geographically with budget cuts in the western markets and increases in Asia and South America. In Tactical Communications the growing importance of situational awareness shared by military forces creates a need for new broadband networks, such as EB's IP (Internet Protocol) based tactical communications solutions. 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 software 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 US public safety market is progressing, although slowly, towards a nationwide LTE network.

In the mobile infrastructure market the use of LTE technology is expected to continue strong. For the mobile infrastructure market 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 to design product variants. The 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.

Research and Development in 2012

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 defense and public safety markets in Wireless Business Segment's continuing operations.

The total R&D investment for continuing operations during January–December 2012 was EUR 22.2 million (EUR 22.1 million in 2011), equaling 12.0% of the net sales (15.0 % in 2011). The share of R&D investments in Automotive Business Segment was EUR 18.1 million (EUR 18.0 million in 2011) and in Wireless Business Segment in Continuing Operations EUR 4.1 million (EUR 4.1 million in 2011). In addition, the R&D investment for the Discontinuing Operations was EUR 2.6 million.

EUR 2.9 million of R&D investments of the reporting period were capitalized (EUR 6.6 million in 2011). Depreciations of R&D investments were EUR 0.9 million during the reporting period (EUR 1.6 million in 2011). The amount of capitalized R&D investments at the end of December 2012 was EUR 13.5 million. 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.

Outlook for 2013

EB will apply the new IFRS10 and IFRS11 standards from the beginning of 2013 and will consolidate e.solutions GmbH, the jointly owned company with AUDI, applying the proportionate consolidation method. EB holds a 51% stake in e.solutions GmbH, Audi holding the remaining 49%. Previously e.solutions GmbH has been included in EB's consolidated financial statements as subsidiary and it has been consolidated in full. As a result of the change in the method of consolidation, the proportion of net sales and operating result of e.solutions GmbH consolidated into EB's consolidated financial statements will decrease. The change in the method of consolidation as presented above has been taken into account in the 2013 outlook for net sales and operating result presented below and the 2012 net sales and operating result, presented for comparison, are pro forma figures, assuming that proportionate consolidation method would have been applied already in 2012. More information about this has been presented in the stock exchange release announced on February 19, 2013 and in this report in the section "Change in the consolidation of the jointly owned company of EB and AUDI as of January 1, 2013".

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

EB expects for the year 2013 that net sales will grow and operating result to be at the same level as it was in 2012 without non-recurring items (pro forma net sales of EUR 173.8 million, and pro forma operating profit without non-recurring items of EUR 5.1 million, in 2012). Operating result is expected to be clearly better in the second half than in the first half of 2013 due to higher product license sales in the Automotive Business Segment during the latter half of the year, and due to other seasonality factors and the planned cost saving measures in the first half of 2013 in the Wireless Business Segment. The background to the cost saving measures in the Wireless Business Segment is firstly that the planned sale of products and services to a US based customer will not materialize due to the customer's financial challenges, and secondly that a part of the common cost base of the Wireless Business Segment that was previously allocated to the sold Test Tools product business was not included in the transaction.

More specific market outlook is presented under the "Business Segments" section.

The profit outlook for the year 2013 does not include the non-recurring net profit of about EUR 23 million in the first quarter of 2013 resulting from the sale of the Test Tools product business.

In addition, 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 under "Risks and Uncertainties" section.

Significant Events After the Reporting Period

On January 10, 2013 EB lowered 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 Company expected the net sales to develop as earlier estimated and thus the net sales of the fourth quarter of 2012 to be approximately EUR 57 million (EUR 49.0 million, 4Q 2011), the net sales of the second half of 2012 to be approximately EUR 104 million (EUR 86.1 million, 2H 2011) and the net sales of the whole year 2012 to be approximately EUR 200 million (EUR 162.2 million in 2011).

On January 28, 2013 EB and Anite plc signed an agreement, under the terms of which EB agreed to sell its Test Tools product business to Anite. 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 People's Republic of 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, the 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 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 results in a non-recurring net profit of about EUR 23 million in the first quarter of 2013, and non-recurring net cash flow of about EUR 28 million, in the first half of 2013.

On February 18, 2013 the Board of Directors resolved to 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 consolidated into EB 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 EB group companies to e.solutions GmbH.

In February EB started measures to improve its cost structure in the Wireless Business Segment. These measures target at EUR 2 million annual cost savings, in order to better align the operations with the current business requirements. The actions are expected to cause approximately EUR 1 million non-recurring costs in the first quarter of 2013. As part of the measures to improve the cost structure, EB plans to reduce its personnel in the Wireless Business Segment globally by approximately 30 persons in total.

Changing the Consolidation of the Jointly Owned Company of EB and AUDI as of January 1, 2013

EB will start 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 EB group's financial statements will decrease from the previous 100% to 51%. According to the rules of proportionate consolidation method, the consolidated statement will also include 49% of the net sales of other EB group companies to e.solutions GmbH.

In 2012, the EB 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 had been applied for e.solutions GmbH already in 2012, the consolidated net sales of EB 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 will present the year-on-year information of income statement and balance sheet with pro forma principle, 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 statements in full.

The new IFRS10 and IFRS 11 standards for consolidated financial statements and joint arrangements will take effect on January 1, 2014, but they may be applied as of January 1, 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 fulfill 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.

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.

Market Risks

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.

As EB's customer base consists mainly of companies operating in the fields of automotive and telecommunications, and defense and public safety authorities, the company is exposed to market changes in these industries. EB believes that expanding the customer base will reduce dependence on individual companies and that the company will thereby be mainly affected by the general business climate in automotive and telecommunication industries. The more specific market outlook is presented under the "Business Segments" section.

Business related risks

EB's operative business risks are mainly related to following items: uncertainties and short visibility on customers' product program decisions, their make or buy decisions and on the other hand their decisions to continue, downsize or terminate current product programs; execution and management of large customer projects; ramping up and down of project resources; availability of personnel in labor markets (particularly in Germany); timing and on the other hand successful utilization of the most important technologies and components; competitive situation and potential delays in the markets; timely closing of customer and supplier contracts with reasonable commercial terms; delays in R&D projects; realization of expected return on capitalized R&D investments; and obsolescence of inventories and technology risks in product development causing higher than planned R&D costs. Revenues expected to come from either existing or new products and customers include normal timing risks. EB has certain significant customer projects and deviation in their expected continuation could result also in significant deviations in the Company's outlook. In addition there are typical industry warranty and liability risks involved in selling EB's services, solutions and products.

EB's product delivery business model faces risks such as high dependency on actual product volumes and development of the cost of materials. The above-mentioned risks may manifest themselves as lower amounts of product delivered or higher costs of production, and ultimately, as lower profit.

Some of EB's businesses operate in industries that are heavily reliant on patent protection and therefore face risks related to management of intellectual property rights, on the one hand related to accessibility on commercially acceptable terms of certain technologies in the EB's products and services, and on the other hand related to an ability to protect technologies, which EB develops or licenses from others, from claims that third parties' intellectual property rights are infringed. Additionally, parties outside of the industries operate actively in order to protect and commercialize their patents and therefore in their part increase the risks related to the management of intellectual property rights. At worst, claims that third parties' intellectual property rights are infringed, could lead to substantial liabilities for damages. Also EB has received a formal request from one of its customers for indemnification that is unspecified both in terms of the basis of liability and the amount claimed. While the analysis of the situation is pending, based on information available it does not seem likely that the claim would result in significant liability in the short term. It is possible that, based on later information, the above views may need to be reconsidered.

Financing Risks

Global economic uncertainty may lead to payment delays, increase the risk for credit losses and weaken the availability and terms of financing. To fund its operations, EB relies mainly on income from its operative business and may from time to time seek additional financing from selected financial institutions. Currently EB has a committed overdraft credit facility agreement of EUR 10 million and committed revolving credit facility agreement of EUR 10 million, valid until June 30, 2014. These agreements include financial covenants related to the group's equity ratio and earnings before interest and taxes (EBITDA), to be reviewed semiannually. There is no assurance that additional financing will not be needed in case of clearly weaker than expected development of EB's businesses.

Some parts of EB's business are more sensitive to customer dependency than others. Respectively, this may translate as accumulation of risk with respect to outstanding receivables and ultimately with respect to credit losses. EB has asserted claims for its receivables in the amount of approximately USD 25.8 million (EUR 19.3 million as per exchange rate of February 18, 2013) in the Chapter 11 cases of its customers TerreStar Networks Inc. and its parent company TerreStar Corporation. In addition to the booked receivables, EB has also asserted claims for additional costs in the amount of approximately USD 2.1 million (EUR 1.6 million as per exchange rate of February 18, 2013) and resulting mainly from the ramp down of the business operations between the parties. Thus, EB has asserted claims against each of the TerreStar entities in amounts totaling USD 27.9 million (EUR 20.9 million as per exchange rate of February 18, 2013). Due to uncertainties related to the accounts receivable, EB booked an impairment of the accounts receivable in the amount of EUR 8.3 million during the second half of 2010.

On October 19, 2010, TerreStar Networks and certain other affiliates of TerreStar Corporation, and on February 16, 2011 the parent company TerreStar Corporation, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code to strengthen their financial position. Generally in a Chapter 11 case, any distribution of cash or other assets by a debtor to satisfy pre-bankruptcy claims of its creditors must be made under a Chapter 11 plan of reorganization or liquidation, or otherwise pursuant to an order of the bankruptcy court.

A plan of liquidation for Terre Star Networks became effective on March 29, 2012. On that date, EB received a USD 650,890 distribution from TerreStar Networks on that portion of its claim entitled to payment priority under U.S. bankruptcy law. Based upon information contained in the debtors' disclosure statement accompanying the plan, the reorganized debtors' post-confirmation status reports, or otherwise available to EB, EB estimates that its pro rata total distribution under the plan may be in the range of 8-10% of the face amount of its claim. However, this estimate is subject to various assumptions, and therefore the amount and timing of EB's distribution on the remaining portion of its claim cannot be predicted with certainty at this time.

As part of the Chapter 11 process, debtors often seek to recover payments previously made to creditors pursuant to various provisions of the Bankruptcy Code. While EB received certain payments that total approximately USD 2.5 million during the 90 days prior to TerreStar Networks' bankruptcy filing, and the liquidating trustee (the "Liquidating Trustee") of The TerreStar Networks Inc. Liquidating Trust (the trust having been formed in connection with confirmation of the Chapter 11 plan of TerreStar Networks) contemplates commencing actions against certain defendants, including EB, to recover such allegedly preferential transfers, EB believes that it has strong defenses to any such litigation. Therefore, if the Liquidating Trustee commences litigation to recover such payments from EB, such litigation will be vigorously contested by EB. EB has entered into a tolling agreement with the Liquidating Trustee which, as amended, has extended the two-year avoidance action statute of limitations from October 19, 2012 through and including April 23, 2013, with a view to determining whether the parties may be able to reach a consensual resolution of these matters without incurring the cost and expense of litigation.

Further, as part of the process of reconciling accounts in preparation for making distributions under a plan, Chapter 11 debtors often challenge the amount or validity of some creditor claims. To date neither TerreStar Networks nor the Liquidating Trustee has asserted an objection to the amount or validity of EB's claims in its bankruptcy proceeding but, as part of the claims reconciliation process, EB expects to provide the Liquidating Trustee with additional information and documents in support of certain elements of its claim that were filed in estimated or unliquidated amounts. If the Liquidating Trustee were to commence an action against EB to recover allegedly preferential transfers, EB anticipates that the trustee would seek to delay any distribution to EB on its claim pending resolution of the preference litigation and repayment by EB of any adverse judgment. The likelihood and outcome of any such dispute cannot be predicted with certainty at this time.

Pursuant to an order of the bankruptcy court dated August 24, 2012, Elektrobit Inc., a subsidiary of EB, and TerreStar Corporation and certain of its preferred shareholders, entered into a full and final settlement of various disputes that had arisen between them in the TerreStar Corporation reorganization cases. Pursuant to this settlement, on August 28, 2012 TerreStar Corporation made a cash payment to Elektrobit Inc. of USD 13.5 million in full and final satisfaction of EB's claim against that entity. The settlement did not include the TerreStar Networks Chapter 11 cases and did not include any distribution from those cases that may be available to EB. On October 24, 2012, the bankruptcy court entered an order approving a plan of reorganization for TerreStar Corporation and various affiliates (not including TerreStar Networks) which contains a provision specifically preserving the rights of EB and all other parties in interest with respect to EB's claim against TerreStar Networks.

Based on EB's current understanding, there is no reason to believe that EB would not be able to collect from the bankruptcy estate of TerreStar Networks the full amount of the pro rata distribution on its general unsecured claim in due course. It is possible that based on later information related to the TerreStar Networks Chapter 11 cases, the above views may need to be reconsidered. Should the amount of the pro rata distribution on EB's general unsecured claim not be collected from the bankruptcy estate of TerreStar Networks, and should the Liquidating Trustee commence litigation resulting an order for EB to repay certain allegedly preferential transfers, costs related to the process would additionally lower EB's operating result on a non-recurring basis by approximately EUR 2 million at maximum.

Based on the information received, the U.S. Internal Revenue Service ("IRS") has disallowed a deduction taken on EB's subsidiary's, Elektrobit Inc.'s 2010 U.S. federal income tax return due to an impairment booked with respect to the receivables from the TerreStar companies. EB has appealed the IRS decision to the IRS Office of Appeals from which the decision is expected to be given during the second half of 2013. It is possible to appeal the decision of the IRS Office of Appeals to the United States Tax Court, in which case the appeal will typically take approximately two years.

If the appeal would proceed to the United States Tax Court and if the resolution of the litigation would result in a complete rejection of the booked tax deduction in 2010, EB would be obliged to pay back the tax refund in full with accrued interest. At worst, as a result of the pay back of the tax refund and the respective interest expenses and litigation expenses, there would be a negative effect on EB's cash flow of approximately of EUR 2.0 million (USD 2.7 million as per exchange rate of February 18, 2013). Depending on the progression of the appellate process, such effects would be booked probably in 2016. Based on EB's current understanding, there is no reason to believe that the IRS' current position concerning year 2010 would remain as such in the appellate process. It is possible that based on later information received the situation may need to be reconsidered. It is also possible that during the appellate process, the parties may enter into a settlement of this matter.

More information on the 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 stock exchange releases dated October 20, 2010; October 25, 2010; November 20, 2010; December 30, 2010; February 17, 2011; November 18, 2011; June 21, 2012; August 3, 2012; August 24, 2012; and August 28, 2012 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 December 31, 2012, are compared with the statement of the financial position of December 31, 2011 (MEUR).

	12/2012	**12/2011**
Non-current assets	47.8	44.1
Current assets	87.2	71.0
Assets classified as held for sale	7.7	
Total assets	142.7	115.1
Share capital	12.9	12.9
Other equity	53.7	52.6
Non-controlling interests	2.5	1.5
Total shareholders' equity	69.1	67.0
Non-current liabilities	7.9	6.9
Current liabilities	61.2	41.3
Liabilities classified as held for sale	4.5	
Total shareholders' equity and liabilities	142.7	115.1

Net cash flow from operations during the period under review:

+ net profit +/- adjustment of accrual basis items	+12.6 million
+/- change in net working capital	-3.3 million
- interest, taxes and dividends	-1.3 million
= cash generated from operations	+8.1 million
- net cash used in investment activities	-8.7 million
- net cash used in financing	+6.1 million
= net change in cash and cash equivalents	+5.5 million

The increase in the net working capital during the reporting period is resulting from EB's customer projects, which have longer payment periods than earlier.

The amount of accounts receivable and other receivables, booked in current receivables, was EUR 75.9 million including assets classified as held for sale of EUR 4.5 million (EUR 59.3 million on December 31, 2011). Accounts payable and other payables, booked in interest-free current liabilities, were EUR 52.8 million including liabilities classified as held for sale of EUR 4.3 million (EUR 36.3 million on December 31, 2011). 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, 2011).

The amount of gross investments in the period under review was EUR 12.2 million including R&D capitalizations of EUR 2.9 million. Net investments for the reporting period totaled EUR 11.8 million. The total amount of depreciation of continuing operations during the period under review was EUR 7.3 million, including EUR 1.0 million of depreciation owing to business acquisitions.

The amount of interest-bearing debt, including finance lease liabilities, at the end of the reporting period was EUR 18.3 million including liabilities of disposal group classified as held for sale of EUR 0.3 million. The distribution of net financing expenses on the income statement of continuing operations was as follows:

interest income, dividends and other financial income	0.1 million
interest expenses and other financial expenses	-0.8 million
foreign exchange gains and losses	0.2 million

EB's equity ratio at the end of the period was 54.7% (62.8% on December 31, 2012). The decrease in equity ratio is mainly due to the increase of interest bearing debt during the reporting period.

Cash and other liquid assets at the end of the reporting period were EUR 15.5 million (EUR 10.0 million on December 31, 2011). The increase in cash reserves is mainly result of USD 13.5 million payment from TerreStar Corporation and withdrawal of credit limits. 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 receiv-ables, 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 7.0 million.

Environmental Factors

EB's own business operations focus mostly on the design, assembly and marketing of products. This represents only a minor part of the environmental impacts over the entire life cycle of the products. Environmental impacts of the products manufactured by the Company are not significant.

Elektrobit Corporation has had ISO 14001 certified management systems since 2001, concerning the current operations of the Wireless Business Segment. The certification was updated to confirm ISO14001.2004 requirements in 2007, enhanced to People's Republic of China in 2008 and to the USA in 2010. EB is applying ISO14001 standards in its Wireless Segment business operations. Additional information about the certificate www.elektrobit.com/file.php?fid=1377

EB is monitoring globally the environmental requirements for products and derived national regulations to the extent that they are related to the group's operations. EB has also observed and applied the requirements of the ROHS (use of hazardous substances) and WEEE (recycling of electrical and electronic equipment) directives in design since 2002.

Since 2009 the applied environmental standards and regulations in EB's operations have been consolidated as uniform EB substance list, applicable also to EB's significant suppliers. The substance list includes also the requirements of the so called ROHS2 standard's application. During 2012 EB has on a regular basis continued to update and apply the substance list to the products or solutions, in which EB has partial or total responsibility of environmental requirements. The imposed requirements will be observed in business operations on a country-specific basis. In addition, EB has improved the follow-up of environmental metrics and results have shown that the environmental impact by EB is low.

Personnel

EB employed an average of 1713 people between January and December 2012. At the end of December, EB had 1870 employees (1607 at the end of 2011) of which 54 employees were working for the Discontinuing Operations. A significant part of EB's personnel are R&D engineers.

The following table presents the average personnel amounts and salaries of the Continuing operations from the past two years:

	2012	2011
Average personnel	1659	1499
Salaries and wages (MEUR)	87.9	77.4

At the end of 2012 about 65.9 per cent of the employees worked in Automotive Business Segment, about 33.5 per cent in Wireless Business Segment, and short of 1 per cent in Corporate Functions. When compared to 2011, the share of personnel in Automotive Business Segment increased by 3.8 per cent, in Wireless Business Segment decreased by 3.7 per cent, and in Corporate Functions remained at the same level.

Incentive Systems

Personnel Fund

A personnel fund was established on April 27, 2005. The members of the fund included EB's personnel working in Finland. A profit-related pay scheme, in accordance with the Act on Personnel Funds, was implemented within EB at the beginning of 2005, pursuant to which a predetermined proportion of the group's result will be paid to the personnel fund as a profit-related payment. The Board of Directors decided upon the grounds for the profit-related pay scheme annually. For the years 2009, 2010, 2011 and 2012 the Board decided not to pay any profit-related payment to the fund. The body of repre-sentatives of EB's personnel fund decided in August 2012 to dissolve the personnel fund and distribute the capital of the personnel fund to its members according to their respective shares. The dissolution of the personnel fund was based on the decision made by the Board of Directors to exclude the personnel fund of the group's incentive system.

Share Related Remuneration Schemes

2005A-D

The Annual General Meeting of Shareholders decided on March 17, 2005, to issue stock options to the management of the Elektrobit Corporation. The purpose of the scheme was to encourage the management to work on a long-term basis to increase the shareholder value and to commit them further to their employer. The total number of stock options 2005 has been 4,500,000. The stock options were divided into stock option classes 2005A, 2005B, 2005C and 2005D. No subscriptions were made by the end of the share subscription period for stock options 2005A-C.

A total of 372,000 2005 A stock options, 1,002,500 2005B stock options, 60,000 2005C stock options and 60,000 2005D stock options have been distributed to EB's management. The rest of the stock options were granted to Elektrobit Technologies Ltd., a wholly owned subsidiary of Elektrobit Corporation.

In accordance with the terms and conditions of the stock options, the prerequisite for receiving 2005A stock options was that the participating managers purchase a predetermined number of Elektrobit Corporation shares, as decided by the Board of Directors. 2005B-2005D stock options are subject to preconditions relating to EB's financial targets. In accordance with the share ownership scheme, associated with this stock option scheme, the participating managers are committed to using a considerable portion of the future income from the distributed stock options for purchasing the company's shares.

2006A

The Annual General Meeting decided on March 15, 2006 that option rights with a commitment to shareholding would be granted to Elektrobit Corporation's Chairman of the Board and CEO. Of the above, 750,000 stock options marked as 2006A were distributed to the Chairman of the Board, while 1,000,000 stock options were distributed to the CEO. In accordance with the terms and conditions of the stock options, the prerequisite for receiving 2006A stock options was that the participating managers purchase, either directly or through companies under their control, a predetermined number of

Elektrobit Corporation shares, as decided by the Annual General Meeting on March 15, 2006 (a minimum of 75,000 shares for the Chairman of the Board and a minimum of 100,000 shares for the CEO). No subscriptions were made by the end of the share subscription period for stock options 2006A.

2008A-C

The Annual General Meeting decided on March 14, 2008 that there is a weighty financial reason for the company to issue stock options since the stock options are intended for use as part of the incentive and commitment program for key personnel.

The maximum total number of stock options shall be 4,200,000, of which 1,400,000 shall be marked with the symbol 2008A, 1,400,000 shall be marked with the symbol 2008B, and 1,400,000 shall be marked with the symbol 2008C. The stock options entitle to subscription of a maximum total of 4,200,000 new shares of the company or treasury shares.

The subscription price for the shares to be subscribed based on the stock options shall be based on the prevailing market value of the Elektrobit Corporation share at NASDAQ OMX Helsinki Ltd. in January 2009, January 2010 and January 2011. At the end of 2012, 1,167,994 stock options with symbol 2008A, 1,134,000 stock options with symbol 2008B, and 740,000 stock options with symbol 2008C were distributed to the key employees of Elektrobit Corporation.

Short Term Incentive System

Short term incentive will be paid based on the achieved targets. A limited amount of EB's employees are participating into short term incentive system. The criteria for the short term merit pay are the financial strategic targets of the Company. In addition, part of the targets may be other objectives of the Company of Business Segment or personal targets. Personal targets vary between duties.

In 2012 the earning period for the short term incentive was 12 months. The targets are determined separately for each earnings period. The setting of targets and the review of their achievement is decided on one-over-one basis.

Authorizations of the Board of Directors at the End of the Reporting Period

Authorization of the Board of Directors to Decide on the Repurchase of the Company's Own Shares

The Annual General Meeting held on March 26, 2012 authorized the Board of Directors to decide on the repurchase of the Company's own shares as follows.

The amount of own shares to be repurchased shall not exceed 12,500,000 shares, which corresponds to approximately 9.66 per cent of all of the shares in the company. Only the unrestricted equity of the company can be used to repurchase own shares on the basis of the authorization. Own shares can be repurchased at a price formed in public trading on the date of the repurchase or otherwise at a price formed on the market. The Board of Directors decides how own shares will be repurchased. Own shares can be repurchased using, inter alia, derivatives. Own shares can be repurchased otherwise than in proportion to the shareholdings of the shareholders (directed repurchase).

The authorization cancels the authorization given by the General Meeting on March 31, 2011 to decide on the repurchase of the company's own shares. The authorization is effective until June 30, 2013.

Authorization the Board of Directors to Decide on the Issuance of shares as well as the Issuance of Special Rights Entitling to Shares

The General meeting held on March 26, 2012 authorized the Board of Directors to decide on the issuance of shares and other special rights entitling to shares referred to in chapter 10 section 1 of the Companies Act as follows.

The amount of shares to be issued shall not exceed 25,000,000 shares, which corresponds to approximately 19.32 per cent of all of the shares in the company. The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The authorization concerns both the issuance of new shares as well as the transfer of treasury shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue).

The authorization cancels the authorization given by the General Meeting on March 31, 2011 to decide on the issuance of shares as well as the issuance of other special rights entitling to shares referred to in Chapter 10 Section 1 of the Companies Act. The authorization is effective until June 30, 2013.

Shares and Shareholders

The shares of Elektrobit Corporation are quoted on the NASDAQ OMX Helsinki. The Company has one series of shares. All shares entitle their holders to dividends of equal value. Each share has one vote. The share does not have a nominal value. The Company's shares have been entered into the Euroclear Finland Ltd's book-entry securities system.

At the end of the financial period, the fully paid share capital of the company entered into the Finnish Trade Register was EUR 12,941,269.00 and the total number of the shares was 129,412,690. The accounting par value of the Company's share is EUR 0.10. The Company has not its own shares in its possession.

Shareholding and control related information is presented in section 38 of the notes to the Financial Statement.

Flagging Notifications

There were no changes in ownership during the period under review that would have caused flagging notifications, which are obligations for disclosure in accordance with Chapter 2, section 9 of the Securities Market Act.

Stock Options

I. The Annual General Meeting held on March 17, 2005, decided to authorize the Board of Directors to issue option rights. By virtue of the authorization the Board of Directors granted 4,500,000 option rights to the company's management and EB's fully owned subsidiary serving as a reserve company in the stock option scheme. Subscriptions made by virtue of the 2005 option rights may increase the share capital of Elektrobit Corporation by a maximum of EUR 450,000 and the number of shares by a maximum of 4,500,000. The share subscription period for stock options 2005A was 1 April 2008–30 April 2010, for stock options 2005B 1 April 2009-30 April 2011, for stock options 2005C 1 April 2010–30 April 2012, and for stock options 2005D 1 April 2011–30 April 2013.

No subscriptions were made by the end of the share subscription period for stock options 2005A-C.

II. The Annual General Meeting held on March 15, 2006, decided that option rights with a commitment to shareholding are granted to Elektrobit Corporation's new directors. The number of option rights granted totals 1,750,000, of which 750,000 were granted to the Chairman of the Board and 1,000,000 were granted to the CEO. Subscriptions made by virtue of the said option rights might increase the share capital of Elektrobit Corporation by a maximum of EUR 175,000 and the number of shares by a maximum of 1,750,000 new shares. The share subscription period for stock options 2006A was 1 May 2009–31 May 2012. No subscriptions were made by the end of the share subscription period for stock options 2006A.

III. The Annual General Meeting of March 14, 2008, decided to issue stock options to EB's key personnel. The maximum number of stock options shall be 4,200,000, of which 1,400,000 shall be marked with the symbol 2008A, 1,400,000 shall be marked with the symbol 2008B and 1,400,000 shall be marked with the symbol 2008C. The stock options entitle to subscription of a maximum total of 4,200,000 new shares of the company or treasury shares. The proportion of the shares that can be subscribed using the stock options to be issued will be a maximum total of 3.1 per cent of the company's shares and associated voting rights after a possible share subscription, should new shares be issued in the subscription. The subscription price for the shares to be subscribed based on the stock options shall be based on the prevailing market value of the Elektrobit Corporation share at NASDAQ OMX Helsinki Ltd. in January 2009, January 2010 and January 2011. The subscription price will be recorded in the fund for invested unrestricted equity. The share subscription period for stock options 2008A is 1 April 2012–31 March 2014, for stock options 2008B 1 April 2013–31 March 2015, and for stock options 2008C 1 April 2014–31 March 2016.

Changes in the Company's Management

There were no changes in the Company's management during the reporting period.

Board of Directors, Board Committees and Auditor

The Annual General Meeting held on March 26, 2012 decided that the Board of Directors shall comprise of five (5) members. Mr. Jorma Halonen, Mr. Juha Hulkko, Mr. Seppo Laine, Mr. Staffan Simberg and Mr. Erkki Veikkolainen were elected as members of the Board of Directors for a term of office expiring at the end of the next Annual General Meeting.

At its assembly meeting held on March 26, 2012, the Board of Directors elected Mr. Seppo Laine as the Chairman of the Board. Further, the Board resolved to keep the Audit and Financial Committee with Mr. Staffan Simberg (Chairman of the committee) and Mr. Seppo Laine as committee members.

In the Annual General Meeting held on March 26, 2012, Ernst & Young Ltd., authorized public accountants, was re-elected as the auditor of the Company for a term of office ending at the end of the next Annual General Meeting. Ernst & Young Ltd. notified that Mr. Jari Karppinen, authorized public accountant, will act as responsible auditor.

EB's Board of Directors and the rest of the management are presented at the corporate governance statement for the reporting period of January 1 – December 31, 2012 and at www.elektrobit.com.

Dividend from 2011

The General Meeting held on March 26, 2012 decided in accordance with the proposal of the Board of Directors that no dividend shall be distributed.

Corporate Governance Statement

The Board of Directors has issued the corporate governance statement separate from this report.

Proposal by the Board of Directors on the Use of the Profit Shown on the Balance Sheet and the Payment of Dividend

According to the parent company's balance sheet at December 31, 2012, the distributable assets of the parent company are EUR 104,362,407.50 of which the loss of the financial year is EUR -119,399.75.

The Board of Directors proposes that the Annual General Meeting to be held on April 11, 2013 resolve to pay EUR 0.01 per share, i.e. in total EUR 1,294,126.90, as dividend based on the adopted balance sheet for the financial period of January 1, 2012 – December 31, 2012. The dividend will be paid to the shareholders who are registered as shareholders in the company's register of shareholders as maintained by Euroclear Finland Ltd on the dividend record date, Tuesday, April 16, 2013. The Board of Directors proposes that the dividend be paid on Tuesday, April 23, 2013.

The Board of Directors emphasized the result from the financial period ended on 31.12.2012 as a basis for its proposal for distribution of dividend.

Oulu, February 18, 2013

Seppo Laine
Chairman of the Board

Jorma Halonen
Member of the Board

Juha Hulkko
Member of the Board

Staffan Simberg
Member of the Board

Erkki Veikkolainen
Member of the Board

Jukka Harju
CEO

The Auditor's Note

Our Auditors Report has been issued today.

Oulu, February 18, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

Elektrobit Corporation Consolidated Financial Statements 2012

Consolidated Statement of Comprehensive Income

CONTINUING OPERATIONS	NOTES	2012 1000 EUR	2011 1000 EUR
Net Sales	**1, 4**	**185 410**	**148 028**
Other operating income	5	2 262	2 313
Change in work in progress and finished goods		-186	44
Work performed by the undertaking for its own purpose and capitalised		601	427
Raw materials		-7 380	-6 708
Personnel expenses	8	-105 541	-92 707
Depreciation	7	-7 302	-8 482
Other operating expenses	6	-65 381	-48 426
Operating Profit		**2 484**	**-5 511**
Financial income and expenses	10	-465	-427
Profit Before Tax		**2 019**	**-5 938**
Income tax	11	67	-600
Profit For The Year From Continuing Operations		**2 086**	**-6 538**
Profit for the year from discontinued operations	2	1 185	1 461
Profit For The Year		**3 271**	**-5 077**
Other comprehensive income:			
Exchange differences on translating foreign operations		189	-166
Total Comprehensive Income For The Year		**3 460**	**-5 243**
Profit for the year attributable to			
Equity holders of the parent		2 267	-5 325
Non-controlling interests		1 005	249
Total		**3 271**	**-5 077**
Total comprehensive income for the period attributable to			
Equity holders of the parent		2 456	-5 492
Non-controlling interests		1 005	249
Total		**3 460**	**-5 243**
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY:			
Earnings per share from continuing operations, EUR			
Basic earnings per share	12	0.01	-0.05
Diluted earnings per share	12	0.01	-0.05
Earnings per share from discontinued operations, EUR			
Basic earnings per share	12	0.01	0.01
Diluted earnings per share	12	0.01	0.01
Earnings per share from continuing and discontinued operations, EUR			
Basic earnings per share	12	0.02	-0.04
Diluted earnings per share	12	0.02	-0.04
Average number of shares, 1000 pcs		129 413	129 413
Average number of shares, diluted, 1000 pcs		130 238	130 051

Consolidated Statement of Financial Position

	NOTES	Dec. 31, 2012 1000 EUR	Dec. 31, 2011 1000 EUR
Assets			
Non-current assets			
Property, plant and equipment	13	9 207	8 950
Goodwill	14	19 295	19 264
Intangible asssets	14	18 218	15 691
Other financial assets	18	132	134
Receivables	18		
Deferred tax assets	19	947	78
Total		**47 798**	**44 117**
Current assets			
Inventories	20	381	1 797
Trade and other receivables	21	71 349	59 282
Financial assets at fair value through profit or loss	22	9 676	
Cash and short-term deposits	23	5 827	9 954
Total		**87 233**	**71 033**
Assets classified as held for sale		**7 699**	
Total assets		**142 730**	**115 150**
Equity and liabilities			
Equity attributable to equity holders of the parent	24		
Share capital		12 941	12 941
Translation differences		635	446
Invested non-restricted equity fund		38 697	38 697
Retained earnings		14 320	13 425
Total		**66 594**	**65 509**
Non-controlling interests		2 508	1 504
Total equity		**69 102**	**67 013**
Non-current liabilities			
Deferred tax liabilities	19	674	1 030
Pension obligations	26	1 377	1 311
Interest-bearing loans and borrowings (non-current)	28	5 370	4 010
Provisions	27	459	501
Total		**7 880**	**6 851**
Current liabilities			
Trade and other payables	29	46 375	34 934
Financial liabilities at fair value through profit or loss	29	2	335
Provisions	27	2 158	1 020
Interest-bearing loans and borrowings (current)	28	12 704	4 996
Total		**61 239**	**41 286**
Liabilities classified as held for sale		**4 509**	
Total liabilities		**73 628**	**48 137**
Total equity and liabilities		**142 730**	**115 150**

Consolidated Statement of Cash Flows

	NOTES	2012 1000 EUR	2011 1000 EUR
Cash flow from operating activities			
Profit for the year from continuing operations		**2 086**	**-6 538**
Profit for the year from discontinued operations		**1 185**	**1 461**
Adjustments			
Effects of non-cash business activities	32	8 865	6 096
Finance costs		603	773
Finance income		-67	-342
Income tax		-67	602
Change in net working capital			
Change in short-term receivables		-16 532	-2 351
Change in inventories		-349	-268
Change in interest-free short-term liabilities		13 624	3 246
Interest paid on operating activities		-949	-387
Interest and dividend received from operating activities		67	342
Income taxes paid		-395	2 631
Net cash from operating activities		**8 071**	**5 266**
Cash flow from investing activities			
Acquisition of business unit, net cash acquired			-836
Purchase of property, plant and equipment		-3 152	-1 949
Purchase of intangible assets		-5 897	-8 492
Purchase of other investments			-25
Sale of property, plant and equipment		382	94
Sale of intangible assets		7	63
Proceeds from sale of other investments		3	45
Net cash from investing activities		**-8 658**	**-11 099**
Cash flows from financing activities			
Proceeds from borrowing		16 564	247
Repayment of borrowing		-7 541	-2 200
Payment of finance lease liabilities		-2 887	-2 782
Net cash from financing activities		**6 136**	**-4 735**
Net change in cash and cash equivalents		**5 549**	**-10 568**
Cash and cash equivalents at 1 January		9 954	20 522
Change in fair value of investments			
Cash and cash equivalents at 31 December		**15 503**	**9 954**

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent							
1000 EUR	Share capital	Share premium	Invested non-restricted equity fund	Translation difference	Retained earnings	Total	Non-controlling interests	Total equity
Shareholders equity Jan. 1, 2011	**12 941**	**0**	**38 697**	**613**	**18 256**	**70 507**	**1 255**	**71 761**
Comprehensive income for the period								
Profit for the period					-5 325	-5 325	249	-5 077
Exchange differences on translating foreign operations				-166		-166		-166
Total comprehensive income for the period	**0**	**0**	**0**	**-166**	**-5 325**	**-5 492**	**249**	**-5 243**
Transactions between the shareholders								
Share-related compensation					422	422		422
Other changes					**73**	**73**		**73**
Shareholders equity Dec. 31, 2011	**12 941**	**0**	**38 697**	**446**	**13 425**	**65 509**	**1 504**	**67 013**
Shareholders equity Jan. 1, 2012	**12 941**	**0**	**38 697**	**446**	**13 425**	**65 509**	**1 504**	**67 013**
Comprehensive income for the period								
Profit for the period					2 267	2 267	1 005	3 271
Exchange differences on translating foreign operations				189		189		189
Total comprehensive income for the period	**0**	**0**	**0**	**189**	**2 267**	**2 456**	**1 005**	**3 460**
Transactions between the shareholders								
Share-related compensation					349	349		349
Other changes *)					**-1 720**	**-1 720**		**-1 720**
Shareholders equity Dec. 31, 2012	**12 941**	**0**	**38 697**	**635**	**14 320**	**66 594**	**2 508**	**69 102**

*) Previous periods tax EUR 1,6 million booked in foreign subsidiaries.

Notes to the Consolidated Financial Statements

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

Corporate Information

The company's field of activities is the development, production and selling of software, equipment and other products for the automotive and electronics industry, the production of R&D services and other services as well as other industrial operations. The company may administer product and other rights and conduct research and development operations, hold and trade securities and real-estate and conduct other investment activities.

The parent company of the Group is Elektrobit Corporation, which is a Finnish public company. The parent company is domiciled in Oulu and its registered address is Tutkijantie 8, 90590 Oulu.

Accounting Principles for the Consolidated Accounts

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as well as the SIC and IFRIC interpretations in force at December 31, 2012. The financial statements are presented in thousands of euro. The consolidated financial statements have been prepared on a historical cost basis unless otherwise indicated.

Consolidation Principles

Subsidiaries

The consolidated financial statements include Elektrobit Corporation and its subsidiaries financial statements. Subsidiaries are companies in which the Elektrobit Corporation has a controlling interest. A controlling interest arises when the Group holds more than half of the voting rights or it otherwise has the power to govern the financial and operating policies of the entity. The existence of potential voting rights is taken into account in assessing the conditions under which control arises whenever instruments conferring potential voting rights can be exercised at the review date.

Intra-Group share ownership has been eliminated by means of the purchase method. Acquired subsidiaries are included in the consolidated financial statements from the time when the Group has obtained control, and divested subsidiaries up to the time when control ceases. The excess of the acquisition cost of the subsidiary shares over fair value of the net assets acquired is allocated partly to the identifiable assets and liabilities. Any excess is recorded as goodwill. For business combinations that occurred before the implementation of IFRS, in 2004, the carrying amount of the goodwill has been treated according to the Finnish GAAP in accordance with the exemption under IFRS 1. According to IFRS goodwill is not amortized, but tested annually for impairment.

Intra-Group transactions, receivables, liabilities and margins are eliminated in preparation of the consolidated financial statements.

Minority interests are presented separately from the net profit and disclosed as a separate item in the equity.

Foreign Currency Transactions

Figures relating to the financial statements of Group entities are measured in the currency that is the currency of each entity's main operating environment ("functional currency"). The consolidated financial statements are presented in euros, which is the functional currency of the Group's parent company.

Transactions denominated in foreign currency are recorded in euros using the exchange rate on the date of the transaction. Monetary items denominated in foreign currency are translated to euros using the European Central Bank exchange rates at the balance sheet date. Gains and losses arising from transactions denominated in foreign currency and the translation of monetary items are recorded in the income statement.

Income statements and cash flows of subsidiaries, whose functional and reporting currency is not the euro, are translated into euros at the average exchange rates during the financial period. Their balance sheets are translated at the exchange rates prevailing at the balance sheet date. Translating the profit for the period using different rates in the income statement and the balance sheet leads to a translation difference that is recorded in equity. The translation differences arising from the elimination of the cost of foreign subsidiaries are recorded in equity. When a subsidiary is sold, the cumulative translation differences are entered in the income statement as part of the capital gain or loss.

Cumulative exchange differences arising from the translation of internal long term loans, which are in actual terms net investments in foreign operations, are taken directly to a separate component of equity.

The goodwill arising from the acquisition of foreign operations as well as fair value adjustments made to the carrying amounts of the assets and liabilities of said foreign operations in connection with an acquisition are treated as the assets and liabilities of said foreign operations and translated to euros using the exchange rates at the balance sheet date.

Notes to the Consolidated Financial Statements

Property, Plant and Equipment

Property, plant and equipment are measured at historical cost less depreciation and impairment losses. Assets of acquired companies are stated at their fair values at the date of acquisition. Assets are depreciated using the straight-line or reducing balance method over their useful life.

The residual value of assets and their useful life are reviewed periodically in connection with each set of financial statements and the interim report and, if necessary, they are adjusted to reflect changes that have occurred in the expectations for the asset's useful life. Ordinary repair and maintenance costs are charged to the income statement during the financial year in which they incurred.

Gains and losses on sales and disposals are determined by comparing the received proceeds with the carrying amount and are included in operating profit.

Intangible Assets

Goodwill

After January 1st, 2004 the cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets. The goodwill arising from the business combinations prior to this represents the amount recorded under previous GAAP, which has been used as the deemed cost. The classification and accounting treatment of these business combinations has not been adjusted when the Group's opening IFRS balance sheet has been prepared.

Goodwill is tested annually or, if necessary, more frequently to determine any impairment. For this purpose, goodwill has been allocated to cash-generating units. The recoverable amount of a cash generating unit is compared to its carrying amount and an impairment loss is recognized if the carrying amount of the assets exceeds the recoverable amount. An impairment loss is recognized in the income statement.

Research and Development Expenditure

Research expenditures are recorded as an expense as they are incurred. Expenditure on development activities is capitalized if they meet the criteria defined in IAS 38 Intangible Asset. Capitalized development expenses include mainly materials, supplies and direct labor costs. They are amortized on a systematic basis over their expected useful lives.

Capitalized development expenses are reviewed for potential impairment regularly by comparing the carrying amount to their recoverable amount. Significant changes in the technological environment are taken into account. If the carrying amount of the development expenses is greater than the recoverable amount, an impairment loss is recognized immediately.

Other Intangible Assets

Purchased patents, trademarks, licenses and other intangible assets having a finite useful life are entered in the balance sheet and the amortized expense is recorded in the income statement over their useful life. If indications on possible impairment exist, the recoverable amount is determined and an impairment loss is recognized if necessary. Intangible assets with an indefinite useful life are not amortized, but are tested annually or if necessary more frequently to determine any impairment.

Inventories

Inventories are stated at the lower of initial cost or net realizable value. Net realizable value is the estimated selling price in the normal course of business less the estimated costs of sale. The value of raw material inventory is determined using a weighted average cost formula. The initial cost of finished and semi-finished products comprises of raw material, direct labor and other direct expenses as well an appropriate share of fixed and variable production overheads, based on the normal capacity of the production facilities.

Borrowing costs

Borrowing costs are recognized in the income statement as they accrue.

Government Grants

Government grants are recognized when there is reasonable assurance that Group will comply with the conditions attaching to them and the grant will be received. Government grants received from public corporations are presented as other income in the income statement.

Leases

When the Group is a lessee, all lease contracts of property, plant and equipment, in which the Group has substantially all the risks and rewards of ownership, are classified as finance leases. A finance lease agreement is recognized in the balance sheet at an amount equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. An asset obtained on a finance lease is depreciated over the useful life of the asset or, if shorter, the lease term. Lease obligations are included in interest-bearing liabilities.

Lease agreements in which the risks and benefits incident to ownership remain with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense in the income statement on a straight line basis over the lease term.

Impairment of Assets

At each balance sheet date (including interim reports) the Group estimates whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is estimated annually regardless of any indication of impairment to the following assets: goodwill, intangible assets with an indefinite useful life and for intangible assets which are not yet ready for use. The recoverable amount is based on the future discounted net cash flows, which are equivalent with the expected cash flows generated by the asset. The impairment testing has been disclosed in the notes 14. to the financial statements.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable value. The loss is booked to the income statement. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill will under no circumstances be reversed.

Employee Benefits

Pension Liabilities

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. In Finland, the Group has organized pension coverage for its staff through independent pension insurance companies.

The Finnish system under the Employees' Pensions Act and the disability portion are treated as a defined contribution plan. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. After this the Group has no other obligations for additional payment.

The pension arrangements of the foreign subsidiaries have mainly been classified as defined contribution plans. The only significant defined benefit plan relates to a German subsidiary. The present value of the obligation of the defined benefit plan is determined using the projected unit credit method. The pension expenditure calculations required by IAS 19 –standard are prepared by authorized actuaries. The Group does apply the corridor method when recognizing the actuarial gains and losses.

Revised IAS 19 Employee Benefits will become effective from 1st of January 2013. More information of impact of the new standard is in chapter "The Application of New and Revised IFRS-regulations".

Share-Based Payment

The Group has applied IFRS 2 Share-Based Payment to the share-based scheme which was granted June 23, 2005. Expenses of option and share incentive schemes prior to this have not been presented in the income statement. Option rights and shares granted are measured at fair value at the time they are granted and entered as an expense in the income statement in even installments during the vesting period. The expense determined is based on the defined fair value of the stock options and shares as well as on management's estimate of the amount of options or shares to which the employee will be entitled at the end of the vesting period. The fair value of the options is determined on the basis of the Black-Scholes pricing model. The Group updates the assumption concerning the final amount of stock options and shares at each balance sheet date. Changes in the estimates are recorded in the income statement. When options are exercised, the cash payments received on the basis of share subscriptions (adjusted for any transaction expenses) are entered in the share capital (at nominal value) and in the share premium reserve.

Provisions

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that a payment obligation will be realized or cause a financial loss and the amount of the obligation can be estimated reliably. Provisions can arise from restructuring plans, onerous contracts, warranty repairs and allowances and from environmental, litigation or tax risks.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the time value of money is material, provisions will be discounted.

If a reimbursement can be obtained from a third party for part of the obligation, the reimbursement is treated as a separate asset when it is virtually certain that the reimbursement will be received.

Taxes

Tax expense in the Group's income statement comprises the current tax and change in deferred taxes of each group company. Current tax is calculated based on the taxable income using the tax rate that is enacted in each country at the balance sheet date.

Deferred tax liability is calculated on the temporary differences between the carrying amounts and the amounts used for taxation purposes. Deferred tax assets are recognized for deductible temporary differences and tax losses to the extent that it is probable that taxable profit will be available against which tax credits and deductible temporary differences can be utilized. In calculating deferred tax liabilities and assets, the tax base which is in force at the time of preparing the financial statements or which has been enacted by the balance sheet date for the following period, has been applied.

Revenue Recognition

Sales of goods are recognized after the significant risks and rewards that, are connected with ownership, have been transferred to the buyer. Neither the Group retains a continuing managerial involvement to the degree usually associated with ownership, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are presented net of indirect sales taxes and discounts.

Revenue from long-term construction contracts is recognized based on the stage of completion when the outcome of the project can be reliably measured. The stage of completion is measured by using the cost-to-cost method under which the percentage of completion is defined as the ratio of costs incurred to total estimated costs.

Notes to the Consolidated Financial Statements

Assets Held for Sale and Discontinued Operations

The Group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and asset items related to discontinued operations, which are classified as held for sale, are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation and amortization on these asset items is discontinued at the time of classification. Profit after tax and gain on sale of discontinued operation is presented as a separate line item in the consolidated income statement.

Profit for the year from discontinued operations is presented separately in Consolidated Statement of Comprehensive Income. Discontinued operations are disclosed in note 2.

Financial Assets, Financial Liabilities and Derivative Contracts

Financial Assets

The Group's financial assets are classified in accordance with IAS 39 Financial Instruments: Recognition and Measurement in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and financial assets held for sale. The classification is based on the purpose for which the assets have been acquired and they are classified upon acquisition.

A financial asset is classified at fair value through profit or loss, when it has been acquired for trading purposes. The category comprises the Group's investment portfolio and all derivative contracts. The consolidated balance sheet does not contain assets that would be classified in this category upon initial recognition as allowed under the fair value option of IAS 39. Realized and unrealized gains and losses from changes in fair values are recognised in profit or loss in the financial year they are incurred. The assets are in accordance with their nature included in the non-current and current assets of the balance sheet.

Loans and receivables are assets other than derivative contracts with related payments that are fixed or determinable. They are not quoted on efficient markets and they are not held by the Group for trading purposes. They are valued at amortised cost. They are in accordance with their nature included in the current or long-term assets of the balance sheet: long-term if they fall due after more than 12 months.

The Group has not had held-to-maturity investments during the financial or the prior financial year. In case of occurrence they are valued at amortised cost.

Financial assets held for sale are assets other than derivative contracts that have particularly been classified into this category or have not been classified into any other category. They are included in the balance sheet on the basis of their estimated date of sale. Assets to be sold within 12 months are included in current assets. Such financial assets are disclosed separately in the consolidated balance sheet if their carrying amount is significant. The change in fair value of the financial assets held for sale is recognised net of tax in the revaluation fund in equity. The cumulative change in fair value recognised in equity is recognised in profit or loss when the asset is sold or the asset has been impaired and an impairment loss has to be recognised. Investments, whose fair value may not be reliably established, are valued at cost or cost adjusted for a permanent impairment loss.

Cash comprises cash on hand, bank deposits and other highly liquid investments. Assets classified as financial assets have a maximum maturity of three months from the date of acquisition.

Transaction costs are included in the cost of financial assets that are not valued at fair value through profit or loss. The purchases and sales of financial assets are recognised at the trade date.

Financial Liabilities

Financial liabilities are initially recognised at fair value. Transaction costs are included in the initial carrying amount of financial liabilities. All financial liabilities are subsequently measured at amortised cost. Financial liabilities are included in current and non-current liabilities and may be interest-bearing or interest-free.

The bases for determining the fair value of all financial assets and liabilities have been disclosed in note 17, 22 and 29.

The Impairment of Financial Assets

The Group assesses whether objective indications of the impairment of any financial assets exist at each balance sheet date. A loss is recognised in profit or loss as a recognised or probable credit loss, when there are indications that trade or loan receivables may not be collected in full. Impairment losses on trade receivables are included in other operating expense and on loan receivables in financial expenses.

Impairment losses on financial assets recognised in the financial year are disclosed in note 17 and 22.

Derivative Contracts and Hedge Accounting

Derivative contracts are recognised at their fair value. Hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and measurement is not applied. The change in fair value of hedging instruments is recognised in finance items in profit or loss.

The fair values of derivative contracts and the valuation methods used are disclosed in note 30.

Significant Accounting Estimates and Judgments

The preparation of financial statements requires management to make estimates and assumptions about future that affect the reported amounts. Used estimates and assumptions are based on prior experience and presumptions, which reflect the circumstances and expectations prevailing at the time of the preparation of the financial statements. Materiality and judgment in assessing the effect of uncertainties and the application of accounting principles have been observed in the preparation of the financial statements.

The management has exercised judgment during the financial year in applying e.g. the IFRS 3 -standard and in assessing the future prospects of Group companies in conjunction with standards IAS 12 Income Taxes and IAS 36 Impairment of Assets.

Financial statements may include non-recurring income or expenses that are not related to normal operative business or that occur only infrequently. Such items are among others sales profits or losses, substantial changes in asset values, like impairment or reversal of impairment, substantial restructuring costs or other substantial items that are considered as non-recurring by the management. Substantiality of the item is based on item's euro amount and the relative share of total value of the asset.

The Application of New and Revised IFRS -regulations

The Group has applied the following new or revised standards and interpretations issued by IASB from Jan. 1, 2012. The new interpretations or revised standards will not have material impact on the consolidated financial statements.

- IFRS 1 First-time Adoption of IFRSs issued, amended for fixed transition dates and severe hyperinflation (revised).
- IAS 12 Deferred Tax: Recovery of Underlying Assets (revised).

Effective date 1st of January, 2013

- IFRS 7 Financial Instruments: Disclosures (revised). The revised standard will not have material impact on the consolidated financial statements.
- IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures.
  - The Group will 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 group's consolidated financial statements will decrease from the previous 100% to 51%. According to the rules of proportionate consolidation method, the consolidated statement will also include 49% of the net sales of other group companies to e.solutions GmbH.
  - In 2012, the Group's 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 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, the Group will present the year-on-year information of income statement and balance sheet with pro forma principle, assuming that e.solutions GmbH would have been consolidated to group according to the rules of proportionate consolidation already in 2012.
- IFRS 12 Disclosure of Interests in Other Entities. The new standard will not have material impact on the consolidated financial statements.
- IFRS 13 Fair Value Measurements. The new standard will not have material impact on the consolidated financial statements.
- IAS 1 Presentation of Financial Statements (revised) The revised standard will not have material impact on the consolidated financial statements.
- IAS 19 Employee Benefits. The new standard will have EUR 0.5 million reductive impact on the opening balance of equity in 1st of January 2013.

Effective date 1st of January, 2014

- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (revised).
- IFRS 9 Financial Instruments: classification and measurement (revised) The revised standard will not have material impact on the consolidated financial statements.
- IFRS 10, IFRS 12, IAS 27 and IAS 28 Investments in Associates and Joint Ventures.
- IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine. The new interpretation will not have material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. OPERATING SEGMENTS

Segment information will be shown according to Group's business segment distribution. Operating segments are premised on the group internal organization structure and group internal financial management reporting. Inter-segment pricing is determined on an arm's length basis. IFRS-adjustments are allocated to segments.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly tax and financial assets and expenses and corporate assets and expenses. Segment capital expenditure comprise additions of property, plant and equipment and intangible assets that are expected to be used for more than one period.

EB's reporting is based on two operating segments, Automotive and Wireless.

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. 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 ADTF, an extensive software development kit for driver assistance solutions. These software products generate license fees, often combined with supply of R&D services for customized solutions.

Wireless

In the Wireless Business Segment EB offers products and product platforms for defense and public safety markets and for industrial use, as well as product development services and customized solutions for wireless communications markets and for other companies needing wireless connectivity for their devices targeted for consumers or professional use. EB's products in the Wireless Business Segment are EB Tactical Wireless IP Network for tactical communications, EB Tough Voip for tactical IP-based communication, and EB Wideband COMINT Sensor for signals intelligence. The product platforms are EB Counter RCIED Platform for electronic warfare, 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, software and hardware development.

Wireless Business Segment's Test Tools product business is classified as Discontinuing Operations in the 2012 financial statements because at the end of year 2012, during the discussions with the buyer and ongoing due diligence process, it turned out that the execution of the transaction is very probable and EB was committed to the sales plan.

Other items

Other items consis of parent company's services and Group's support function services.

OPERATING SEGMENTS 2012 1000 EUR	Automotive Business Segment	Wireless Business Segment	Other items	Eliminations	Group total
Net sales					
Net sales to external customers	122 052	63 273	85		185 410
Net sales to other segments	88	258	0	-347	0
Net sales total	**122 140**	**63 531**	**85**	**-347**	**185 410**
Depreciation	-4 306	-2 946	-51		-7 302
Operating Profit	**4 670**	**-2 223**	**37**	**0**	**2 484**
Unallocated expenses					-398
Profit for the year from continuing operations					2 086
Profit for the year from discontinued operations					1 185
Profit for the year					**3 271**
Assets and liabilities					
Segments assets	89 192	28 917	2 182	-1 993	118 298
Unallocated assets					16 733
Assets classified as held for sale					7 699
Total assets	**89 192**	**28 917**	**2 182**	**-1 993**	**142 730**
Segment liabilities	32 989	15 979	500	-1 943	47 525
Unallocated liabilities					21 595
Liabilities classified as held for sale					4 509
Total liabilities	**32 989**	**15 979**	**500**	**-1 943**	**73 628**
Capital expenditure, continuing operations					
Tangible assets	3 372	2 603	2		5 977
Intangible assets	5 305	410	10		5 725
Investments					0
Goodwill	35				35
Capital expenditure, discontinued operations					
Tangible assets					338
Intangible assets					134

Notes to the Consolidated Financial Statements

OPERATING SEGMENTS 2011 1000 EUR	Automotive Business Segment	Wireless Business Segment	Other items	Eliminations	Group total
Net sales					
Net sales to external customers	98 269	49 408	351		148 028
Net sales to other segments	3	355	0	-358	0
Net sales total	98 271	49 763	351	-358	148 028
Depreciation	-5 271	-2 897	-314		-8 482
Operating Profit	**760**	**-6 204**	**-67**	**0**	**-5 511**
Unallocated expenses					-1 027
Profit for the year from continuing operations					-6 538
Profit for the year from discontinued operations					1 461
Profit for the year					-5 077
Assets and liabilities					
Segments assets	64 894	39 584	1 963	-1 686	104 754
Unallocated assets					10 395
Total assets	**64 894**	**39 584**	**1 963**	**-1 686**	**115 150**
Segment liabilities	20 168	17 196	2 140	-1 686	37 819
Unallocated liabilities					10 318
Total liabilities	**20 168**	**17 196**	**2 140**	**-1 686**	**48 136**
Capital expenditure					
Tangible assets	1 230	1 954	0		3 184
Intangible assets	7 942	536	14		8 492
Investments	25				25
Goodwill	736				736

Geographical areas

EB's two Business Segments operates in three geographical areas which are Europe, Americas and Asia. In presenting the geographical information, the revenue is based on the geographical location of customers. Geographical assets are based on the geographical location of the assets.

GEOGRAPHICAL AREAS 2012 1000 EUR	Finland	Other Europe	Americas	Asia	Eliminations	Group total
Net sales						
Sales to external customers	25 330	122 928	28 617	8 535		185 410
Non-current assets	5 740	40 343	643	126		46 851
Unallocated non-current assets						0
Total non-current assets *)						**46 851**
*) does not include deferred tax assets						
Capital expenditure						
Tangible assets	220	5 318	4	13		5 555
Intangible assets	2 660	3 166	344	12		6 181
Investments						0
Goodwill						0

GEOGRAPHICAL AREAS 2011 1000 EUR	Finland	Other Europe	Americas	Asia	Eliminations	Group total
Net sales						
Sales to external customers	10 081	110 473	20 313	7 161		148 028
Non-current assets	7 026	36 088	673	251		44 039
Unallocated non-current assets						
Total non-current assets *)						**44 039**
*) does not include deferred tax assets						
Capital expenditure						
Tangible assets	1 704	1 114	256	97		3 171
Intangible assets	533	7 924	27	8		8 492
Investments		37				37
Goodwill		736				736

Information of primary customers

Group's revenues from the 10 largest customers in year 2012 was 126.7 million euros (EUR 93 million in 2011) representing 68.3 per cent of the net sales (57.1 per cent in 2011).

Notes to the Consolidated Financial Statements

2. DISCONTINUED OPERATIONS

Elektrobit Corporation (”EB”) and Anite plc (”Anite”) signed an agreement on 28 of January 2013, under the terms of which EB agreed to sell its Test Tools product business to Anite. 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 provides radio channel emulation tools and testing solutions for the development of the wireless technologies and is a part of the EB’s Wireless Business Segment employing a total of 54 persons in Finland, USA and China.

Test Tools product business is classified as Discontinued Operations in the 2012 financial statements because at the end of year 2012, during the discussions with the buyer and ongoing due diligence process, it turned out that the execution of the transaction is very probable and EB was committed to the sales plan.

	2012 1000 EUR	2011 1000 EUR
Income statement, Test Tools		
Net sales	16 110	14 146
Expenses	-14 925	-12 683
Profit before tax	1 185	1 464
Income tax	0	-2
Profit after tax for the year	**1 185**	**1 46**

Test Tools business area has been part of Wireless Business Segment and big portion of its costs have incurred from shared operations of the Wireless Business Segment. Some part of the costs that have been allocated to Test Tools business were not transferred in the transaction and will burden remaing businesses of the Wireless Business Segment for time being.

Cash flows of Test Tools business area have not been been followed or reported but they have been included in cash flows of Wireless Business Segment. It is not reasonable to prepare reliable cash flow calculation giving a true view of Test Tools business area.

Assets classified as held for sale	Dec. 31, 2012
Property, plant and equipment	1 015
Intangible assets	379
Inventories	1 765
Receivables	4 540
Assets classified as held for sale	**7 699**

Assets classified as held for sale	Dec. 31, 2012
Non-current liabilities	68
Current liabilities	4 441
Liabilities classified as held for sale	**4 509**

3. ACQUISITIONS

There are no new acquisitions during the annual period.

4. NET SALES	2012 1000 EUR	2011 1000 EUR
Income recognized from construction contracts	102 724	79 834
Net sales other	82 686	68 195
Total	**185 410**	**148 028**

Construction contracts

The contract revenue is recognized in the income statement in proportion to the stage of completion of the contract. The stage of completion is defined as the ratio of costs incurred to total estimated costs.

	2012	2011
Income recognized as sales based on the stage of completion of long-term construction contracts	102 724	79 834
Revenue recognized from long-term construction contracts in progress amounted to	32 764	26 612
Advances received from long-term construction contracts recognized in the balance sheet amounted to	5 437	4 079
Receivables recognized from long-term construction contracts amounted to	13 030	4 890

5. OTHER OPERATING INCOME

	2012	2011
Government grants	1 759	1 088
Other income	503	1 225
Total	**2 262**	**2 313**

6. OTHER OPERATING EXPENSES

	2012	2011
External services	-34 107	-24 603
Voluntary staff expenses	-2 142	-1 958
Premises expenses	-7 739	-7 905
Travel expenses	-2 401	-2 445
IT expenses	-3 667	-5 084
Other expenses	-15 324	-6 326
Total	**-65 381**	**-48 322**

AUDITORS CHARGES

	2012	2011
Ernst & Young		
Auditing	178	149
Certificates and statements	1	19
Tax advice	28	40
Other services	66	22
Total	**272**	**231**
Others		
Auditing	32	38
Tax advice	17	
Other services	36	39
Total	**86**	**77**

Notes to the Consolidated Financial Statements

7. DEPRECIATIONS AND IMPAIRMENTS	2012 1000 EUR	2011 1000 EUR
Depreciations		
Intangible assets		
Capitalized development expenditure	-901	-1 614
Intangible rights	-1 355	-2 154
Other intangible assets	-559	-478
Tangible assets		
Buildings and constructions	-285	-270
Machinery and equipment	-4 201	-3 965
Total	**-7 302**	**-8 482**

8. EMPLOYEE BENEFIT EXPENSES AND NUMBER OF PERSONNEL

Number of personnel		
Average number of personnel during the fiscal period		
Wireless, continuing operations	571	555
Wireless, discontinued operations	54	54
Automotive	1078	932
Other businesses	10	12
Total	**1713**	**1553**
Number of personnel at the year end	1870	1607

Personnel expenses 1000 EUR		
Personnel expenses		
Management salaries	-1 497	-1 361
Board of directors	-197	-178
Expense of share-based payments	-349	-422
Other salaries and wages	-85 875	-75 466
Total	**-87 918**	**-77 426**

Pension expenses, defined contribution plans	-5 671	-4 869
Pension expenses, defined benefit plans	-66	-147
Other personnel expenses	-11 886	-10 265
Total	**-105 541**	**-92 707**

9. RESEARCH AND DEVELOPMENT EXPENSES

	2012 1000 EUR	2011 1000 EUR
The research and development expenses total	22 164	22 148
Recognition as an asset	-2 933	-6 569
The expensed research and development expenses recongized in the income statement amounted to	19 231	15 579

10. FINANCIAL EXPENSES (NET)

Interest expenses	-640	-550
Interest income	26	281
Dividend income	0	0
Exchange gains and losses	-88	250
Change of financial assets and liabilities at fair value through profit or loss	364	-428
Other financial expenses	-136	-97
Other financial incomes	10	118
Total	**-465**	**-427**

11. INCOME TAXES

Income taxes, current year	-922	-271
Other taxes	-253	-358
Income taxes, previous years	18	-353
Deferred taxes	1 224	383
Total	**67**	**-600**

A reconciliation between the effective tax rate and domestic tax rate (24.5%) of the Group:

Profit before taxes	**3 204**	**-4 474**
Tax at the domestic tax rate	-785	1 163
Effect of tax rates of foreign subsidiaries	105	162
Taxes for prior years	18	-353
Tax free income	213	178
Non-deductible expenses	-227	-7
Temporary difference between carrying amounts and tax base	-118	383
Deferred tax assets	1 127	-1 737
Others	-264	-388
Income taxes in the consolidated income statement	**67**	**-600**

Notes to the Consolidated Financial Statements

12. EARNINGS PER SHARE	2012	2011
Basic		
Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.		
Profit attributable to the equity holders of the parent, continuing operations (1000 EUR)	1 081	-6 787
Profit attributable to the equity holders of the parent, discontinued operations (1000 EUR)	1 185	1 461
Profit attributable to the equity holders of the parent, continuing and discontinued operations (1000 EUR)	2 267	-5 325
Weighted average number of ordinary shares during the financial year (1000 PCS)	129 413	129 413
Basic earnings per share, continuing operations, EUR	**0.01**	**-0.05**
Basic earnings per share, discontinued operations, EUR	**0.01**	**0.01**
Basic earnings per share, continuing and discontinued operations, EUR	**0.02**	**-0.04**
Diluted		
Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The Group has a share-based payment scheme (14.3.2008) which has a diluting effect, when the exercise price is lower than the closing share price.		
The exercise price of the stock options at 31 December 2012 is lower than the closing share price, hence the stock options has dilutive effect.		
Profit attributable to the equity holders of the parent, continuing operations (1000 EUR)	1 081	-6 787
Profit attributable to the equity holders of the parent, discontinued operations (1000 EUR)	1 185	1 461
Profit attributable to the equity holders of the parent, continuing and discontinued operations (1000 EUR)	2 267	-5 325
Weighted average number of ordinary shares during the financial year (1000 PCS)	129 413	129 413
Effect of dilution (1000 PCS)	826	638
Weighted average number of ordinary shares during the financial year (1000 PCS)	130 238	130 051
Diluted earnings per share, continuing operations, EUR	**0.01**	**-0.05**
Diluted earnings per share, discontinued operations, EUR	**0.01**	**0.01**
Diluted earnings per share, continuing and discontinued operations, EUR	**0.02**	**-0.04**

13. PROPERTY, PLANT AND EQUIPMENT

	2012 1000 EUR	2011 1000 EUR

The Group has not revalued property, plant and equipment, hence the Group has not recognized any impairment losses directly to equity or recorded any reversals of those.

Buildings and constructures	2012	2011
Acquisition cost Jan. 1	2 575	2 401
Translation differences	-1	5
Additions during the period	121	169
Transfer to assets classified as held for sale	-10	
Acquisition cost Dec. 31	2 685	2 575
Accumulated depreciations Jan. 1	-1 347	-1 070
Translation differences	1	-5
Depreciation for the period	-285	-272
Transfer to assets classified as held for sale	5	
Carrying amount Dec. 31	1 059	1 228
No revaluations or capitalizations of the interest costs have been done.		

Machinery and equipment	2012	2011
Acquisition cost Jan. 1	47 977	45 365
Translation differences	-26	131
Additions during the period	6 197	2 996
Disposals during the period		-515
Transfer to assets classified as held for sale	-2 892	
Transfer to assets	-507	
Acquisition cost Dec. 31	50 751	47 977
Accumulated depreciations Jan. 1	-40 343	-36 263
Translation differences	20	-119
Depreciations on disposals	120	121
Depreciation for the period	-4 370	-4 082
Transfer to assets classified as held for sale	1 882	
Carrying amount Dec. 31	8 059	7 634

Notes to the Consolidated Financial Statements

	2012 1000 EUR	2011 1000 EUR
Other tangible assets		
Acquisition cost Jan. 1	88	88
Acquisition cost Dec. 31	88	88
Carrying amount Dec. 31	88	88
Property, plant and equipment total		
Acquisition cost Jan. 1	50 640	47 854
Translation differences	-27	136
Additions during the period	6 319	3 166
Disposals during the period		-515
Transfer to assets classified as held for sale	-2 902	
Transfer to assets	-507	
Acquisition cost Dec. 31	53 524	50 640
Accumulated depreciations Jan. 1	-41 690	-37 333
Translation differences	21	-124
Depreciations on disposals	120	121
Depreciation for the period	-4 655	-4 355
Transfer to assets classified as held for sale	1 887	
Carrying amount Dec. 31	9 207	8 950
Finance leases		
The Group had the following amounts of property, plant and equipment acquired by finance leases:		
Machinery and equipment		
Acquisition cost Jan. 1	37 213	34 058
Accumulated depreciations	-32 536	-29 685
Carrying amount Dec. 31	4 677	4 374

Additions of property, plant and equipment include assets acquired by finance leases of 3,159 TEUR in 2012 (895 TEUR 2011).

14. INTANGIBLE ASSETS	2012 1000 EUR	2011 1000 EUR
Capitalized development expenditure		
Acquisition cost Jan. 1	13 217	6 648
Additions during the period	2 933	6 569
Acquisition cost Dec. 31	16 150	13 217
Accumulated depreciations Jan. 1	-1 717	-103
Depreciation for the period	-901	-1 614
Carrying amount Dec. 31	13 532	11 501
Intangible rights		
Acquisition cost Jan. 1	2 906	1 373
Additions during the period	485	1 533
Transfer to assets classified as held for sale	-1 153	
Acquisition cost Dec. 31	2 238	2 906
Accumulated depreciations Jan. 1	-1 389	-719
Depreciation for the period	-466	-671
Transfer to assets classified as held for sale	774	
Carrying amount Dec. 31	1 156	1 517
Goodwill allocated to Intangible rights		
Acquisition cost Jan. 1	10 195	14 695
Acquisition cost Dec. 31	10 195	14 695
Accumulated depreciations Jan. 1	-7 997	-10 897
Depreciation for the period	-1 022	-1 599
Carrying amount Dec. 31	1 176	2 198

Notes to the Consolidated Financial Statements

	2012 1000 EUR	2011 1000 EUR
Other intangible assets		
Acquisition cost Jan. 1	2 325	1 985
Translation differences	-2	15
Additions during the period	2 326	389
Disposals during the period	-8	-63
Acquisition cost Dec. 31	4 642	2 325
Accumulated depreciations Jan. 1	-1 850	-1 356
Translation differences	1	-16
Depreciations on disposals	1	
Depreciation for the period	-559	-478
Carrying amount Dec. 31	2 235	476
Advance payments		
Acquisition cost Jan. 1		
Additions during the period	119	
Carrying amount Dec. 31	119	
Intangible assets total		
Acquisition cost Jan. 1	28 644	24 701
Translation differences	-2	15
Additions during the period	5 862	8 492
Disposals during the period	-8	-63
Transfer to assets classified as held for sale	-1 153	
Acquisition cost Dec. 31	33 344	33 144
Accumulated depreciations Jan. 1	-12 953	-13 074
Translation differences	1	-16
Depreciations on disposals	1	
Depreciation for the period	-2 949	-4 363
Transfer to assets classified as held for sale	774	
Carrying amount Dec. 31	18 218	15 691
Goodwill		
Acquisition cost Jan. 1	19 264	18 519
Translation differences	-4	9
Additions during the period	35	736
Carrying amount Dec. 31	19 295	19 264
Goodwill has been allocated to cash generating units as follows:		
Wireless Business Segment	178	182
Automotive Business Segment	19 117	19 082
Total	**19 295**	**19 264**

Impairment test

Goodwill is allocated to the Group's Cash-Generating Units (CGU), which are based on the Business Segments (i.e. Automotive and Wireless). The recoverable amounts of each CGU are based on the calculations of value in use and the management estimations.

The cash flow forecasts employed in these calculations are based on the cash flow targets for 2013 and the Long Range Plans (LRP) for 2014-2017 approved by management for the strategical period. Forecasting method has been substantially the same as in previous financial years. Cash flows beyond five-year period are calculated by using the terminal value method. Future cash flows are exposed to the risks that are discussed in section "Risks and uncertainties" in the Report by the Board of Directors.

The used discount rate in impairment testing is Weighted Average Cost of Capital (WACC) after tax defined for EB. WACC defines average costs of equity and debt by noticing the risks belonging to the each component. The components of WACC are risk-free interest rate, market risk premium, beta, cost of debt, corporate income tax rate and target capital structure.

The WACC used in the calculations was 12,59% in 2012 (12.59% in 2011). Other components in the WACC were estimated to be in line with the previous year's estimations.

In 2012 Wireless Business Segment did not reach the cash flow forecasted in the impairment test in 2011.

In 2012 Automotive Business Segment did not reach the cash flow forecasted in the impairment test in 2011. There has not happend any fundamental changes in the Automotive Segment Business environment that would make an impact to the cash flow expectations compared to the previous financial year.

The impairment test is done when needed, but at least once per year. Impairment tests made in December 2012 did not indicate need for impairment bookings. Recoverable amounts exceed significantly the book value of goodwill and other assets. The terminal value represents 68% of Wireless Business Segment's value and 61% in Automotive Business Segment's value.

Sensitivity analysis was also carried out during the impairment test. CGU's cash flow forecast was either decreased by 20% or the discount factor was increased by 5%. It was noticed that cash flows are relatively sensitive to decrease in turnover, because cost structure can not easily be adapted simultaneously with declining turnover. However, there are no expectations for impairment losses in the future.

Notes to the Consolidated Financial Statements

15. INVESTMENT PROPERTIES AND INVESTMENTS IN AN ASSOCIATES

The Group does not have any investment properties and Investments in an associates.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	2012 1000 EUR	2011 1000 EUR
At 1 January		
Additions	9 643	
Changes in fair-value	31	
Profits/losses in income statement		
At 31 December	9 674	

17. OTHER FINANCIAL ASSETS

At 1 January	134	155
Additions		25
Disposals	-3	-45
At 31 December	132	134

18. RECEIVBLES

At 1 January		250
Impairment		-250
At 31 December		0

19. DEFERRED TAX LIABILITIES AND ASSET

1000 EUR	Jan. 1, 2012	Recognized in the income statement	Recognized in equity	Translation difference	Acquisitions and disposals of subsidiaries	Dec. 31, 2012
Deferred tax assets						
Other items	78	868				947
Total	**78**	**868**	**0**	**0**	**0**	**947**
Non booked deferred tax receivables of loss-making domestic companies						15 285

Group has booked deferred tax receivables EUR 0,9 million of confirmed losses in Germany and Austria subsidiaries. Group had EUR 84.5 million (EUR 87.2 million December 31, 2011) of confirmed losses December 31, 2012 from which has not booked deferred tax receivable because group does not have confidence of point of time for future profits, tax treatment and in which company the profits will be generated. The losses will start aging from year 2016.

Deferred tax liabilities						
Allocated goodwill	488	-312				176
Other items	542	-43				499
Total	**1 030**	**-356**	**0**	**0**	**0**	**674**

1000 EUR	Jan. 1, 2011	Recognized in the income statement	Recognized in equity	Translation difference	Acquisitions and disposals of subsidiarie	Dec. 31, 2011
Deferred tax assets						
Other items	108	-30				78
Total	**108**	**-30**	**0**	**0**	**0**	**78**
Non booked deferred tax receivables of loss-making domestic companies						16 837

Group had EUR 87.2 million (EUR 89.0 million December 31, 2011) of confirmed and unconfirmed losses December 31, 2010 from which has not booked deferred tax receivable because group does not have confidence of point of time for future profits, tax treatment and in which company the profits will be generated. The losses will start aging from year 2016.

Deferred tax liabilities						
Allocated goodwill	959	-471				488
Other items	481	58	2			542
Total	**1 440**	**-412**	**2**	**0**	**0**	**1 030**

Notes to the Consolidated Financial Statements

20. INVENTORIES	2012 1000 EUR	2011 1000 EUR
Raw materials and supplies	47	516
Work in progress		
Finished products	65	1 066
Other inventories	269	214
Total	**381**	**1 797**

21. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables	54 453	44 866
Receivables from construction contracts	13 030	4 890
Prepaid expenses and accrued income	3 360	7 467
Other receivables	505	2 059
Total	**71 349**	**59 282**

Receivables are valued at nominal value or probable current value, whichever is lower. During the financial year group has booked impairment losses from accounts receivable EUR 1.3 million (EUR 0.0 million 2011). Further information, Notes to the Consolidated Financial Statements, 30. Financial Risk Management.

Age distribution of accounts receivable.		
Current	35 561	24 879
Aged Overdue Amounts		
0–3 months	18 873	9 967
4–6 months	19	429
7–12 months		
> 12 months		9 593
Total	**54 453**	**44 866**

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	2012 1000 EUR	2011 1000 EUR
Currency derivatives		
Balance sheet value on Jan. 1		36
Changes in fair-value		-36
Balance sheet value on Dec. 31		0

23. CASH AND SHORT-TERM DEPOSITS

	2012 1000 EUR	2011 1000 EUR
Cash and short-term deposits	5 827	9 954
Total	**5 827**	**9 954**
Cash and cash equivalents at consolidated cash flow statement consist of:		
Financial assets at fair value through profit or loss	9 676	
Cash and short-term deposits	5 827	9 954
Total	**15 503**	**9 954**

Fair value of cash and cash equivalents does not significantly differ from the carrying amount.

Notes to the Consolidated Financial Statements

24. ISSUED CAPITAL AND RESERVES

	Shares 1000 PCS	Share premium 1000 EUR	Premium fund 1000 EUR	Invested non-restricted equity fund	Total 1000 EUR
On December 31, 2010	129 413	12 941	0	38 697	51 638
On December 31, 2011	129 413	12 941	0	38 697	51 638
On December 31, 2012	129 413	12 941	0	38 697	51 638

Shares and the Share Capital

The shares of Elektrobit Corporation are listed on the NASDAQ OMX Helsinki Ltd. The Corporation has one series of shares. All the shares entitle their holders to dividends of equal value. Each share has one vote. The share does not have a nominal value. The company's shares have been entered into the Finnish Central Securities Depository Ltd's book-entry securities system.

At the end of the financial period, the fully paid share capital of the company entered into the Finnish Trade Register was EUR 12,941,269.00 and the total number of the shares was 129,412,690. The accounting per value of the company's share is EUR 0.10. The company is not in the possession of its own shares.

Translation differences

The translation reserve copmrises all foreign exhange differences arising from the transition of the financial statements of foreign subsidiaries.

Dividends

The Board of Directors proposes that the Annual General Meeting resolve to pay EUR 0.01 per share as dividend based on the adopted balance sheet for the financial period of January 1, 2012 - December 31, 2012.

25. SHARE-BASED PAYMENT PLANS

Stock Options

I. The Annual General Meeting held on March 17, 2005, decided to authorize the Board of Directors to issue option rights. By virtue of the authorization the Board of Directors granted 4,500,000 option rights to the company's management and EB's fully owned subsidiary serving as a reserve company in the stock option scheme. Subscriptions made by virtue of the 2005 option rights may increase the share capital of Elektrobit Corporation by a maximum of EUR 450,000 and the number of shares by a maximum of 4,500,000. The share subscription period for stock options 2005A shall be 1 April 2008–30 April 2010, for stock options 2005B 1 April 2009–30 April 2011, for stock options 2005C 1 April 2010–30 April 2012, and for stock options 2005D 1 April 2011–30 April 2013.

No subscriptions were made by the end of the share subscription period for stock options 2005A-C.

II. The Annual General Meeting held on March 15, 2006, decided that option rights with a commitment to shareholding be granted to Elektrobit Corporation's new directors. The number of option rights granted totals 1,750,000, of which 750,000 were granted to the Chairman of the Board and 1,000,000 were granted to the CEO. Subscriptions made by virtue of the said option rights might increase the share capital of Elektrobit Corporation by a maximum of EUR 175,000 and the number of shares by a maximum of 1,750,000 new shares. The share subscription period for stock options 2006A shall be 1 May 2009–31 May 2012. No subscriptions were made by the end of the share subscription period for stock options 2006A.

III. The Annual General Meeting of March 14, 2008, decided to issue stock options to EB's key personnel. The maximum number of stock options shall be 4,200,000, of which 1,400,000 shall be marked with the symbol 2008A, 1,400,000 shall be marked with the symbol 2008B and 1,400,000 shall be marked with the symbol 2008C. The stock options entitle to subscription of a maximum total of 4,200,000 new shares of the company or treasury shares. The proportion of the shares that can be subscribed using the stock options to be issued will be a maximum total of 3.1 per cent of the company's shares and associated voting rights after a possible share subscription, should new shares be issued in the subscription. The subscription price for the shares to be subscribed based on the stock options shall be based on the prevailing market value of the Elektrobit Corporation share at NASDAQ OMX Helsinki Ltd. in January 2009, January 2010 and January 2011. The subscription price will be recorded in the fund for invested unrestricted equity. The share subscription period for stock options 2008A shall be 1 April 2012–31 March 2014, for stock options 2008B 1 April 2013–31 March 2015, and for stock options 2008C 1 April 2014–31 March 2016.

Notes to the Consolidated Financial Statements

Share-option plan 2005B	Share-based options, granted to group management
Nature of arrangement	Granted share-options
Grant date	May 31, 2006
Number of instruments granted (1000 PCS)	1003
Exercise price, EUR	2.27
Share price at the grant date, EUR	2.34
Contractual life of the options (years)	5.0
Vesting conditions	
Settlement method	Shares
Expected volatility (%)	43%
Expected contractual life of the options (years)	5.0
Risk-free interest rate (%)	3.69%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year		1 003
Granted during the year		0
Forfeited during the year		0
Exercised during the year		0
Expired during the year		-1 003
Outstanding at the end of the year		0
Exercisable at the end of the year		0

Share-option plan 2005C Share-based options, granted to group management

Nature of arrangement	Granted share-options
Grant date	March 26, 2008
Number of instruments granted (1000 PCS)	60
Exercise price, EUR	2.14
Share price at the grant date, EUR	1.45
Contractual life of the options (years)	4.2

Vesting conditions	
Settlement method	Shares
Expected volatility (%)	46%
Expected contractual life of the options (years)	4.2
Risk-free interest rate (%)	2.70%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	60	60
Granted during the year		
Outstanding at the end of the year	-60	
Exercised during the year	0	60
Exercisable at the end of year		0

Notes to the Consolidated Financial Statements

Share-option plan 2005D	Share-based options, granted to group management
Nature of arrangement	Granted share-options
Grant date	March 26, 2008
Number of instruments granted (1000 PCS)	60
Exercise price, EUR	2.14
Share price at the grant date, EUR	1.45
Contractual life of the options (years)	4.2
Vesting conditions	
Settlement method	Shares
Expected volatility (%)	46%
Expected contractual life of the options (years)	4.2
Risk-free interest rate (%)	2.70%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	60	60
Granted during the year		
Outstanding at the end of the year		
Exercised during the year	60	60
Exercisable at the end of the year		0

Share-option plan 2006A	Share-based options, granted to group management
Nature of arrangement	Granted share-options
Grant date	March 15, 2006
Number of instruments granted (1000 PCS)	1750
Exercise price, EUR	2.12
Share price at the grant date, EUR	2.34
Contractual life of the options (years)	6.3
Vesting conditions	
Settlement method	Shares
Expected volatility (%)	44%
Expected contractual life of the options (years)	6.3
Risk-free interest rate (%)	3.34%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	1 750	1 750
Granted during the year	0	0
Forfeited during the year		
Exercised during the year	0	0
Expired during the year	-1 750	0
Outstanding at the end of the year	0	1 750
Exercisable at the end of the year		0

Notes to the Consolidated Financial Statements

Share-option plan 2008A	Share-based options, granted for key personnel
Nature of arrangement	Granted share-options
Grant date	August 14, 2009
Number of instruments granted (1000 PCS)	1168
Exercise price, EUR	0.19
Share price at the grant date, EUR	0.68
Contractual life of the options (years)	4.7
Vesting conditions	
Settlement method	Shares
Expected volatility (%)	43%
Expected contractual life of the options (years)	4.7
Risk-free interest rate (%)	2.65%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	1 074	1 088
Granted during the year	100	233
Forfeited during the year	-6	-246
Exercised during the year	0	0
Expired during the year	0	0
Outstanding at the end of the year	1 168	1 074
Exercisable at the end of the year	0	0

Share-option plan 2008B Share-based options, granted for key personnel

Nature of arrangement	Granted share-options
Grant date	May 31, 2010
Number of instruments granted (1000 PCS)	1134
Exercise price, EUR	0.85
Share price at the grant date, EUR	1.05
Contractual life of the options (years)	4.9

Vesting conditions	
Settlement method	Shares
Expected volatility (%)	44%
Expected contractual life of the options (years)	4.9
Risk-free interest rate (%)	2.65%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	1 139	1 282
Granted during the year		100
Forfeited during the year	-5	-243
Exercised during the year	0	0
Expired during the year	0	0
Outstanding at the end of the year	1 134	1 139
Exercisable at the end of the year	0	0

Notes to the Consolidated Financial Statements

Share-option plan 2008C	Share-based options, granted for key personnel
Nature of arrangement	Granted share-options
Grant date	August 19, 2011
Number of instruments granted (1000 PCS)	740
Exercise price, EUR	0.73
Share price at the grant date, EUR	0.56
Contractual life of the options (years)	4.7
Vesting conditions	
Settlement method	Shares
Expected volatility (%)	45%
Expected contractual life of the options (years)	4.7
Risk-free interest rate (%)	2.07%
Dividend yield (%)	0
Expected early exercise (at grant date)	0
Market conditions (at grant date)	
Fair-value of the options at the grant date	
Option pricing model	Black-Scholes

	Number of options 2012 1000 pcs	Number of options 2011 1000 pcs
Outstanding at the beginning of the year	775	
Granted during the year	0	775
Forfeited during the year	-35	0
Exercised during the year	0	0
Expired during the year	0	0
Outstanding at the end of the year	740	775
Exercisable at the end of the year	0	0

26. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

	2012 1000 EUR	2011 1000 EUR
Benefit pension plan liability consists of following items:		
Present value of funded obligations	2 233	1 340
Fair value of plan assets	-299	-286
Unrecognized actuarial gains (+) / losses (-)	-557	256
Net liability	**1 377**	**1 311**
Net periodic pension cost in income statement:		
Unrecognized net liability on Jan. 1		
Current service cost	42	67
Interest cost	76	73
Expected return on plan assets	-8	-8
Recognized net actuarial gains and losses	-7	0
Employee contributions		-6
Total	**103**	**126**
Balance sheet reconciliation:		
Net liability on Jan. 1	1 311	1 164
Net periodic pension cost in income statement	66	147
Net liability on Dec. 31	**1 377**	**1 311**
Principal actuarial assumptions:		
Europe		
Discount rate	3.60	5.70
Expected return on plan assets	3.60	2.80

27. PROVISIONS

1000 EUR	Provisions for reorganising operations	Unprofitable rental agreements	Others	Total
Dec. 31, 2011	328	599	594	1 521
Increase in provisions	474	1 005	496	1 975
Used provisions	-187	-98	-594	-880
Reversal of unused provisions				0
Dec. 31, 2012	615	1 506	496	2 617
Long-term provisions	57	402		459
Short-term provisions	558	1 103	496	2 158
Total	**615**	**1 506**	**496**	**2 617**

Notes to the Consolidated Financial Statements

28. FINANCIAL LIABILITIES	2012 1000 EUR	2011 1000 EUR
Non-current loans		
Bank loans	3 364	1 647
Finance lease liabilities	2 074	2 363
Total	**5 438**	**4 010**
Current loans		
Bank loans	9 000	
Finance lease liabilities	2 884	2 700
Repayments of long-term bank loans	1 007	2 296
Total	**12 890**	**4 996**
Repayment schedule of long-term loans:		
2013		2 942
2014	3 800	675
2015	569	108
2016	976	285
2017	84	
Later	9	
Total	**5 438**	**4 010**
The interest-bearing non-current loans are distributed by currency as follows:		
EUR	5 438	4 010
Total	**5 438**	**4 010**
The interest-bearing current loans are distributed by currency as follows:		
EUR	12 890	4 996
Total	12 890	4 996
Maturities of the finance lease liabilities:		
Finance lease liabilities –minimum lease payments	5 226	4 893
Within one year	3 027	2 458
After one year but no more than five years	2 190	2 435
After five years	9	
Finance lease liabilities –Present value of minimum lease payments	4 958	4 659
Within one year	2 880	2 292
After one year but no more than five years	2 069	2 367
After five years	9	
Future finance charges	268	234
Total amount of finance lease liabilities	5 226	4 893

29. TRADE AND OTHER PAYABLES

	2012 1000 EUR	2011 1000 EUR
Current liabilities		
Trade and other payables		
Trade liabilities	10 786	11 374
Accrued liabilities, deferred income	16 008	12 737
Other liabilities	19 582	10 823
Total	**46 375**	**34 934**
Material of accrued expenses and deferred income consist of personnel expenses and other accruals.		
Fair value of the other liabilities than derivatives don't significantly differ from the initial carrying value, because the impact on discounting is not significant when taking into account the maturities of the loans.		
Financial liabilities at fair value through profit or loss		
Liabilities based on derivates		
Balance sheet value on Jan. 1	335	
Changes in fair-value	-333	335
Balance sheet value on Dec. 31	**2**	**335**

Notes to the Consolidated Financial Statements

30. FINANCIAL RISK MANAGEMENT

Under its normal business activities, Elektrobit Corporation is exposed to several financial risks. The primary financial risks are foreign exchange rate risk, interest rate risk, investment risk and default risk. The goal of the Group's financial risk management function is to reduce adverse effects of price fluctuations and other uncertainties on earnings, balance sheet and cash flows as well as to ensure sufficient liquidity. In its risk management, the Group uses financial instruments such as forward exchange agreements, currency options and interest rate swaps. External professional portfolio managers are employed for investing activities.

The Group's general risk management principles are approved by the Board of Directors. The responsibility for their implementation lies with the parent company together with operational units. The parent company identifies and assesses risks and obtains relevant financial instruments for hedging them in close co-operation with operative units. The management evaluates risk concentrations from the viewpoint of business activities, taking into consideration shared factors between underlying variables such as those arising from changes in economic conditions or other variables. Operations and funding programs executed in the financial markets are mainly concentrated into the parent company. Subsidiaries are mainly funded through intra-company loans and group account overdraft credit limits.

The Group's financial risks are divided into market, default and liquidity risk.

Market risks

Market risks are caused by changes in foreign exchange rates, interest rates and prices of securities. Fluctuations in these may have an impact on the Group's income statement, cash flow or balance sheet.

Foreign exchange rate risk

The Group operates globally and is exposed to transaction risk from foreign exchange positions as well as to risk due to the translation of investments in different currencies to the functional currency of the parent company. The most relevant currencies for the Group are the Euro and the US dollar. Foreign exchange rate risk is caused by commercial activities, monetary items on the balance sheet and net investments in foreign subsidiaries. A business unit's functional currency or generally used currencies (EUR, USD) are used as invoicing currency. Additional information on functional currency and foreign currency conversion is available in the accounting principles section of the consolidated financial statements.

The Group follows a currency strategy that aims at securing the margin of business activities in changing market conditions by minimizing the effect of fluctuations in foreign exchange rates. According to the principles of the currency strategy, surely considered and the most probable net cash flow in a particular currency is hedged. The cash flow is defined based on the net position of the trade receivables, trade payables, order intake and forecasted net currency cash flow. The Group does not apply hedge accounting as defined in the IAS 39 standard. According to the currency strategy the degree of hedging can vary from approximately 25% to 125% of the forecasted net position. At the end of the financial period the counter value of the hedged net position was 7.0 million euros. During the financial year the amount of the hedged position has been changing between 2.5–12.3 million euros.

The Group has hedged the transaction risk related to its income statement and as a principal rule has not hedged the translation risk related to equity on the balance sheet. Foreign currencies denominated equities of foreign subsidiaries on December 31, 2012 was -0.7 million euros (EUR 2.3 million, in 2011) from which dollar denominated equities of foreign subsidiaries was -1.7 million euros (EUR -0.6 million, in 2011).

On the closing date, the Group had the following foreign exchange derivative contract nominal amounts outstanding (the nominal amounts do not represent the amounts exchanged by the parties):

Currency derivatives	2012 1000 EUR	2011 1000 EUR
Forward contracts		
Market value	7	-310
Nominal value	5 000	5 500
Currency options purchased		
Market value	12	101
Nominal value	2 000	4 300
Sold currency options		
Market value	-21	-126
Nominal value	2 000	8 600

Dollar denominated assets and liabilities translated to euros using the closing date's value:

	2012 1000 EUR	2011 1000 EUR
Long-term assets	514	492
Long-term liabilities	189	580
Current assets	14 144	21 868
Current liabilities	16 129	21 175

The table below describes the 10 % appreciation or depreciation of the Euro against the US dollar, other variables remaining constant. The sensitivity analysis is based on foreign currency denominated assets and liabilities as of the closing date. The change in dollar denominated trade receivables and debt would primarily have been due to fluctuations in the foreign exchange rate.

1000 EUR	**Changes in income statement before tax**		**Changes in equity before tax**	
	2012	2011	2012	2011
EUR, appreciates	200	-100	200	-100
EUR, depreciates	-200	100	-200	100

Interest rate risk

Part of the Group's debt is tied to fixed interest rates. Interest rate swaps are also utilized to an extent to reduce cash flow risk due to interest rate fluctuations. At closing date, the Group had the following fixed interest rate debts and interest rate swaps outstanding:

	2012 1000 EUR	2011 1000 EUR
Fixed interest rate debts	5 647	6 406
Interest rate swaps	1 400	2 600

The table below describes the interest rate risk of debts should there have been a +/- 1% change in interest rates of short term reference interest rate debts, other variables remaining constant. The figures presented indicate the change in yearly interest expense calculated using the average amount of debt during the financial period.

1000 EUR	**Changes in income statement before tax**		**Changes in equity before tax**	
	2012	2011	2012	2011
Loan stock January, 1	9 000	13 100		
Loan stock December, 31	18 300	9 000		
Average loan stock	13 700	11 100		
Change in interest	+/- 100	+/- 0	+/- 100	+/- 0

Notes to the Consolidated Financial Statements

Market risk of investment activities

The Group's money market investments result in interest rate exposure, but their effect is not considered significant. The Group's revenue and operative cash flows are mainly independent of market rate fluctuations.

The Group's investments to low-risk interest rate funds has not exposed security price risk due to fluctuations in the price of these securities. According to the Group's principles investments related to cash management are made in liquid and low-risk money market instruments and thus have not been hedged using derivatives.

The table below describes the distribution of investments in securities at closing date.

	2012	**2011**
Stock shares	0.0 %	0.0 %
Bonds	0.0 %	0.0 %
Money market investments	100.0 %	0.0 %
Total	100.0 %	0.0 %

The combined value of the above instruments during the financial period has ranged from EUR 0 to approximately EUR 9.7 million. At closing date their value was approximately EUR 9.7 million. This risk concentration has been managed by investing to well spread and low-risk money market funds.

The table below describes the price risk of the investments if they had exhibited a +/- 1 % change in a market rate of interest, other variables remaining constant. Financial assets that are recognized at market value in the income statement affect after-tax net income. Changes in the value of for-sale financial assets affect equity. In the calculations it is presumed that the Group's investments change with the interest rate level in question. The sensitivity analysis describes the total market risk of investment activity because all investments are in the interest rate instruments.

1000 EUR	**Changes in income statement before tax**		**Changes in equity before tax**	
	2012	2011	2012	2011
Money market investments	+/-0	+/-0	+/-0	+/-0

Default risk

EB's credit risks are mainly related to accounts receivable, cash, financial investments and derivatives used in hedging. In its' deposit, financial investment and hedging activities EB operates only with well-known partners who have good credit rating.

The Group's trade receivables are distributed among a wide customer base and across several geographical areas and credit risk is mitigated for example by documentary credits or bank guarantees. Default risk concentration is mainly assessed as a single customer's share of total trade receivables but also according to receivables date of maturity.

EB's significant default risk concentration is 0.1 million euros which represents approximately 0.2 % of the total accounts receivable.

During the past financial year the amount of recognized credit losses was approximately 1.3 million euros (EUR 0.0 million, in 2011). Group did not have capital loans granted to outside Group at the end of 2012 (EUR 0.0 million, in 2011).

The amount of the Group's counterparty default risk is consistent with the book value of financial assets at closing date. For the maturity distribution of trade receivables, see note 21.

Liquidity risk

The Group and business segments strive to continuously evaluate and monitor the amount of liquid funds needed for business operations and loan repayments The Group strives to guarantee the availability and flexibility of financing by its strong financial position and liquid investments. The Group's loan covenants are conventional in nature. The Group has also binding overdraft credit facility agreement of EUR 10 million and revolving credit facility agreement of EUR 10 million that are valid until mid 2014. EBITDA and equity ratio covenants are associated to the overdraft and revolving credit facility agreements. Covenants are reviewed half yearly. EBITDA covenant breaks if EB continuing and discontinuing operations EBITDA is lower than EUR 5.0 million. Breaking of the equity ratio covenant requires approximately 10 percentage weakening to equity ratio at date of the financial statements. At the end of the reporting period, EUR 2.3 million of overdraft credit facility and EUR 9.0 million of revolving credit facility was used.

For the maturity distribution of the Group's debt, see note 28.

Capital structure management

The Group strives to optimize its capital structure and thus support business activities by ensuring normal operating conditions under all circumstances. An optimal capital structure also ensures that the cost of capital is minimized.

The capital structure is affected by dividend policy and share issuance. The Group can alter and adjust dividends paid to shareholders as well as share repurchases. The Group can also alter and adjust the amount of shares issued, or make decisions on the sale of assets.

The management has continuously monitored the development of the Group's net gearing and solvency ratio. The Group's interest bearing net debt at the end of 2012 was EUR 2.8 million (EUR -0.9 million, in 2011) and net gearing was 4.1% (-1.4% in 2011). The Group's solvency ratio at the end of 2012 was 54.7% (62.8% in 2011).

Notes to the Consolidated Financial Statements

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

This section presents the Group's fair valuing principles for all financial instruments. The table below presents book values for each item in detail. Their fair values are not considered to materially differ from the book values presented in the consolidated balance sheets.

1000 EUR	Note	Book value 2012	Fair value 2012	Book value 2011	Fair value 2011
Financial assets					
Other financial assets		132	132	134	134
Trade receivables and other receivables	18, 21	71 349	71 349	59 282	59 282
Financial assets at fair value through profit or loss	17, 22	9 674	9 674		
Cash and cash equivalents	22	5 827	5 827	9 954	9 954
Currency forwards and options	22				
Financial liabilities					
Bank loans	28	13 370	13 384	4 347	4 394
Finance lease liabilities	28	4 958	4 958	4 659	4 659
Trade payables and other debts	26, 27, 29	54 624	54 624	37 766	37 766
Currency forwards and options	29	2	2	335	335

Investments in shares and funds and other investments

For-sale financial assets consist mainly of money market investments that fair values are based on the quotes of the closing day (IFRS 7 fair value hierarchy level 1; quoted prices (unadjusted) in active markets for identical assets or liabilities).

Derivatives

The fair values of forward exchange and option contracts are defined based on publicly quoted currency and interest rate information and using commonly accepted valuation methods (IFRS 7 fair value hierarchy level 2; instruments whose fair value is observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)). These calculations have been carried out by an outside professional party.

Bank loans

In assigning fair values for bank loans, the cash flows have been discounted. Interest rate swaps are considered when the cash flows are defined.

Finance lease liabilities

Book values are considered to closely approximate fair values.

Trade receivables and other receivables

The original book value of receivables is considered to equal their fair values, since the effect of discounting is non-significant considering the maturities of the receivables.

Trade payables and other debts

The original book value of payables and other debts is considered to equal their fair values, since the effect of discounting is non-significant considering the maturities of the receivables.

31. DERIVATE CONTRACTS AND HEDGE ACCOUNTING

The Group does not apply the hedge accounting defined by IAS 39 -standard.

32. ADJUSTMENTS TO NET CASH FROM OPERATING ACTIVITIES	2012 1000 EUR	2011 1000 EUR
Business transactions without payments		
Depreciations	7 606	8 717
Employee benefits	373	422
Profit and loss from sale of property, plant and equipment		
Other adjustments	886	-3 042
Total	**8 865**	**6 096**

33. OPERATING LEASE AGREEMENTS

The Group as lessee

The total of future minimum lease payments under non-cancelable operating leases for each of the following periods:	2012 1000 EUR	2011 1000 EUR
Not later than one year	7 023	6 879
Later than one year and not later than five years	16 188	16 335
Later than five years	0	1 565

The Group has rented most of its facilities. In average the maturities of the lease agreements are from 1 month to 10 years and normally they include an option to extend the rental period from originally agreed end date.

The Group as lessor

The Group has leased the excess office and production facilities with lease agreements valid until further notice.

Notes to the Consolidated Financial Statements

34. SECURITIES AND CONTINGENT LIABILITIES	2012 1000 EUR	2011 1000 EUR
Against own liabilities		
Floating charges	18 119	11 419
Guarantees	17 674	22 659
Rental liabilities		
Falling due in the next year	7 023	6 879
Falling due after one year	16 188	17 900
Other contractual liabilities		
Falling due in the next year	1 286	2 479
Falling due after one year	33	
Mortgages are pledged for liabilities totalled		
Loans from financial institutions	14 529	4 100
Other liabilities	2	244

35. RELATED PARTY DISCLOSURES

The Group has the following structure:	Country of incorporation	Owned by Parent %	Owned by Group %
Parent			
Elektrobit Corporation	Finland		
Subsidiaries			
Elektrobit Technologies Ltd.	Finland	100.00	100.00
Elektrobit Wireless Communications Ltd.	Finland	0.00	100.00
Elektrobit System Test Ltd.	Finland	0.00	100.00
Elektrobit Wireless UK Ltd.	Great Britain	100.00	100.00
Elektrobit France SAS	France	0.00	100.00
Elektrobit Automotive GmbH	Germany	100.00	100.00
Elektrobit Austria GmbH	Austria	0.00	100.00
Elektrobit Inc.	USA	0.00	100.00
Elektrobit Automotive Inc.	USA	0.00	100.00
Elektrobit Nippon KK	Japan	0.00	100.00
Elektrobit Wireless (Beijing) Ltd.	China	0.00	100.00
e.solutions GmbH	Germany	0.00	51.00
Elektrobit Automotive Software (Shanghai) Ltd.	China	0.00	100.00
Elektrobit Automotive Romania SRL	Rumania	0.00	100.00

	2012 1000 EUR	2011 1000 EUR
Employee benefits for key management		
Salaries and remuneration		
Managing director of the parent		
Jukka Harju 1.1.-31.12.2012 ja 1.1.-31.12.2011	290	287
Total	**290**	**287**
Remuneration of the members of the board of the parent, the financial		
committee and the managing directors of the business segments		
Jorma Halonen 1.1.-31.12.2012 and 1.1.-31.12.2011	35	34
Kai Hilden 11.10.-31.12.2012	3	
Juha Hulkko 1.1.-31.12.2012 and 1.1.-31.12.2011	33	24
Seppo Laine 1.1.-31.12.2012 and 1.1.-31.12.2011	56	52
Staffan Simberg 1.1.-31.12.2012 and 1.1.-31.12.2011	40	35
Erkki Veikkolainen 1.1.-31.12.2012 and 1.1.-31.12.2011	33	33
Total	**200**	**178**
There have not been any business transactions or open balances between the related parties.		
Members of the group executive board	**714**	**996**
Loans and guarantees to related party		
There are no loans or guarantees granted between the related parties		
Stock option expenses	**92**	**108**

36. SUBSEQUENT EVENTS

Elektrobit Corporation (”EB”) and Anite plc (”Anite”) signed an agreement on 28 of January 2013, under the terms of which EB agreed to sell its Test Tools product business to Anite. 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 provides radio channel emulation tools and testing solutions for the development of the wireless technologies and is a part of the EB’s Wireless Business Segment employing a total of 54 persons in Finland, USA and China.

More information: Notes to the financial statements number 2.

37. KEY RATIOS	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
INCOME STATEMENT, (MEUR)					
Net sales, (MEUR) **)	185.4	148.0	147.7	153.8	172.3
Net sales change, %	25.3	0.3	-4.0	-10.7	0.0
Operating profit/loss, (MEUR) **)	2.5	-5.5	-17.3	-1.4	-42.7
% of net sales	1.3	-3.7	-11.7	-0.9	-24.8
Profit/loss for continuing operations before taxes, (MEUR)	2.0	-5.9	-18.7	-2.0	-47.4
% of net sales	1.1	-4.0	-12.6	-1.3	-27.5
Profit for the year from continuing operations, (MEUR)	2.1	-6.5	-15.7	-3.3	-49.8
% of net sales	1.1	-4.4	-10.7	-2.2	-28.9
Profit after tax for the year from discontinued operations, (MEUR)	1.2	1.5	0.1	1.3	0.3
% of net sales	0.6	1.0	0.1	0.9	0.2
Profit for the year attributalble to equity holders of the parent, (MEUR)	2.3	-5.3	-16.1	-2.2	-49.5
% of net sales	1.2	-3.6	-10.9	-1.4	-28.7
BALANCE SHEET (MEUR)					
Non-current assets	47.8	44.1	41.2	39.4	46.7
Inventories	0.4	1.8	1.9	2.4	3.3
Current assets	86.9	69.2	81.1	118.4	130.5
Assets classified as held for sale	7.7				
Shareholders' equity	69.1	67.0	71.8	112.8	115.1
Non-current liabilities	7.9	6.9	11.6	15.0	19.7
Current liabilities	61.2	41.3	40.7	32.4	45.7
Liabilities classified as held for sale	4.5				
Balance sheet total	142.7	115.1	124.2	160.2	180.5
PROFITABILITY AND OTHER KEY FIGURES					
Return on equity % (ROE) **)	3.1	-9.4	-17.1	-2.9	-35.5
Return on investment % (ROI) **)	3.4	-6.6	-16.6	-0.8	-26.2
Interest-bearing net liabilities, (MEUR)	2.8	-0.9	-7.4	-42.4	-46.2
Net gearing, %	4.1	-1.4	-10.3	-37.6	-40.2
Equity ratio, %	54.7	62.8	62.4	71.5	64.9
Gross investments, (MEUR) **)	12.2	12.4	10.7	4.0	9.8
Gross investments, % of net sales	6.6	7.7	6.6	2.6	5.7
R&D costs, (MEUR) **)	22.2	22.1	21.6	14.7	37.9
R&D costs, % of net sales	12.0	15.0	13.3	9.6	22.0
Average personnel during the period **)	1713	1553	1507	1589	1768

**) Continuing operations. Excluding Test Tools income statements from years 2012, 2011, 2010.

Notes to the Consolidated Financial Statements

STOCK-RELATED FINANCIAL RATIOS	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
Earnings per share from continuing operations, EUR					
Basic earnings per share	0.01	-0.05	-0.13	-0.03	-0.38
Diluted earnings per share	0.01	-0.05	-0.12	-0.03	-0.38
Earnings per share from discontinued operations, EUR					
Basic earnings per share	0.01	0.01	0,00	0,01	0,00
Diluted earnings per share	0.01	0.01	0,00	0,01	0,00
Earnings per share from continuing and discontinued operations, EUR					
Basic earnings per shar	0.02	-0.04	-0.12	-0.02	-0.38
Diluted earnings per share	0.02	-0.04	-0.12	-0.02	-0.38
Equity per share, EUR	0.51	0.51	0.55	0.87	0.89
Dividend per share EUR *)	0.01				
Dividend per earnings, %	57.1				
P/E ratio	77.8	-9.2	-5.4	-34.5	-0.9
Effective dividend yield, %	1.5				
Market values of shares (EUR)					
Highest	0.79	0.76	1.25	1.40	1.79
Lowest	0.38	0.36	0.66	0.33	0.29
Average	0.64	0.55	0.92	0.62	0.82
At the end of period	0.65	0.38	0.67	0.94	0.33
Market value of the stock, (MEUR)	84.1	49.2	86.7	121.6	42.7
Trading value of shares					
MEUR	6.9	5.0	16.8	11.1	9.6
1000 PCS	10 750	9 169	18 190	17 822	11 770
Related to average number of shares %	8.3	7.1	14.1	13.8	9.1
Adjusted number of the shares at the end of the period (1000 PCS)	129 413	129 413	129 413	129 413	129 413
Adjusted number of the shares average during the period (1000 PCS)	129 413	129 413	129 413	129 413	129 413
Adjusted number of the shares average for the period diluted with stock options (1000 PCS)	130 238	130 051	130 277	129 580	129 413

*) According to the Board of Director’s proposal, year 2012.

CALCULATION OF KEY RATIOS

Return on equity % (ROE)	=	$\dfrac{\text{Profit for the year x 100}}{\text{Total equity (average for the accounting period)}}$
Return on investment % (ROI)	=	$\dfrac{\text{Profit before tax + interest and other financial expenses x 100}}{\text{Balance sheet total - interest-free liabilities (average for the accounting period)}}$
Net gearing, %	=	$\dfrac{\text{Interest-bearing liabilities - cash and deposits and short-term investments x 100}}{\text{Total equity}}$
Equity ratio, %	=	$\dfrac{\text{Total equity x 100}}{\text{Balance sheet total - advances received}}$
Earnings per share	=	$\dfrac{\text{Profit attributable to equity holders of the parent}}{\text{Share issue adjusted number of the shares average for the period}}$
Equity per share	=	$\dfrac{\text{Equity attributable to equity holders of the parent}}{\text{Share issue adjusted number of the shares at the end of the period}}$
Dividend per share	=	$\dfrac{\text{Dividend for the period (Board's proposal) per share}}{\text{Adjustment coefficient of post-fiscal share issues}}$
Dividend per earnings, %	=	$\dfrac{\text{Dividend per share x 100}}{\text{Earnings per share}}$
P/E ratio	=	$\dfrac{\text{Share issue adjusted share price at the end of the period}}{\text{Earnings per share}}$
Effective dividend yield, %	=	$\dfrac{\text{Dividend per share x 100}}{\text{Share issue adjusted share price at the end of the period}}$

Notes to the Consolidated Financial Statements

38. SHAREHOLDINGS AND SHARES

Breakdown of Shares by Shareholding, December 31, 2012

Number of shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares and votes
1–100	10 515	46.0	498 562	0.4
101–500	6 473	28.3	1 699 485	1.3
501–1000	2 311	10.1	1 821 362	1.4
1001–5000	2 608	11.4	6 180 063	4.8
5001–10000	469	2.1	3 584 467	2.8
10001–50000	352	1.5	8 015 213	6.2
50001–100000	71	0.3	5 199 689	4.0
100001–500000	51	0.2	13 551 888	10.5
500001–999999999999	21	0.1	88 861 961	68.7
Total	**22 871**	**100.0**	**129 412 690**	**100.0**
Nominee-registered	10		1 900 607	1.5

Breakdown of Shareholders by Shareholder Type, December 31, 2012

Shareholdes by shareholder type	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares and votes
Companys	764	3.3	23 508 861	18.2%
Financial and insurance corporations	13	0.1	3 388 273	2.6%
Public body	3	0.0	500 560	0.4%
Non-profit Institutions	54	0.2	1 009 495	0.8%
Housing corporations	21 925	95.9	96 124 529	74.3%
Foreign countries	102	0.4	2 980 365	2.3%
Nominee-registered shares	10	0.0	1 900 607	1.5%
Total	**22 871**	**100.0**	**129 412 690**	**100.0%**

Largest Shareholders, December 31, 2012	Number of shares	Percentage of shares and votes
Number of shares total	**129 412 690**	**100.0**
1. Hulkko Juha, Member of the Board	27 214 362	21.0
2. Hilden Kai	10 831 316	8.4
3. Veikkolainen Erkki, Member of the Board	9 388 719	7.3
4. Harju Jukka, CEO*	7 644 630	5.9
5. Halonen Eero	7 518 900	5.8
6. Fortel Invest Oy	7 205 497	5.6
7. Vakuutusosakeyhtiö Henki-Fennia	3 371 449	2.6
8. Mariatorp Oy	2 800 000	2.2
9. Laine Seppo, Chairman of the Board**	2 220 051	1.7
10. Wipunen varainhallinta Oy	1 650 000	1.3
Total	**79 844 924**	**61.7**
Others (including nominee-registered)	49 567 766	38.3

The Board and CEO		
Juha Hulkko, Member of the Board	27 214 362	21.0
Veikkolainen Erkki, Member of the Board	9 388 719	7.3
Harju Jukka, CEO*	7 644 630	5.9
Laine Seppo, Chairman of the Board**	2 220 051	1.7
Simberg Staffan, Member of the Board***	450 000	0.3
Halonen Jorma, Member of the Board	21 000	0.0
Total	**46 938 762**	**36.3**

* Including the shareholdings of company controlled by Jukka Harju.
** Including the shareholdings of a company controlled by Seppo Laine.
*** Including the shareholdings of a company controlled by Staffan Simberg.

Income Statement, Parent

	NOTES	2012 1000 EUR	2011 1000 EUR
NET SALES	1, 2	**1 032**	**5 051**
Other operating income	3	537	796
Raw materials and services		- 2	- 56
Personnel expenses	4	-1 172	-2 857
Depreciation and reduction in value	5	- 51	- 314
Other operating expenses	6	- 978	-3 837
OPERATING PROFIT		**- 633**	**-1 216**
Financial income and expenses	7	515	420
PROFIT BEFORE EXTRAORDINARY ITEMS		**- 118**	**- 796**
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		**- 118**	**- 796**
Income tax	8	- 1	- 16
NET PROFIT FOR THE FINANCIAL YEAR		**- 119**	**- 813**

Balance Sheet, Parent

	NOTES	2012 1000 EUR	2011 1000 EUR
Assets			
Non-current assets			
Intangible assets	9	160	186
Tangible assets	10	73	86
Investments	11	98 479	98 479
Non-current assets total		98 713	98 751
Current assets			
Receivables			
Non-current receivables	12	0	10
Current receivables	13	26 970	20 299
Receivables total		26 970	20 309
Cash and bank deposits		9 764	5 857
Current assets total		**36 734**	**26 166**
Total Assets		**135 447**	**124 917**
Shareholders' Equity And Liabilities			
Shareholder's equity	14		
Share capital		12 941	12 941
Invested non-restricted equity fund		38 697	38 697
Retained earnings		65 785	66 597
Net profit for the year		- 119	- 813
Shareholders' equity total		117 304	117 423
Liabilities	15		
Non-current liabilities		2 281	
Current liabilities		15 863	7 494
Liabilities total		18 143	7 494
Shareholders' Equity And Liabilities Total		**135 447**	**124 917**

Cash Flow, Parent

	2012 1000 EUR	2011 1000 EUR
Cash Flow From Operating Activities		
Profit before extraordinary items	- 118	- 796
Adjustments:		
Depreciation according to plan	51	314
Financial income and expenses	- 515	- 420
Cash flow before change in net working capital	- 583	- 902
Change in net working capital		
Change in interest-free short-term receivables	- 258	- 226
Change in interest-free short-term payables	-1 268	- 719
Cash flow before financing activities	-2 109	-1 847
Interest paid	- 609	- 985
Interest received	776	1 776
Income taxes paid	- 1	- 16
Net cash from operating activities	**-1 944**	**-1 073**

	2012 1000 EUR	2011 1000 EUR
Cash Flow From Investing Activities		
Purchase of tangible and intangible assets	- 12	- 14
Purchase of investments		-23 000
Proceeds from repayments of loans		3 048
Net cash used in investing activities	- 12	-19 966
Cash Flow From Financial Activities		
Proceeds from borrowing	11 281	
Change in interest-free short-term receivables in Group	-6 413	10 109
Change in interest-free short-term payables in Group Dividends paid	996	1 634
Net cash used in financial activities	5 863	11 743
Net Change In Cash And Cash Equivalents	**3 907**	**-9 296**
Cash and cash equivalents at beginning of period	5 857	15 153
Cash and cash equivalents at end of period	9 764	5 857
Change in cash and cash equivalents in balance sheet	3 907	-9 296

Accounting Principles for the Preparation of Financial Statements of the Parent Company

The financial statements have been prepared in accordance with the Finnish Accounting Act.

Valuation Principles

Valuation of Non-current Assets

Non-current assets are capitalized in the balance sheet at the original acquisition cost deducted by accumulated depreciation. Depreciations according to the plan is calculated either using the straight-line method or the reducing balance method, taking into consideration of the useful life of assets.

The depreciation periods are:

Intangible assets	3-10 years
Tangible assets	3-5 years

Valuation of Financial Securities

Financial securities are valued at fair value. The fair value of forward exchange are defined based on forward exchange prices on balance sheet date and option contracts are defined based on market prices on balance sheet date.

Pensions

Company has organized pension coverage for its personnel through independent pension insurance companies. The pension insurance expenditures are included into personnel expenses.

Leasing Agreements

Leasing agreements and fixed-term rental agreements are reported as contingent liabilities off the balance sheet.

Income Tax

Taxes of the financial year have been reported in the income statement as income taxes. Deferred tax or liabilities or receivables has not been recorded on the financial statement.

Foreign Currency Items

The transactions in the income statement have been converted into euro using the exchange rate of the transaction date. Receivables and payables denominated in foreign currency have been converted into euro by using the exchange rate of the European Central Bank at the balance sheet date.

Net Sales

Sales of goods is recorded when goods have been handed over to the customer or the services have been rendered. Sales are shown net of indirect sales taxes and discounts.

Notes to the Financial Statements of the Parent Company

	2012 1000 EUR	2011 1000 EUR
1. NET SALES BY SEGMENTS		
Common functions	1 032	5 051
Total	**1 032**	**5 051**
2. NET SALES BY MARKET AREAS		
Europe	968	4 912
America	54	67
Asia	10	72
Total	**1 032**	**5 051**
3. OTHER OPERATING INCOME		
Other operating income	537	796
Total	**537**	**796**
4. NUMBER OF PERSONNEL AND PERSONNEL EXPENSES		
Average number of personnel during the fiscal period		
Common functions	10	43
Total	**10**	**43**
Number of personnel at year end	10	41
Personnel expenses		
Management salaries	290	287
Board of directors	138	168
Other salaries and wages	575	1 932
Total	1 003	2 388
Pension expenses	144	410
Other social expenses	25	59
Total	**1 172**	**2 857**
5. DEPRECIATION AND REDUCTION IN VALUE		
Intangible rights	29	27
Other capitalized long-term expenditures	7	193
Machinery and equipment	15	93
Total	**51**	**314**

Notes to the Financial Statements of the Parent Company

	2012 1000 EUR	2011 1000 EUR
6. OTHER OPERATING CHARGES		
IT equipment and SW expenses	172	2 208
Premises expenses	43	315
Administrative services	289	48
Travel expenses	88	150
Voluntary staff expenses	18	172
Other business expenses	368	944
Total	**978**	**3 837**
Auditors charges		
Auditing	27	27
Tax advice		9
Other services	29	4
Total	**56**	**40**
7. FINANCIAL INCOME AND EXPENSES		
Income from investments		
From Group companies		
From others	31	102
Total	**31**	**102**
Other interest and financial income		
From Group companies	577	586
From others	540	1 088
Total	**1 117**	**1 674**
Other interest and financial expenses		
To Group companies	0	- 8
To others	- 632	-1 348
Total	**- 632**	**-1 356**
Reduction in value of investment	0	0
Net financial income and expenses	**515**	**420**
Net financial income and expenses includes exchange gains and losses	132	- 291
8. INCOME TAX		
Other direct taxes	- 1	- 16
Total	**- 1**	**- 16**

9. INTANGIBLE ASSETS

	2012 1000 EUR	2011 1000 EUR
Intangible rights		
Acquisition cost Jan. 1	276	262
Investments during the period	10	14
Acquisition cost Dec. 31	286	276
Accumulated depreciations Jan. 1	- 101	- 74
Depreciation for the period	- 29	- 27
Book value Dec. 31	156	175
Other capitalized long-term expenditures		
Acquisition cost Jan. 1	1 383	1 383
Acquisition cost Dec. 31	1 383	1 383
Accumulated depreciations Jan. 1	-1 371	-1 178
Depreciation for the period	- 7	- 193
Book value Dec. 31	4	12
Intangible assets total		
Acquisition cost Jan. 1	1 658	1 644
Investments during the period	10	14
Acquisition cost Dec. 31	1 668	1 658
Accumulated depreciations Jan. 1	-1 472	-1 252
Depreciation for the period	- 36	- 220
Book value Dec. 31	160	186

Notes to the Financial Statements of the Parent Company

	2012 1000 EUR	2011 1000 EUR
10. TANGIBLE ASSETS		
Machinery and equipment		
Acquisition cost Jan. 1	353	387
Investments during the period	2	
Acquisition cost Dec. 31	355	387
Accumulated depreciations Jan. 1	- 338	- 279
Depreciation for the period	- 15	- 93
Book value Dec. 31	2	14
Other tangible assets		
Acquisition cost Jan. 1	71	71
Acquisition cost Dec. 31	71	71
Book value Dec. 31	71	71
Tangible assets total		
Acquisition cost Jan. 1	424	458
Investments during the period	2	0
Acquisition cost Dec. 31	426	458
Accumulated depreciations Jan. 1	- 338	- 279
Depreciation for the period	- 15	- 93
Book value Dec. 31	73	86

11. INVESTMENTS

Investments in subsidiaries		
Acquisition cost Jan. 1	98 470	75 470
Investments during the period		23 000
Acquisition cost Dec. 31	98 470	98 470
Investments in other shares		
Acquisition cost Jan. 1	9	9
Acquisition cost Dec. 31	9	9
Investments total		
Acquisition cost Jan. 1	98 479	75 480
Investments during the period		23 000
Acquisition cost Dec. 31	98 479	98 479

12. NON-CURRENT RECEIVABLES

Loan receivables		
From Group companies		10
Total		**10**
Long-term receivables total		**10**

	2012 1000 EUR	2011 1000 EUR
13. CURRENT RECEIVABLES		
Accounts receivable		
From Group companies	1 810	1 364
From others		50
Total	**1 810**	**1 414**
Other receivables		
From Group companies	25 008	18 595
From others	13	53
Total	**25 021**	**18 648**
Prepaid expenses and accrued income		
From Group companies	34	6
From others	105	231
Total	**139**	**237**
Short-term receivables total	**26 970**	**20 299**
14. SHAREHOLDERS' EQUITY		
Share capital at the beginning of the period	12 941	12 941
Share capital at the end of the period	**12 941**	**12 941**
Invested unrestricted equity fund at the beginning of the period	38 697	38 697
Invested unrestricted equity fund at the end of the period	**38 697**	**38 697**
Retained earnings at the beginning of period	65 785	66 597
Net profit for the financial year	- 119	- 813
Retained earnings at the end of period	**65 666**	**65 785**
Distributable earnings at the end of the period	104 362	104 482
Shareholders' equity total	**117 304**	**117 423**

Notes to the Financial Statements of the Parent Company

	2012 1000 EUR	2011 1000 EUR
15. LIABILITIES		
Non-current		
Non-current loans		
Loans from financial institutions	2 281	
Total	**2 281**	**0**
Non-current liabilities total	2 281	0
Current liabilities		
Current loans		
Loans from financial institutions	9 000	
Total	**9 000**	**0**
Accounts payable		
To Group companies	57	8
To others	139	331
Total	**195**	**338**
Other short-term liabilities		
To Group companies	6 399	5 354
To others	79	1 036
Total	**6 478**	**6 391**
Accrued expenses and deferred income		
To others	189	766
Total	**189**	**766**
Current liabilities total	**15 863**	**7 494**
16. SECURITIES AND CONTINGENT LIABILITIES		
On behalf of Group companies		
Guarantees	12 810	14 702
Against own liabilities		
Floating charges	10 000	5 000
Leasing liabilities		
Falling due in the next year	2 582	1 741
Falling due after one year	1 089	1 734
Rental liabilities		
Falling due in the next year	21	204
Contractual liablities		
Falling due in the next year	1 160	2 141
17. NOMINAL VALUE OF CURRENCY DERIVATES		
Foreign exchange forwards		
Market value	7	- 335
Nominal value	5 000	5 500
Options		
Currency options purchased		
Market value	12	101
Nominal value	2 000	4 300
Sold options		
Market value	- 22	- 126
Nominal value	2 000	8 600

18. SHARES AND HOLDINGS

	Owned by Parent %	Owned by Group %	Book value 1000 EUR
Subsidiaries			
Elektrobit Wireless UK Ltd.	100.00	100.00	0
Elektrobit Technologies Ltd.	100.00	100.00	58 749
Elektrobit Automotive GmbH	100.00	100.00	39 721
Other holdings by Parent			
Oulun Golf Oy			8
Oulu ICT Oy			1

Auditor's Report

To the Annual General Meeting of Elektrobit Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Elektrobit Oyj for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.
Oulu, February 18, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

Elektrobit

Elektrobit (EB) / Tutkijantie 8, FI-90590 Oulu, Finland / T. +358 40 344 2000 / F. +358 8 343 032 / www.elektrobit.com