



EB, Elektrobit Corporation  
Interim Report January-September 2011

CEO Jukka Harju  
November 1, 2011

# Forward-looking Statements

Some statements made in this material relating to future circumstances or status, including, without limitation, future performance of the company, expectations regarding market growth, trend projections as well as any statements preceded by the words “expect”, “believe”, “foresee” or similar expressions are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty and actual results may, therefore, differ materially from the results that are expressed or implied by these forward-looking statements. Elektrobit Corporation disclaims all obligations to update such forward-looking statements except as required by mandatory law.



# Agenda



- Highlights and Financial Performance in 3Q 2011 and in January-September 2011
- Business Segments in 3Q 2011
- Outlook for 2H 2011
- Q&A

# Major Events during 3Q 2011

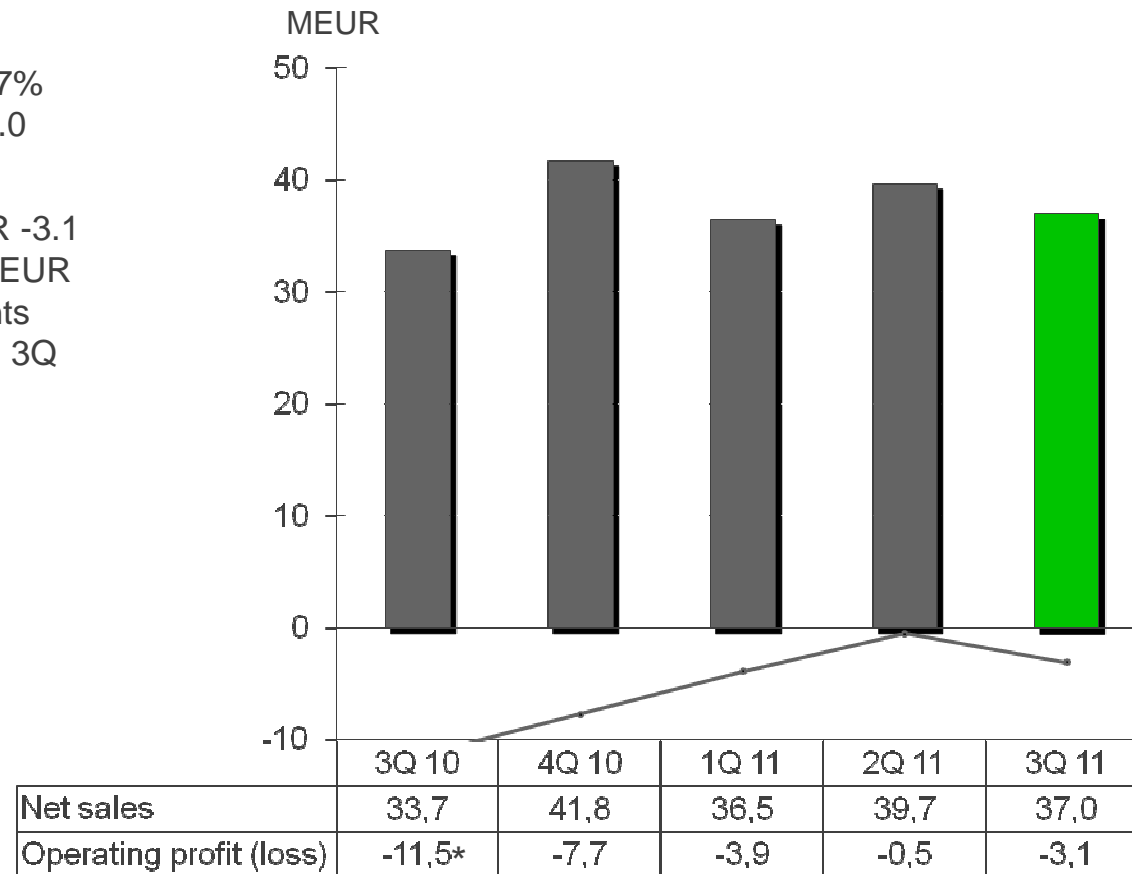
- Net sales increased from previous year
- Operating result was negative



- EB's net sales increased compared to 3Q 2010.
  - Strong growth continued in the Automotive Business Segment
  - Net sales of the Wireless Business Segment was almost at the same level as in 3Q 10
- EB's operating result was negative
  - lower than expected operating result in both Business Segments
- Operating result and net sales were expectedly lower than in 2Q due to the seasonality of EB's business and holiday period during 3Q
- EB continued strong R&D investments

# Net Sales Increased in 3Q from Previous Year and Operating Result Was Negative

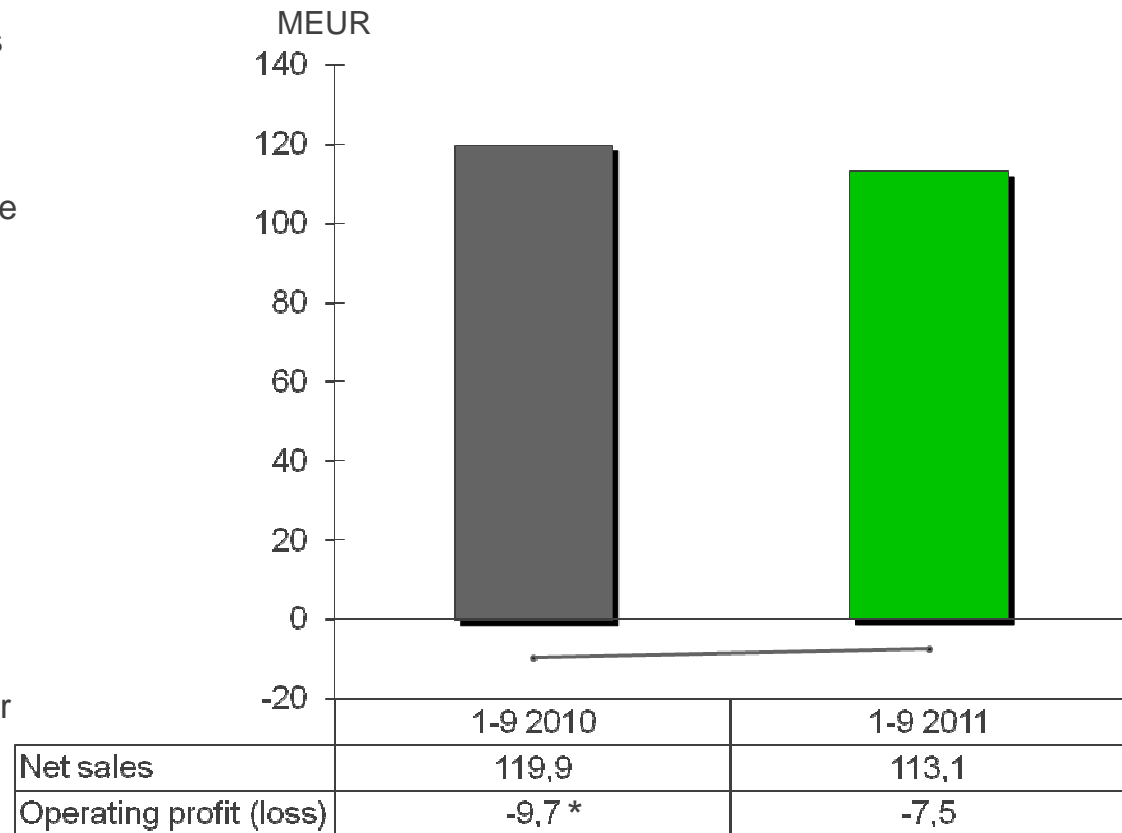
- Net sales increased by 9.7% year-on year to MEUR 37.0 (MEUR 33.7, 3Q 2010)
- Operating loss was MEUR -3.1 (MEUR -11.5, including MEUR 8.3 impairment of accounts receivable from TerreStar, 3Q 2010)



\*) Operating result 3Q 2010 includes the impairment of accounts receivable from TerreStar of MEUR 8.3

# Jan-Sep 2011 Net Sales Decreased Slightly and Operating Result Was Clearly Negative

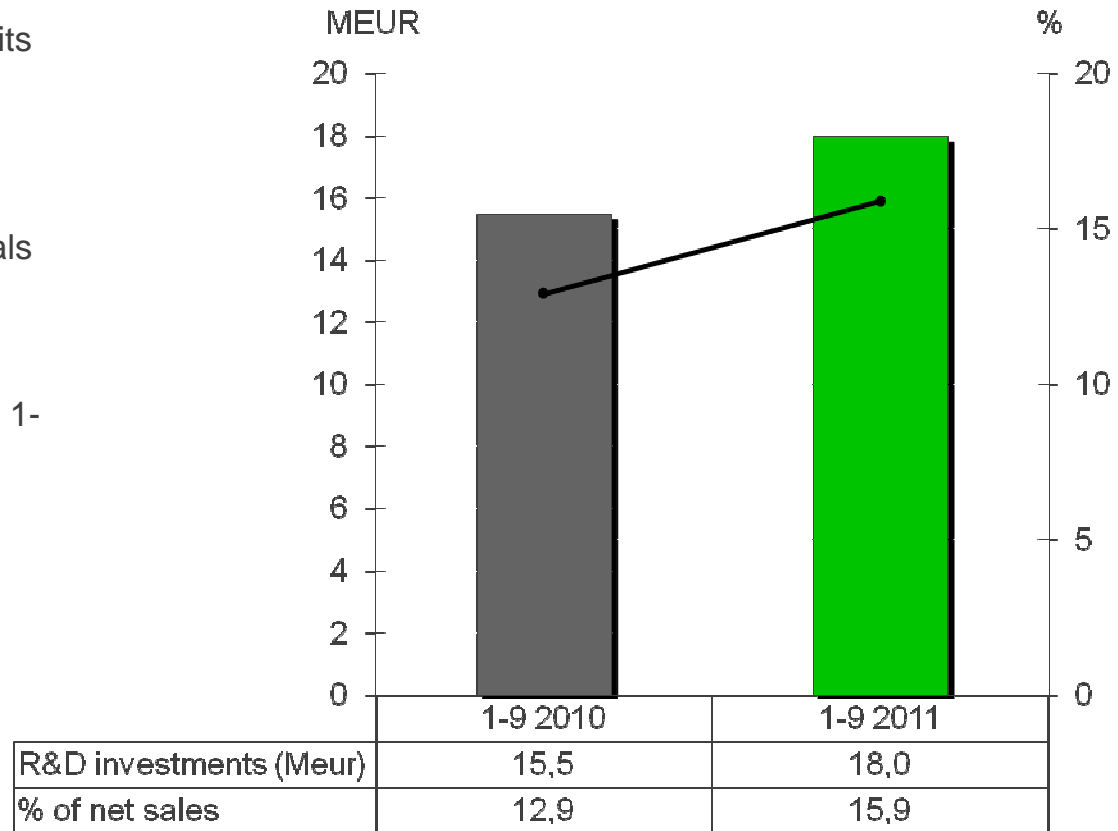
- Slight 5.7 % decrease in net sales year-on-year
- Operating loss was MEUR -7.5
  - Operating loss of Automotive Business Segment was MEUR -1.3
  - Operating loss of Wireless Business Segment was MEUR -6.1
- Improving the profitability remains our main short term target
- Both Segments have a good opportunity to clearly improve their profitability during the 4Q 2011



\*) Operating result 1-9 2010 includes the impairment of accounts receivable from TerreStar of MEUR 8.3

# R&D Investments Were 15.9 % of Net Sales in January-September 2011

- During 1-9 2011 EB continued its R&D investments in the automotive software products and tools, the radio channel emulation products and in the next generation special terminals product platforms
- R&D investments in 1-9 2011 were MEUR 18.0 (MEUR 15.5, 1-9 2010) equaling 15.9 % of the net sales (12.9 %, 1-9 2010)
- MEUR 4.9 were capitalized (MEUR 3.3, 1-9 2010)



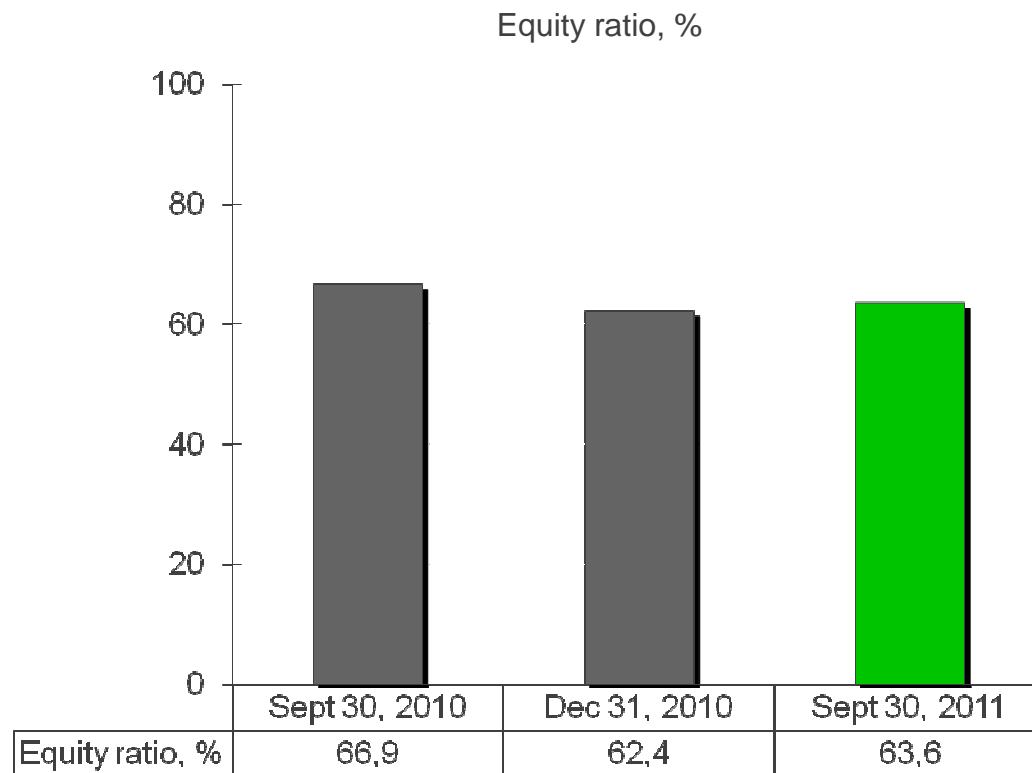
# Operating Cash Flow in 1-9 2011 Was Slightly Negative

MEUR	1-9 2011	1-9 2010	Jan. - Dec. 2010
- net profit +/- adjustment of accrual basis items	-3.4	+6.7	+1.8
- change in net working capital	-1.4	+3.7	+3.5
- interests, taxes, and dividends	+3.0	-4.1	-3.8
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>-1.8</b>	<b>+6.3</b>	<b>+1.5</b>
- net cash from investing activities	-7.4	-5.0	-7.9
- net cash from financing activities	-4.1	-30.6	-32.1
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-13.3</b>	<b>-29.2</b>	<b>-38.5</b>

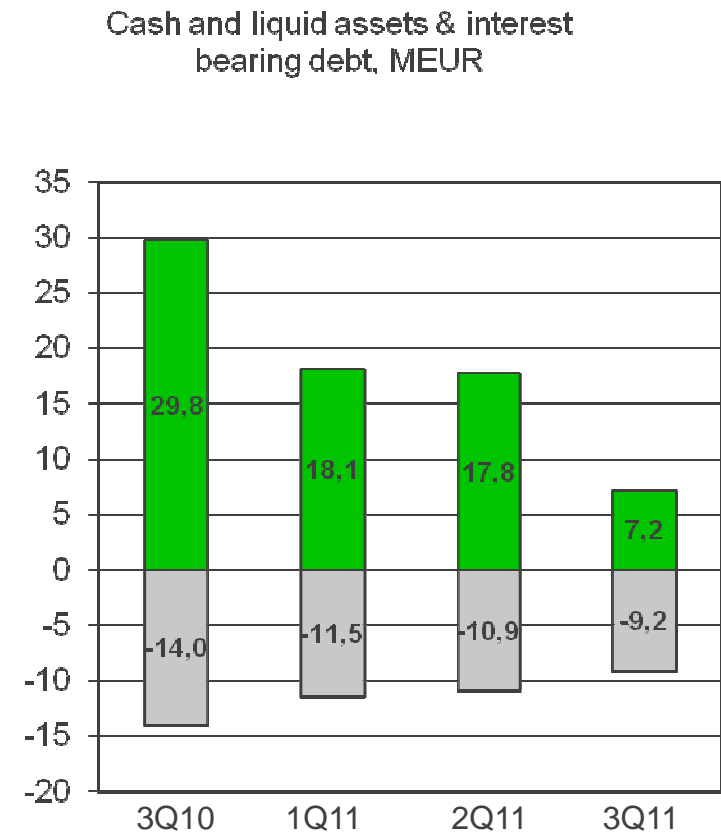
- Cash flow from operating activities amounted to EUR -1.8 million (EUR 6.3 million in 1-9 2010).



# Balance Sheet Remained Strong



- Equity ratio remained at a high level



- Net debt of MEUR 1.9

■ Cash and liquid assets    ■ Interest bearing debt



# Major Events during 3Q 2011

## - Automotive Business Segment

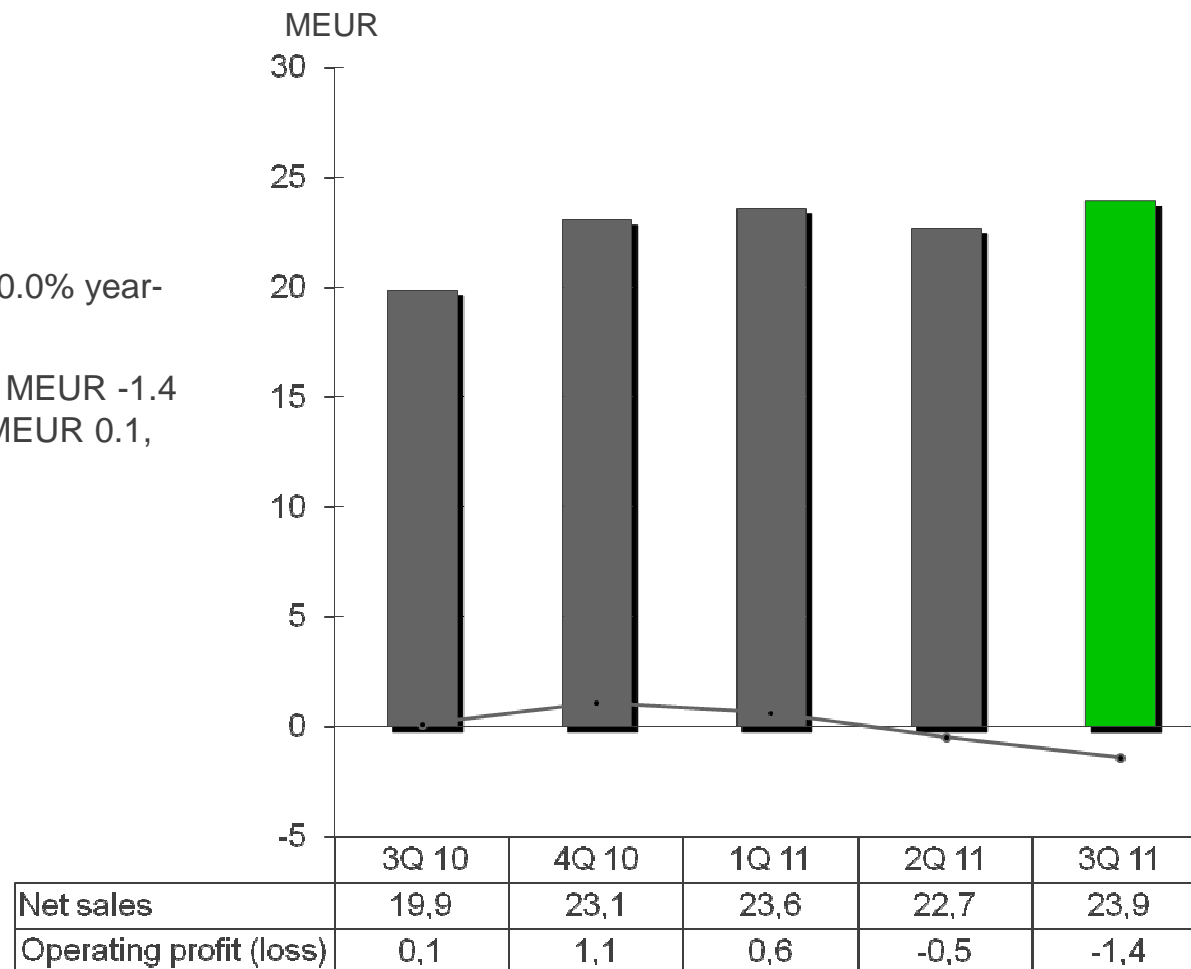


- Strong growth of net sales continued.
- Operating result was negative due to higher than expected project expenses.
- Solid overall market demand continued for EB's services and own automotive grade software products adapted and integrated to the customer specific requirements.
- EB continued to grow during the third quarter in the Infotainment, Driver Assistance and ECU (Electronic Control Unit) software markets.
- As the first company to deliver a compliant software stack according to BMW requirements, EB introduced the production ready software development toolset supporting Autosar 4.0 standard to the automotive industry.
- EB appointed Mr. Alexander Kocher (M.Sc., Electrical Engineering), 50, as the President of the Automotive Business Segment and Managing Director of Elektrobit Automotive GmbH as of November 1, 2011.

# Automotive Business Segment

- Strong growth in net sales continued

- Net sales grew by 20.0% year-on-year
- Operating loss was MEUR -1.4 (operating profit of MEUR 0.1, 3Q 2010)



# Automotive Market Outlook

The share of electronics and software in cars has grown significantly during the past years and the trend is expected to continue.



- The estimated annual automotive software market long-term growth rate is approx. 15% (Frost & Sullivan).
  - The expected underlying annual growth rate of the world automotive market is about 6% during 2010-2015 (CSM).
  - Growing software complexity and richness of features as consumers expect the same kind of user experience as in internet and mobile devices.
  - Gradual separation of software and hardware
  - Increasing use of standard software solutions
- *Cost pressures of the industry are expected to accelerate the need of productized, efficient software solutions EB is offering.*
- *The dependency of EB's net sales on the car production volumes is expected to increase in the coming years.*

# Major Events during 3Q 2011

## - Wireless Business Segment

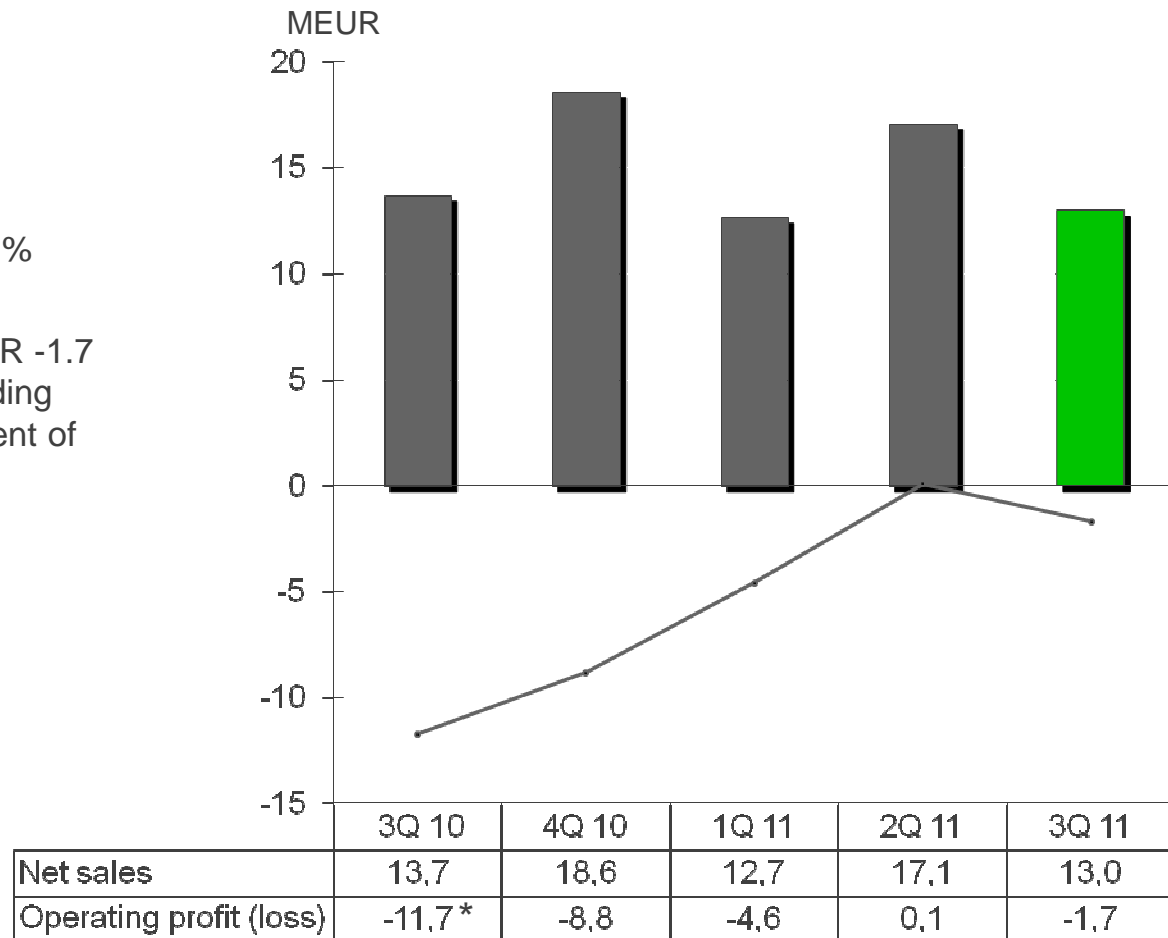


- Net sales in the Wireless Business Segment was almost at the same level as in 3Q 2010.
- Operating result was lower than expected due to the delays in the customer projects.
- As expected, both operating result and net sales in 3Q were lower than in 2Q due to the seasonality of EB's business and holiday period during the 3Q.
- The demand remained good in the security, defence and mobile infrastructure markets as well as in the radio channel test tool market.
- EB announced an Android-based mobile platform designed for public safety and defence markets, as well as three products targeted to the defence market.
- EB and Finnish Defence Forces announced an agreement where Finnish Defence Forces will take EB's tactical wireless IP network into use.
- R&D investments for the radio channel test tools and the new special terminal product platform were continued.

# Wireless Business Segment

-Net sales was almost at the same level as in 3Q 2010

- Net sales decreased 4.8 % year-on-year
- Operating loss was MEUR -1.7 (EUR -11.7 million, including EUR 8.3 million impairment of accounts receivable from TerreStar).



\*) Operating result 3Q 2010 includes the impairment of accounts receivable from TerreStar of MEUR 8.3



# Wireless Market Outlook

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



## Smart phone and mobile infrastructure markets

- Increasing use of **LTE radio technology** creates needs to develop new mobile infrastructure products.
- Growth of **smart phones volumes** and changes in **software architectures and platforms** continue. Smart phones related R&D services market is still challenging and the outsourced R&D market is expected to decrease in future. OEMs are expected to **continue utilizing outsourcing for their R&D flexibility**.
- *continuing opportunities for EB's broad technology and integration capabilities.*

## Defense, security and mobile satellite communications markets

- The mobile satellite communication service industry is introducing **new data and mobile communication services**. The demand for products and services for **the satellite-terrestrial services market is expected to develop slowly**.
- The market for **communications, interference and intelligence solutions** targeted for public authorities is estimated to **remain stable** and to be increasingly **based on commercial technologies, such as LTE** in the future.
- *EB's competence and long experience of software radio based solutions is expected to bring new business opportunities.*

## Radio channel testing tools market

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

# Outlook for the Second Half of 2011

During the second half of 2011 EB's net sales in the Automotive Business Segment is expected to continue to grow, and the Wireless Business Segment's net sales is expected to increase due to the increased demand.



- EB expects net sales in the second half of 2011 will be higher than in the second half of 2010 (MEUR 75.6).
- EB expects a positive operating result for the second half of 2011 (MEUR -19.2, 2H 2010).
- Due to the seasonality of EB's business and due to the holiday period during the third quarter, the net sales and operating result in the fourth quarter are expected to be clearly higher than in the third quarter of 2011.
- The profit outlook for the second half of 2011 is based on the assumption that there will be no further bookings of impairments of EB's accounts receivables from TerreStar Networks Inc. and TerreStar Corporation. It is possible that, based on later information related to reorganizations of TerreStar Networks and TerreStar Corporation, this outlook may need to be reconsidered. Due to the uncertainties related to the outcome of reorganization processes of TerreStar Networks and TerreStar Corporation, the credit risk may still grow during the second half of 2011.





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