



General Report
Ericsson Nikola Tesla Group





ANNUAL REPORT ON GROUP PERFORMANCE

Dear shareholders,

in this report, I will focus on the contribution of Ericsson Nikola Tesla Group to the vision of the Networked Society, the situation on the domestic and export markets, key performance indicators and strategic direction.

OUR CONTRIBUTION TO THE VISION OF THE NETWORKED SOCIETY

Information and communications technologies rapidly create new possibilities, and the global process of networking, which has already begun, takes us into the Networked Society of the future. The Networked Society positively impacts people's lives, business and society, and empowers every individual and every industry to reach their full potential. In such circumstances, ICT sector is recognized as the accelerator of national economies growth, increase of economic competitiveness, export activities and sustainable development.

Ericsson Nikola Tesla actively contributes to the global technological development and drives change through innovative ICT products, services and solutions. The key factor of sustainable development is the collaboration and mutual trust of all stakeholders involved (customers/partners, employees, society, shareholders). Respecting the high standards set in all activities and processes, and a new way of thinking, encourages and opens new perspectives and new strategic partnerships.

BUSINESS SITUATION IN MAJOR MARKETS

Ericsson Nikola Tesla business results in 2014 show a continuous stable business performance. Sales revenues decreased by 2 percent year-over-year. Ericsson market records a significant increase in sales



Photo: Mara Bratoš

revenues, while the revenues are stable in the domestic market, thus neutralizing the revenue decrease in CIS and Southeast Europe markets. We have maintained our position among the Croatian leading exporters, especially when it comes to the export of knowledge/services.

A significant part of our activities relates to research and development and professional services in Ericsson market. This business segment records a continuous growth, and accounts for 48 percent of sales revenues. In 2014, our Research and Development Center was highly evaluated in comparison to other Research and Development Centers in the Ericsson Group. The evaluation of the collaboration so far, and the results achieved, represents an excellent foundation for further partnership, expanding responsibilities and sales growth. During 2014, we employed 174 new professionals, primarily in this segment.

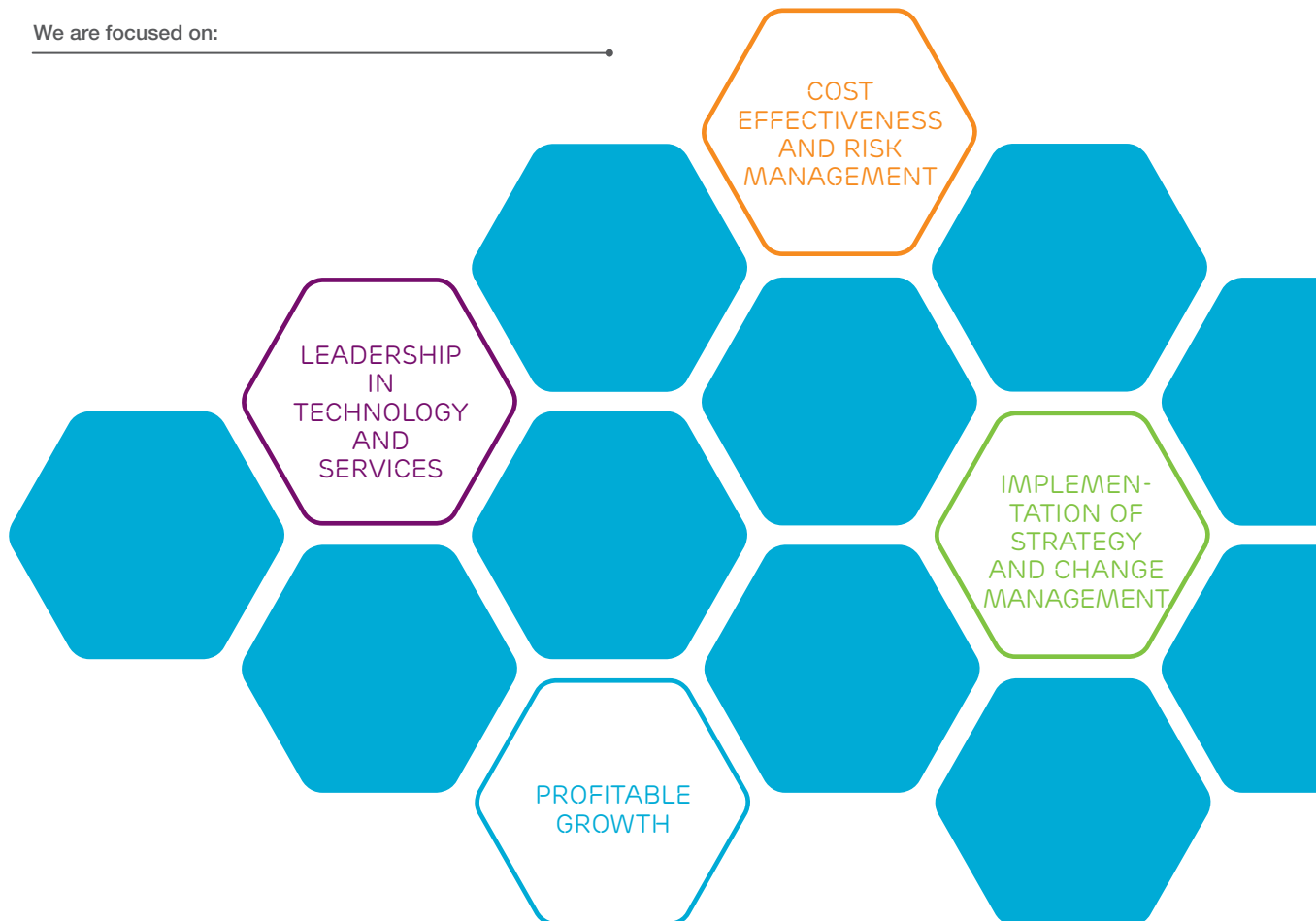
In the domestic market, a stable sales trend was achieved, despite an unfavorable economic situation. The operators' capital expenditures were focused on core networks modernization and optimization, 3G and 4G radio access network expansion, fixed access network modernization, as well as investments in additional radio spectrum. The operators' focus on increased efficiency in business performance indicates a trend of outsourcing build and maintenance of telecommunications network (managed services).

As one of the main activities in 2014, I would like to highlight the successfully completed negotiations with Hrvatski Telekom (HT) on collaboration in managed services segment. Ericsson Nikola Tesla Servisi d.o.o. (EHR), a newly founded Ericsson Nikola Tesla d.d. subsidiary, provides maintenance of HT fixed and mobile network. After the transfer of 638 employees from HT to the newly established company, Ericsson Nikola Tesla Group now employs 2,500 employees.

During 2014, a successful collaboration with the strategic partner Vipnet continued, primarily in the segment of mobile telecom network expansion and modernization, including the fourth generation of mobile networks (LTE). Vipnet and Ericsson Nikola Tesla are the winners of the Global Telecom Business Innovation Award 2014 for introducing PSI coverage energy efficient solution in the radio access network segment.

In ICT solutions for Industry & Society segment, I would also like to highlight activities on upgrading the national ICT healthcare system. Ericsson Nikola Tesla experts completed the migration of the Central Healthcare Information System of the Republic of Croatia (CEZIH) to a new system software that will enable a faster and an easier integration of all applications related to eHealth system. Furthermore, we completed the One Stop Shop project for the Joint Information System of Land Registry and Cadaster, financed by the European Union IPA Programme.

We are focused on:



Despite unfavorable economic and political developments in our major export markets, we have managed to recognize new business opportunities. I would like to highlight the continued quality collaboration with the customers in Bosnia and Herzegovina market, in the segment of upgrading fixed and mobile networks, the transformation of Operations Support Systems (OSS) and in the services segment. In 2014, we continued with the activities on projects of modernization and build of mobile network in Belarus with our longtime customer Velcom.

Considering the demanding market environment, operational risks, that marked the previous years, are still present.

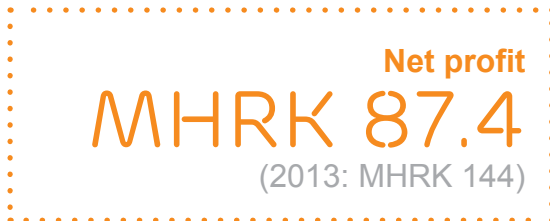
By assessing Ericsson Nikola Tesla Group operational risks, I here list the following:

- > The impact of negative economic developments on the demand and prices of our products and services
- > Dependence on telecom market trends (number of subscribers, the use of new services)
- > Industry consolidation
- > Strong competition and the entry of new IT companies in the telecommunications market
- > Continuation of political uncertainty in some markets.

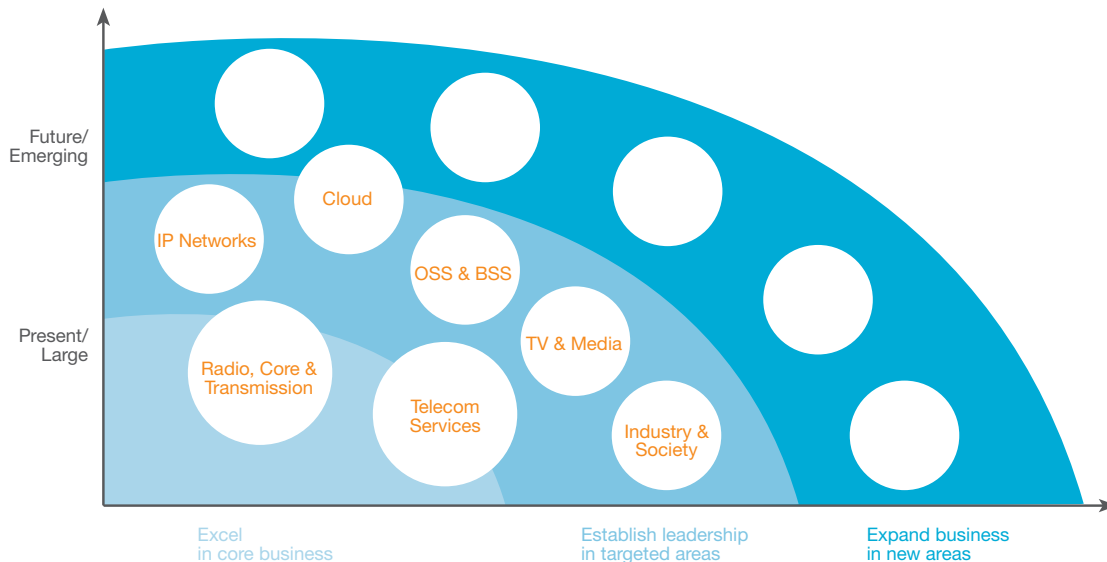
KEY PERFORMANCE INDICATORS

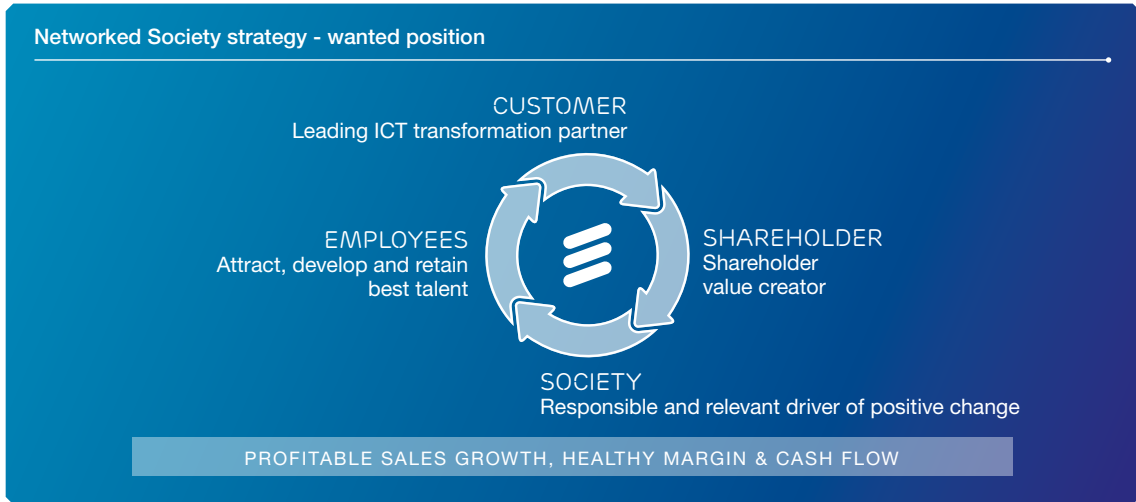
Net profit amounting to MHRK 87.4 was realized, representing 6.6 percent return on sales. The gross margin of 13.7 percent decreased year-over-year, as a result of

Key performance indicators



Strategic direction





change in business mix of products and services, and continuous price pressure. The selling and administrative expenses decreased year-over year. We adhered to business and financial goals, focused on improving working capital, cash conversion and risk management. Pursuant to that, we finalized the year with a solid balance sheet and strong cash flow from operating activities.

In 2014, the annual Employee Engagement Survey (Dialog) confirmed the Company's motivating culture and strong employee engagement. Furthermore, the annual Customer Satisfaction Survey confirmed a high level of satisfaction among our main customers/partners.

Sustainability and corporate responsibility remained in focus during 2014. We focused our efforts on projects in telecom segment and Industry & Society segment (such as eHealth, eGovernment, eUtilities, traffic information systems) where we can make the biggest contribution to positive economic, environmental and social growth.

STRATEGIC DIRECTION

Ericsson Nikola Tesla is focused on further strengthening our position in four areas of interest. We want to be the leading ICT transformation partner for our customers, recognized as a company that attracts, develops and retains talented employees, leads and drives positive changes in the society and creates value for shareholders. Our Networked Society strategy builds on a combination of excelling in our core business (Radio, Core and Transmission, Telecom Services) and establishing leadership in targeted growth areas (IP Networks, Cloud, TV & Media, Operations Support Systems - OSS and Business Support Systems - BSS, and selected areas in the Industry & Society segment). We have initiated several strategic initiatives for 2015, focused on business development in all markets and

improvement of profitability through cost efficiency and business excellence. We have established a model of strong compliance between innovative ideas and strategic initiatives, with the aim of business growth and improvement of ways of working.

Our Industry long-term foundations remain attractive, and with the constant adjustment to technological, market and competitive conditions, we are well positioned to further support our customers in their transformation processes.

All other data, which are required to be an integral part of the annual company report, pursuant to Article 250a of the Companies Act, can be found in the enclosed Annual Report 2014, comprising of the General Report, Social Report and Consolidated Financial Statements as at 31 December 2014.

Gordana Kovačević
President
Ericsson Nikola Tesla d.d.



BUSINESS RESPONSIBILITIES AND ACTIVITIES

Ericsson Nikola Tesla Group is a leading regional provider of ICT solutions that through innovative approach and thought leadership drives opportunities and profitable sales growth. It creates new value, together with its customers by combining technology leadership, excellence in services, regional presence and e2e abilities.

Ericsson Nikola Tesla Group core business activities include the following:

- > Research and development
- > e2e communications solutions
- > Local, regional and global service delivery
- > ICT solutions in Industry & Society segment
- > Marketing and sales network.

Ericsson Nikola Tesla Group:

- > Provides innovative ICT solutions that improve people's lives and create new value for both business and society
- > Encourages the prosperity of its environment by ensuring an access to modern information and communications systems and technologies
- > Operates in the area of advanced technologies, and plays an active role in e-projects
- > Is among leading exporters in Croatia, and the number one when it comes to exporting knowledge
- > Provides services regarding build, upgrade and maintenance of the network infrastructure
- > Provides modern test environment with a range of innovative solutions that enable testing the networks of the most significant global operators, with the minimum of energy consumption.



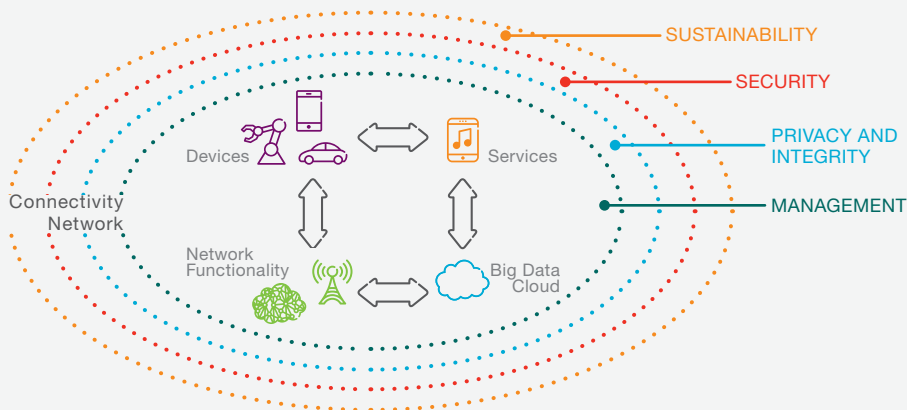
PRODUCTS AND SERVICES

Ericsson Nikola Tesla Group provides its customers and partners a complete portfolio of Ericsson/3PP communications products, solutions and services in the following segments:

- > High performance networks
- > Services focused on network evolution and efficient management

- > Solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- > Strong support to Ericsson's vision of the Networked Society by delivering solutions for selected Industry & Society segments and M2M solutions.

Technology fundamentals in the Networked Society





SALES AND MARKETING

Ericsson Nikola Tesla Group realized sales revenues amounting to MHRK 1,314.9. In total sales revenues, the domestic market accounts for 25.4 percent, services to Ericsson account for 47.7 percent, while other export markets account for 26.9 percent.

DOMESTIC MARKET

In the domestic market, a total of MHRK 333.8 sales revenues was realized, 2 percent decrease year-over-year.

During 2014, successful collaboration was continued with strategic partner Vipnet, primarily through the expansion and modernization of mobile telecom network and testing new functionalities that contribute to the increased quality and new services for end users. The upgrade and modernization of package core network and the upgrade of IMS system were successfully finished, which opens numerous possibilities for introducing new convergent solutions.

Business collaboration with Hrvatski Telekom (HT) continued through a number of strategic projects of network and services development. An important project started, regarding introducing international DT IMS technology center that will provide services to other operators of DT Group in the region. Business collaboration with HT in Q4 was marked by a successful continuation of implementation of MPLS (Multi-Protocol Label Switching) architecture in core and access IP network. In addition, the service of build and maintenance of telecommunications infrastructure was successfully delivered.

With mobile operator Tele2, the collaboration continued on introducing new functionalities and increasing the capacity of the existing core network, which allowed the operator to efficiently introduce new networked society services. In addition, the activities continued on further improving the access network, with a special emphasis on speed increase and new functionality of mobile broadband Internet access.

In the area of ICT solutions for the business segment of Industry & Society, main activities regarded the projects of upgrading the national ICT system regarding the healthcare informatization, informatization of land registry and cadaster administration and upgrade and expansion of communications infrastructure of municipal and transport enterprises. At the end of 2014, several contracts were signed, regarding the further informatization of business processes in eHealth. We would like to highlight the project "mHealth", as one of the first commercial projects with the aim to monitor chronic patients' health. A new modern integration platform for Central Healthcare Information System of the Republic of Croatia (CEZIH) was also delivered, which will enable a faster and an easier integration of all the applications related to the eHealth system and ensure the highest level of authorization and authentication within the system.

EXPORT MARKETS

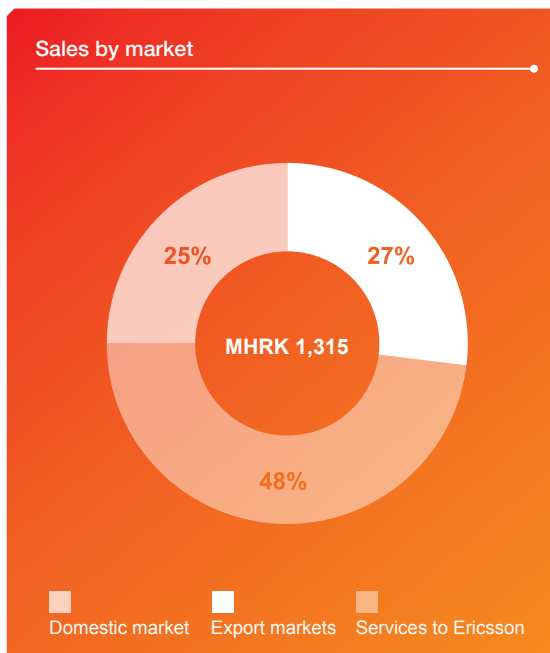
In export markets (except for Ericsson market) sales revenues amount to MHRK 353.1, a decrease by 19 percent year-over-year. The long-term presence of political and economic uncertainty in many foreign markets has impacted the decrease in operators' investments.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenues decreased by 19 percent year-over-year, and amount to MHRK 207.5.

In Bosnia and Herzegovina market, the collaboration was continued with operators BH Telecom and HT Mostar in providing support services, upgrade and expansion of mobile and fixed networks. In Q4, a contract was signed with the long-term partner, BH Telecom, on 2G radio network expansion and multimedia upgrade, by which prerequisites are realized for M2M communication.

In Kosovo market, the collaboration on expanding Ipko mobile network continued, and in Montenegro with Crnogorski Telekom.

In CIS market, sales revenues amounted to MHRK 145.5, a decrease by 19 percent year-over-year. The activities on projects of mobile networks modernization and build with several key customers are ongoing.



SERVICES TO ERICSSON

The services to Ericsson amounted to MHRK 628, an increase by 10.4 percent year-over-year.

Ericsson Nikola Tesla Research and Development Center (R&D) successfully continues its growth and development by expanding its portfolio and responsibilities at the global level. At the end of 2014, new deals have been agreed, regarding cloud computing, i.e. verification deals for new Ericsson cloud platform.

In accordance with the plans, the teams working on user data management have been expanded. At the end of 2014, 150th node of the latest Centralized User Database (CUDB) product generation was released to commercial operation in the global market. Our Center experts participated in its development and the implementation support.

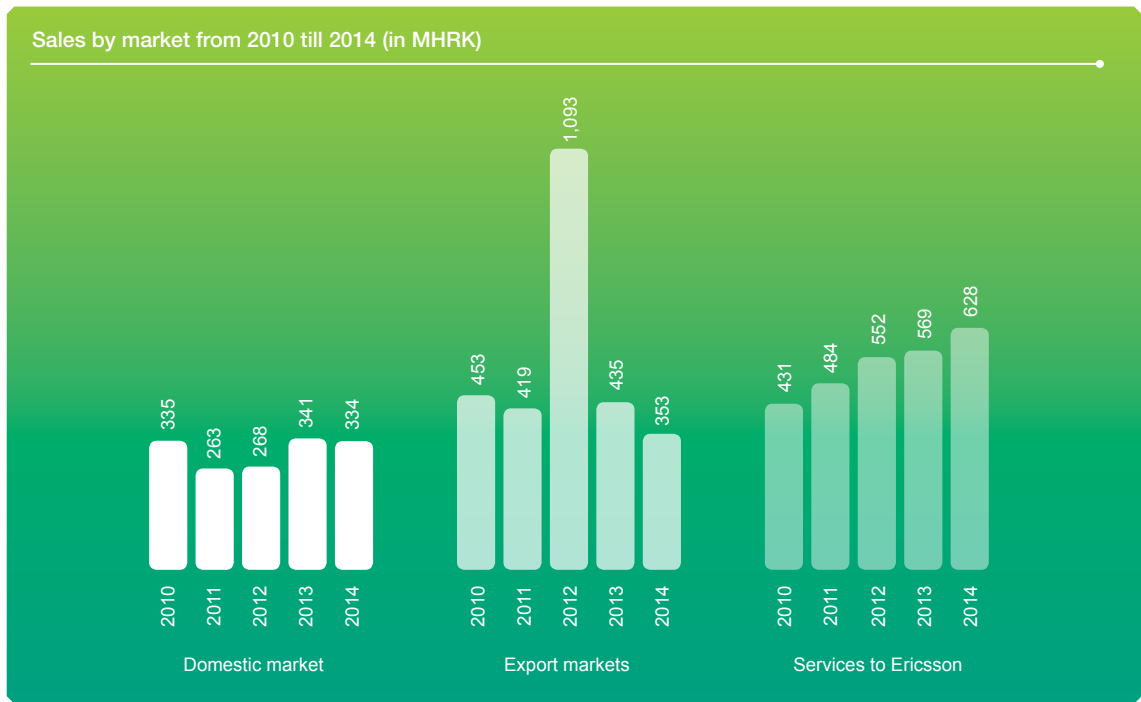
Also, the Radio Platform Development Unit expanded its work scope in the segment of new generation base station development.

Our global and regional centers show excellent results. In fixed core networks segment, where we have the global responsibility for development, implementation and support, we would like to highlight several successful projects for A1 Austria, Etisalat Egypt, and the continued cooperation on projects for Telia Sonera, France Telecom, Eircom Ireland, Telefonica Spain and Telenor Norway.

The experts of regional center for services and solutions have been engaged in numerous projects worldwide. We

can highlight the activities related to IP RAN project for A1 Austria, IPTV project for A1 Austria, Telenor Sweden and Vodafone Ireland, 2G “swap” project for A1 Austria, VoLTE projects for Deutsche Telekom, Vodafone Great Britain and Vodafone Netherlands, LTE Broadcast for Vodafone Germany, IMS “Pasau” program for Deutsche Telekom, network optimization projects for Mobistar Belgium and British Telecom network modernization. In addition, the Center experts have been providing consulting services and services of configuration and dimensioning for A1 Austria, Deutsche Telekom, KPN Netherlands, Magyar Telekom Hungary, MCCI Iran, MTN Iran, MTN Nigeria, MTN Sudan, Mobilink Pakistan, Mobily Saudi Arabia, Mosaic Ireland, O2 Great Britain, STC Saudi Saudi Arabia, Slovak Telekom, Telefonica Great Britain, Telekom Slovenije, Turkcell Turkey, Vodafone Netherlands, Vodafone Germany and Zain Sudan.

The Global Competence Center experts are working on the realization of several strategically important projects. The Center is the leader of Deep Dive Partnership program for deep scanning of mobile network performance for Ericsson key customers. It is also the leader of Ericsson Customer Experience Management program. This is a service development project with the aim to improve the perception of end users while using mass social services (Facebook, Twitter, WhatsApp...), for which the Croatian team was also assigned the responsibility of the primary global center for service delivery. The software tool, Smart Rollout Support, for network optimization, developed in our global center, was successfully implemented worldwide.





SCIENTIFIC AND RESEARCH ACTIVITIES

Ericsson Nikola Tesla scientific and research activities are in alignment with long-term strategic goals of business development. They are based on the development of new products and research of new processes and technologies, and development of new functionalities for the requirements of the Networked Society.

The driving force of research and development activities is the Research and Development Center, with its research and innovation unit and its developments activities for the major Ericsson Development Units: Core systems and Radio systems. The Center collaborates with other business units in the Company, R&D centers in the Corporation and universities in Croatia and abroad.

An important part of research activities relates to participating in projects funded by the EU. A four-year project, named universAAL - UNIVERSal Open Platform and Reference Specification for everyday life in Ambient Assisted Living was finished. Its major objective is to make technically feasible and economically achievable the ideas, their elaboration and the realization of new, innovative services intended to improve people's everyday life in the Ambient Assisted Living (AAL) environment. A previously started project eWall was continued in the same segment. In the following three years, this project aims to develop an electronic wall that will help senior and infirm people to gain greater independence and a better quality of life in their own home.

The activities on the project Cloud Scale are also successful, the aim of which is to ensure scalability and flexibility of the applied systems on the IT cloud platform. At the same time, the project S-CASE will enable the researches of new services in the cloud to quickly transform their requests in a prototype of service in the cloud.

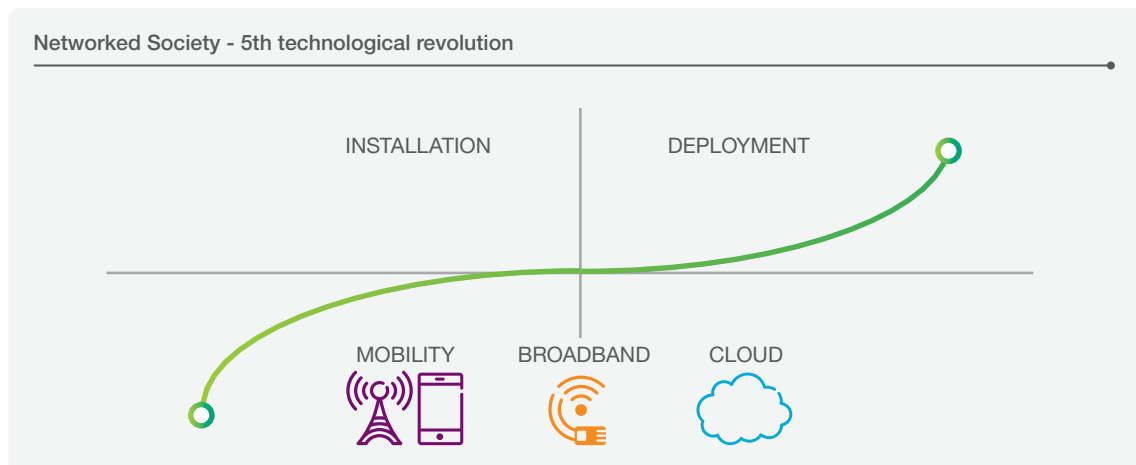
High quality research collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb, continues. An important place is dedicated to the project of machine to machine communication, as it regards a very promising business area. The research of the systems for emulation/simulation of network topologies in

the testing domains, and especially artificially generated traffic load continued. A part of the obtained results is already implemented in the virtual network test equipment that, besides being internally used, began to be used across Ericsson. Additional aspects of research activities were focused on further research of technology for fast and efficient writing and implementation of software at minimum costs, named Model Driven Development (MDD). The research team highlighted the issue of analyzing large amount of data.

The collaboration with the educational institutions was continued by jointly organizing the 14th Ericsson Nikola Tesla Summer Camp in which 82 students and 50 mentors from Croatia and abroad participated. This traditional student gathering was organized in collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb (FER); Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split (FESB); Faculty of Engineering, University of Rijeka (RITEH); Faculty of Economics, University of Rijeka (EFRI); Faculty of Electrical Engineering, Josip Juraj Strossmayer University of Osijek (ETFOS); Faculty of Electrical Engineering, University of Sarajevo (ETFSA); Faculty of Electrical Engineering, University of Tuzla (ETFTZ); Faculty of Mechanical Engineering and Computing, University of Mostar; Algebra - University College for Applied Computer Engineering in Zagreb and Polytechnic of Zagreb. Ericsson Hungary and students from the University of Budapest also supported the Summer Camp.

Students' activities were focused on:

- > Studying selected issues that are important to Ericsson Nikola Tesla
- > Working on applications and demo models for the customers
- > Internal tools, designated for the future requirements
- > Extended activities related to the proposed solutions and ideas, obtained through the innovation process.





EVERYTHING CONNECTED => INTERNET OF THINGS (IoT)

The most significant characteristic of ICT is precisely its relation with innovativeness and knowledge, focus on a higher quality of life in its most diverse segments and the driving force, by which it positively impacts the development of all industry branches and all social structures.

The dramatic Internet expansion caused by mobility and broadband access and interoperability and connecting not only people, but things to which connectivity improves functionality and applicability, are providing an ever more comprehensive response to the most complex challenges of the modern world. Thus, the Networked Society successfully solves the challenges of large urban areas, i.e. life in the city, redefines work and entertainment, provides new experiences to every individual and enables to almost every industry branch to achieve the, until recently, unimaginable potentials.

Ericsson believes that connectivity has a positive socio-economic global impact. The concept "Internet of Things - IoT" shows how individuals, branches of industry and cities can use the benefits of the network in which everything is connected.

Therefore, Ericsson is the first to introduce 4.5G technology, named Licensed Assisted Access - LAA that increases mobile data speeds, used by smart phones and other terminal devices. The connectivity and mobility ensures a high level of service and comfort, wherever you may be. It is expected that until 2020, there will be 50 billion connected devices, six per each connected person. Already nowadays, Ericsson shows to a great extent how this new experience will look like and how it is in fact driven by the current technological innovations.

LTE+ TECHNOLOGY

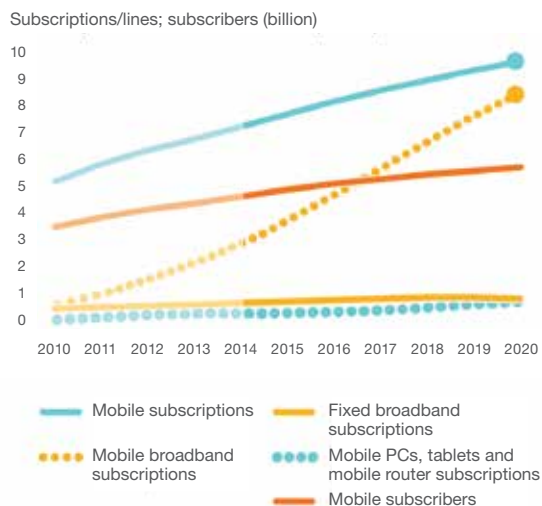
Ericsson is the leader in the LTE (Long Term Evolution) technology market. Today, 50 percent of the global traffic, realized via smartphones that support LTE technology, is supported by Ericsson networks, which is twice as its nearest competitor. Ericsson is present in all LTE markets with high traffic, including USA, Japan, South Korea, Australia and Canada, and is the supplier of choice by the top 10 LTE operators, according to the number of LTE subscribers worldwide. LTE Advanced technology with the carrier aggregation enables high data speed, network capacity increase and is improving the user experience. The carrier aggregation enables a more efficient use of spectrum between two or more channels, and is at the same time the best known and most used technique in LTE Advanced standard that combines various bands in creating broader channels that offer greater capacity and more speed. The users need Internet access more and more, anywhere and at any time, not only at work and in their own homes, and thus 4G+ networks are an important step towards satisfying the user needs and expectations.

5G - THE FIFTH GENERATION OF MOBILE NETWORKS

Although the implementation of 5G technologies in the commercial systems is expected only in 2020, already in the pre-standardization stage, Ericsson showed the functioning of 5G device and 5G radio base station live, in the frequency band of 15 GHz, using the innovative radio interface and an advanced MIMO (Multiple-Input Multiple-Output) technology. Ericsson's activity in the development of 5G networks includes new antenna technologies with a greater capacity, higher frequencies and shorter transmission intervals. The radio base stations with embedded units in the basic frequency band and radio units for 5G technology have already been developed for test operation. As 5G technology key areas, Ericsson recognizes small cells in heterogenic networks, new frequency bands, including 15 GHz, and the transmission via side link of great speed and throughput.

5G technology provides an efficient response to a robust growth in demand for mobile data and will enable private users and business systems to use the next generation of machine-to-machine (M2M) applications. Ericsson Mobility Report provides a comprehensive overview of mobile communications prior to 5G technology and predicts an increase in demand of this new technology. The report predicts ten times increase in mobile data traffic between 2013 and 2019, with the triple and quadruple growth of the number of active mobile M2M devices until 2019. With higher speeds, less latency and better performance in densely populated areas, 5G technology represents an evolution of the user experience, and it will enable new M2M and applications from machine to machine that will impact users, for

Fixed and mobile subscribers till 2020



example in the traffic safety control and tactile Internet, but also technology, for example, in the area of sensors or capillary networks. Until 2020, 90 percent of the world population, older than 6 years of age, will have a mobile phone and mobile video traffic will increase ten times and will account for the 55 percent of the overall mobile data traffic. The ever greater availability of smartphones in the emerging markets will lead to their prevailing over the classic mobile phones, and the total number of smartphones should reach a number of 6.1 billion until 2020.

Although 5G standards are still in its early stage of development, and the allocation of the new spectrum is yet to be considered, Ericsson clearly has the technological leadership in this ICT segment as well.

THE NETWORKED SOCIETY - TRENDS AND STRENGTH

The driving force of the Networked Society is in strong correlation with consumer trends, and precisely the possibilities and wishes of end users significantly influence the future of all the stakeholders of our organization's mainstream ecosystem. Therefore, Ericsson ConsumerLab conducts a global consumer research based on interviews with 100,000 individuals each year, in more than 40 countries and 15 megacities, which statistically represents the views of 1.1 billion people from different cultures worldwide. The latest consumer trends for 2015 provide a unique insight in the opinions and wishes of today's consumers.

Ericsson recognizes many new possibilities that the Networked Society brings us, emphasizing the connectivity and eliminating the boundaries of space and time.

ICT AND THE FUTURE OF RETAIL

Ericsson has, in collaboration with Imperial College London, examined how the near-ubiquitous access to ICT and information transforms relationships between consumers and retail and in the future creates a real foundation for a system transformation within the retail sector. Machine-to-Machine Data Management (M2M

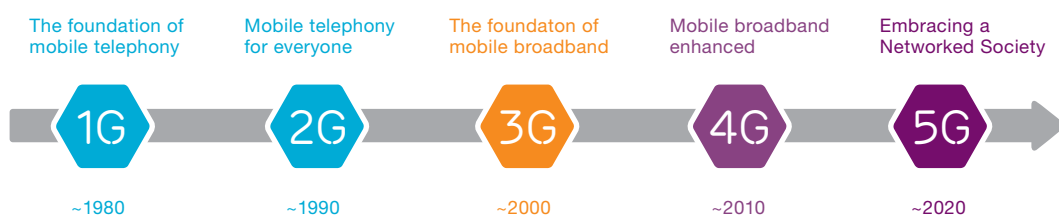
DM) system is one of the key parts of the Ericsson platform for enabling services. This system enables gathering, storing and transformation of data from different industries' various devices, such as cars, various measuring devices, as well as mobile phones and serves for their connection with the most various applications, which offers numerous new possibilities also in the retail segment. The overall growth of digital data from various sources, and information value chain related to M2M and IoT technologies, enable the retail to respond significantly faster to fine-grained real-time information about consumers. The enhanced local data and digital communication channels give micro-enterprises the possibility to rapidly target the wanted business niches and even further to additionally create new micro supply chains that will lead to changes in the ecosystem. New personalized products, adjusted to consumer needs are expected in the market, which is largely contributed by digital ordering and manufacturing of products that includes 3D print. The "sharing economy" platforms, that extend the after-market life of products, are also emerging and creating entirely new service models of services for individuals, entrepreneurs, retailers and manufacturers.

MEDIA INDUSTRY REDEFINED

Creatively using augmented reality will provide many new possibilities in almost every activity, primarily in the media industry, education, culture and trade. Multimedia contents, adjusted to the most widespread ICT devices of today, the existence of which even Tesla himself almost prophetically described 90 years ago, are already contributing to the creation of the Networked Society, in which everything that can benefit from being connected, will be connected, and ICT technology will, with its innovative and transformation potential improve people's lives, business and the environment.

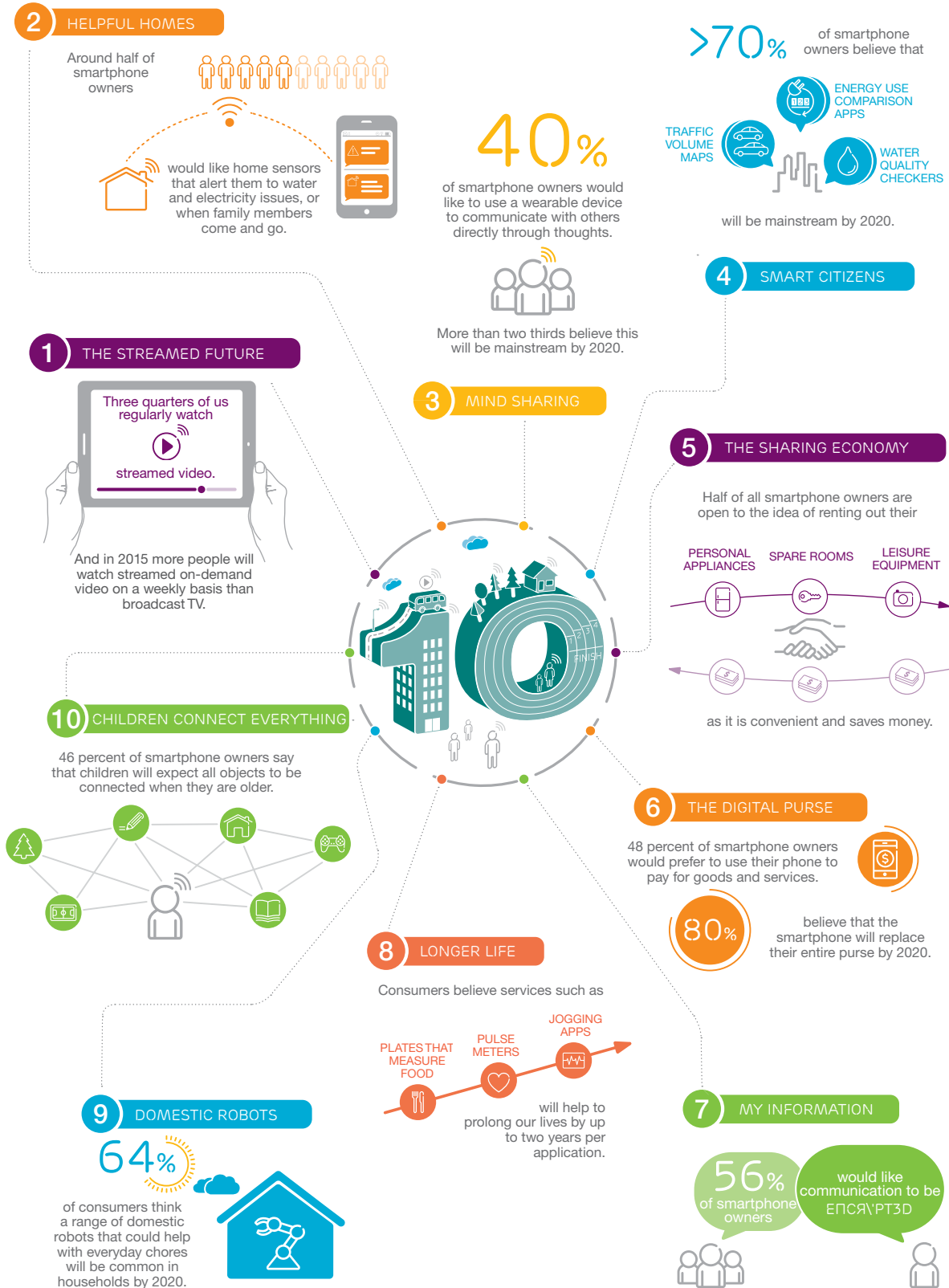
Technology changes many experiences, including the experiences from sport events or live concerts. Considering that nowadays the fans can connect to each other and to the events, a new experience of live entertainment was created, in which the fans share contents with each other and with the community.

Wireless access generations



10 hot consumer trends 2015

Rapidly evolving urban consumer attitudes are transforming our world. With only 5 years to go until 2020, the future seems closer than ever.



Also, the way the audience wants to watch entertainment programs changed. The linear viewing goes to the past, because the audience, ever more, demands short, personalized formats that can be easily shared, have an original content and can be viewed anywhere. The last edition of the annual Ericsson ConsumerLab research in the TV and media services segment confirms that streaming video contents are almost as popular as the traditional way of watching TV program, with the backlog of only two percent on using on a weekly basis. The fifth edition of this annual study also brings the information that almost every fifth respondent is ready to pay to access the wanted contents on any device, which represents an increase of 25 percent in just two years.

The results based on the interviews with more than 23,000 people from 23 different countries show that changes in user behavior continue to influence the TV and media service industry, demanding a fast moving away from old formats and business models towards the era of high quality entertainment on demand.

The study also shows an increase in the time of following the content via smartphone and tablets, and traditional TV channels are perceived as the “content storage” from which the users selectively choose contents that interest them.

With the information that 41 percent of users expressed the wish to watch their favorite contents anywhere, there are also two significant obstacles: data traffic cost and the cost of the content itself. Therefore, media companies need to rethink the way in which they create and publish contents, while TV service providers’ focus is on the delivery of the highest quality possible to the viewers, regardless of the device.

THE NETWORKED SOCIETY AND SMART CITIES

Ericsson developed a range of innovative solutions that already nowadays are leading us into the Networked Society, whether this is hardware, software or services. Thus the solutions and platforms from a range of activities were presented so far; 5G and advanced LTE technology, managed services, OSS/BSS, solutions in the segment of TV and media and cloud and IP improvements. With its solutions, Ericsson creates the foundation for new ecosystems and business growth. The Networked Society changes entire industries and ICT tools have become inevitable resources in citizens’ daily business and lives and in the public services. Therefore, the term “Smart City” was coined, as a globally relevant concept of improving the quality of life in the cities based on, among others, on application of modern ICT services.

Ericsson ConsumerLab study, related to the use of Internet and modern ICT solutions in the service of everyday city life in 9 cities in different corners of the world, various ICT concepts were studied, that will enable the people to interactively participate in the life of their cities and enjoy the modern ICT benefits, such as digital health monitoring, interactive road navigation or mutual using of bicycles and cars.

The conclusion of the research is that using Internet services based on modern ICT solutions significantly simplifies people’s lives in big cities. The main driver of this trend is the increase in using smartphones in the cities worldwide. The citizens want to use mobile phones in relation to monitoring and improvement of their health, better communication with the state institutions and a more efficient city traffic. These trends also reflect on the existing city structures, because the respondents wish for the city service providers to be the main drivers of implementing modern ICT solutions in the various areas of work.

The survey was conducted online in September 2014 and encompassed 9,030 users of iPhone and Android devices, aged 15 to 69. The respondents represented a total of 61 million of citizens, and each of the respondents evaluated two thirds of the potential services.

The citizens wish that the city government ensures ICT services in the most various fields, such as traffic, public services or water quality. It is interesting that the citizens who live in the center are more interested in all the testing concepts than the citizens who live in the city suburbs. Also, younger and employed people are mostly interested in daily using modern ICT solutions, which means that in that way they would be contributing more and more to the development of smart cities.

TECHNOLOGY IN THE SERVICE OF SAFER TRAFFIC

Among other things, vehicles are also becoming “smarter, safer and more fun”, and a wave of innovations also changes the driving experience. Although self-driving cars are not expected in the next couple of years, in the next five years, new technologies will help cars to self-park, monitor the driver’s vigilance and even communicate with other cars in order to avoid traffic accidents.

Some of these technologies will be applied sooner or later, however they all have the potential to change our way of driving for the better. By using the Connected Vehicle Cloud, Ericsson proves that the connectivity with the car and its interaction with other vehicles improves the experience for drivers and all the other traffic participants.



Mobile World Congress Barcelona 2015



One of the best known examples of innovatively using technology in the service of safer traffic is the joint product of Ericsson, Volvo automobile and the manufacturer of the sports protective equipment - POC, that connected the Volvo drivers and cyclists. The two-way communication between a connected car and the helmet prototype gives warnings to drivers and cyclists about the proximity/distance, thus increasing the road traffic safety.

The Report from Ericsson and Imperial College London shows ICT impact on the transformation of the future of road logistics and commuter travel. According to the Report, the use of technology in some cities may be as effective as doubling or tripling the physical road capacity. Furthermore, a deeper integration of ICT into the transport sector opens new options for different stakeholders, primarily to ICT manufacturers who are becoming the key links in the supply chain of the automobile industry. The end users are now becoming an integral part of the transport value chain, both as data contributors and as real-time monitors of infrastructure performance.

With the assistance of new applications, the information received from drivers, vehicles and infrastructure is transforming transport services, business models, maintenance and insurance systems while at the same time giving end users more power and strengthening their influence on the transport organization.

These are just some of the key insights from the latest report in the series of research dedicated to a potential impact of ICT on the transformation of various industries and creation of new and innovative transport solutions in the Networked Society.

SMART METERING SYSTEMS

A good example of a solution for Smart Cities is the one that enables data collection, for example from the gas meter, and transfer it into an internal IT environment of the energy distributor. Also, it enables an insight into the events in the network, handling orders, network

configuration and remote monitoring of various manufacturers advanced gas meters in real time. These kind of solutions ensure distributors to create systems for advanced measuring, monitoring the situation in the market and the transformation of technology and processes in the automation of measuring and control. The manufacturers and distributors thus connect a better integration of resources, cost efficiency and technology innovation and transform many manual activities in automatic, with remote control, which brings better service quality with lower costs. The introduction of smart metering systems is stimulated by various provisions in the European Union. In the segment of smart metering, our experts, together with their corporate colleagues, participate in important global research-development activities.

ERICSSON NIKOLA TESLA CONTRIBUTION

Ericsson Nikola Tesla together with Ericsson Corporation shares the common vision "communication for all" and the belief that technology improves the quality of human life. Taking part in creating various benefits for every individual as well as for the society at large, and by rationally using natural resources and energy, the organization improves its own business and daily contributes to the overall economy.

Ericsson Nikola Tesla offers innovative ICT solutions, by providing access to modern technologies that support mobility, availability by using broadband access, networking and sustainability. Last year as well, Ericsson Nikola Tesla experts significantly contributed to numerous Ericsson solutions. We would like to highlight the web application BSP Cabinet Viewer and the project Google Glass Shopping. Through an attractive interactive graphic user interface, BSP Cabinet Viewer enables a fast and an efficient management and the overview of the Blade Server platform current state. This Ericsson platform is a part of the Ericsson Mobile Softswitch solution and is ready for the future user needs. With an extreme network simplification, it ensures high capacity, scalability and system availability, and offers a response to traffic increase. It enables lower operating costs per user and opens a path for business efficient network solutions. BSP Cabinet Viewer was shown within the presentation of this platform, as a tool that supports the advanced functionalities of Blade Server platform in a visually clear, modern and an impressive way.

The innovation success of our experts in the area of mCommerce was continued throughout the project Google Glass Shopping that shows an advanced user purchase scenario, by using Ericsson Wallet platform and wireless glasses for an augmented reality, which enable the access to digital information within their field of view for the buyers. This platform enables users to simply perform bank transactions by using their mobile devices. The buyers have the possibility to receive product information that is adjusted and formed in accordance with their previous purchases in the store.

The glasses serve for scanning the product in the store and adding to a basket, and starting the procedure of an automatic payment. Within this user scenario, shop assistants also use Google Glass for buyers' face recognition, access to their user profiles and data on previous purchases, which greatly contributes to the improvement of service and customer approach.

By realization of a pilot project in the Rwanda territory, regarding TV clients, Ericsson Nikola Tesla experts actively participate also in global activities closely related to corporate social responsibility. The mentioned initiative is focused towards empowering local community by ensuring drinking water, solar energy and mobile communications, as well as the basic goods and services. The modular kiosks, powered by solar energy, will be connect to the Internet and will serve to local communities as an interface to access various digital services in the area of education, health, mCommerce, information and entertainment.

FALUN 2015: CROATIAN ICT SUPPORT FOR THE WORLD CHAMPIONSHIP

During 2014, the team of Ericsson Nikola Tesla prepared also a flawless ICT support that ensured data processing and excellent functioning of the official applications of FIS Nordic World Ski Championships, Falun 2015. Ericsson was the official partner of this competition, and Croatian experts were directly responsible for M2M DM, i.e. for the very heart of the system that in parallel processes data sources and by directly communicating between devices, directly sends them to client applications, used by all the visitors, as well as the numerous fans of this Olympic sport worldwide. An important part of the job was done by our team during the project creation, and thanks to the Networked Society technologies, numerous users enjoyed the Live Arena or followed up live results on their mobile devices

or tablets, even more dynamic if they were on the spot themselves. Ericsson Nikola Tesla experts took care also about this, up to recently considered impossible and today so easily available premium experience.

EU PROJECTS

Last year, the project of the development of One Stop Shop (OSS) for the Joint Information System of Land Registry and Cadastre (JIS), financed by the European Union IPA 2008 Programme for Croatia, was successfully finished. One Stop Shop, as a single point of service for JIS, enables improved quality and speed of real property registration services for key stakeholders and citizens. The project was implemented by Ericsson Nikola Tesla in consortium with the local company Infodom and the Slovenian company IGEA, and its main beneficiaries are the Croatian Ministry of Justice and the State Geodetic Administration.

The establishment of OSS makes it possible for official documents to be obtained from any office irrespective of the institution in charge of the property, which saves the citizens' time and resources. Notaries public will issue official documents and submit requests using the OSS service, which will further unburden institutions and readily respond to an increased demand for official documents due to the expected property market development, whereas the incorporated possibility of issuing digitally signed official documents will, ultimately, replace paper. This project is an excellent example of well used EU funds, and with this activity, Ericsson Nikola Tesla confirmed its focus on the future that promotes and encourages sustainability, primarily through participating in the development of innovative

Falun 2015



technological solutions for the benefit of the society and individuals in the Networked Society.

During 2014, the project “Preparations for eCTD” and Implementation of Digital Archival Information System, whose end beneficiary is the Agency for Medicinal Products and Medical Devices of the Republic of Croatia (HALMED), was presented. The aim of this project, funded by the European Union IPA 2009 Programme for Croatia, was to support HALMED’s efficient participation in the European medicines regulatory network.

Within the project, Ericsson Nikola Tesla was responsible for the contract “Digital Archival Information System of the Agency for Medicinal Products and Medical Devices”, and the ICT system that the Company implements for HALMED provides a centralized access and a better control over documents used in the Agency’s daily work, facilitates exchange of information with other users and thus contributes to the improvement of quality and efficiency of HALMED’s operation, as well as to an efficient application of ICT services within the European Medicines Regulatory Network. This project is a logical continuation of the Ericsson Nikola Tesla broad engagement within the health care sector.

TOP CONTRIBUTIONS IN E/M-HEALTH

A high level of public health informatization in the Republic of Croatia, realized through the Central Healthcare Information System of the Republic of Croatia (CEZIH), the provider of which is Ericsson Nikola Tesla, will soon be additionally improved by the

implementation of the central Electronic Healthcare Record, i.e. eRecord and the services of mHealth in monitoring the medical condition of chronic patients. eRecord represents an important step in upgrading the national healthcare experience and by it, already a high level of informatization in the Republic of Croatia will be additionally improved, and smart mobile technologies, development of sensor technologies and managing data from various devices will enable an efficient monitoring of chronic patients outside healthcare institutions.

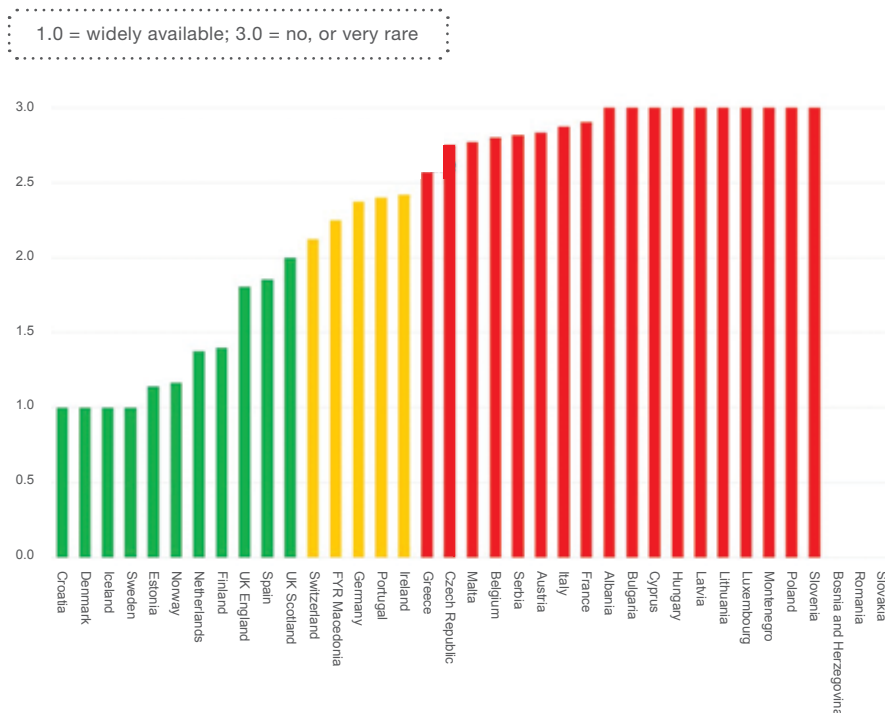
Nowadays, an enormous unused potential lies in the possibilities of distant medical monitoring that are offered to its patients by only 9 percent of the European hospitals. Ericsson Nikola Tesla in its portfolio, besides hospital information system, also offers Ericsson Mobile Health (EMH) system for remote patient monitoring and thus, by monitoring medical parameters like ECG, spirometry, blood pressure, pulse, saturation of oxygen in blood and blood sugar level, creates preconditions for a greater independence and patient’s quality of life, reducing days spent in hospital. Entire Europe is facing with a serious health crisis, as a result of aging population. However, using digital technologies can significantly reduce costs, improve healthcare control of patients, contribute to a more efficient system of healthcare and help numerous European citizens to actively be involved in the society.

THE IMPORTANCE OF PREVENTION

Ericsson Nikola Tesla is included in the national prevention public healthcare campaign “For Health. Today.”, that has been carried out for years by the

ePrescription availability

Source: Euro Health Consumer Index 2014



Ministry of Health in cooperation with the Croatian National Institute of Public Health.

The integral part of the campaign is the National Prevention Program (NPP) of early discovering breast cancer, colon cancer and cervical cancer, with the aim of reducing the number of cancer cases and deaths. The campaign, together with its partners, tries to reach as large number of citizens as possible, and motivate them to participate as actively as possible in preserving and improving their health, as well as encouraging each individual to take the medical examination, when they receive the invitation for some of these three prevention programs.

Since the organization of carrying out preventive programs is very complex, especially due to a large number of participants, it is extremely important to connect all the parties involved in this process. A part of the data on performed preventive medical examinations, between Croatian Health Insurance Fund (HZZO) and County Institutes of Public Health, is already exchanged through a protected part of the CEZIH portal. However, according to good European practice experience, a quality IT solution would significantly improve the program realization.

Ericsson Nikola Tesla, as a technological partner, is involved in the NPP, through developing modules for reporting and business intelligence, and the portal for patients and integration. The purpose of the reporting system is monitoring the implementation of preventive programs, so that the future system upgrades or business processes modifications would improve the success of implementation and reduce costs. Within the preventive programs, the patient's portal, for the first time includes the patients themselves in the Republic of Croatia Healthcare Information System. Thus, the patients will be able to view and change personal contact information (address, e-mail address and phone number) with the aim of a better response, select the way of inviting and filling in the questionnaires in an electronic form. In the end, this will reduce costs, due to removing paper from the business process.

The entire NPP system is completely incorporated into CEZIH, and is additionally also linked to other healthcare systems: applications in general practice, in pharmacies, in outpatient specialist healthcare, in hospitals, with HZZO business system and the central system of the Booking List and eBooking. The existing communications mechanisms are used for data exchange, such as eReferral and the corresponding response, such as eFindings, ePrescription or eBooking. It is precisely that these existing communications mechanisms make the system open for future upgrades and improvements of business processes, such as an Electronic Healthcare Record, in which the data on preventive medical examinations will also be shown.

The potential of quality using ICT in healthcare is perhaps best shown by the latest Euro Health Consumer Index that ranks Croatia at the very top of Europe, according to the criteria of ePrescription availability.

The research of the public opinion in Croatia that was carried out by the Swiss Icertias, on a sample of 1,200 respondents - users of ePrescription service, shows that Croatian citizens are extremely satisfied with this innovative

paperless prescription service. The ePrescription service was implemented into the Croatian healthcare system by Ericsson Nikola Tesla already in 2011, which makes us one of the first ones in the world.

Since more than four-fifths of the respondents expressed a very high level of satisfaction by using the service ePrescription, thanks to this result, the service ePrescription in Croatia has the mark "ICERTIAS Customers' Friend" for maximum user experience with the highlighted title: "Outstanding Service".

This high level of user satisfaction with the service ePrescription is the confirmation of the Company's focus on the e-Health segment and a dedicated work of our experts.

In addition, at a global level, Ericsson system for remote patient monitoring won the M2M TeleHealth 2014 Award for enabling improvement of healthcare and the general medical condition. An important component of the awarded solution is the M2M DM platform that is developed at Ericsson Nikola Tesla. The awarded Ericsson solution for remote patient monitoring, used by AT&T, enables doctors to monitor patients with the help of a video link via tablet, connected to Internet; and to patients, it enables to check their vital parameters and sending data to a protected portal that doctors access.



LEADERS IN ENVIRONMENTAL PROTECTION

With focus towards health, Ericsson is also focused on the challenges of environmental protection, and it is thus included in the Carbon Disclosure Project's Climate Performance Leadership Index 2014 A List. The Award was granted for long-term engagement in fighting against climate change and the life-cycle based approach to determine environmental impacts.

Thanks to the activities for reducing carbon dioxide emission and reducing business risks regarding climate change, the Carbon Disclosure Project recognized Ericsson as a world leader in corporate action against climate change. Thus, Ericsson responds to market demands regarding environmental accountability and at the same time is making progress towards the realization of sustainable economies.

Global Telecom Business Award, a prestigious global award for the most innovative green projects in the past year, in the category Wireless Network Structure Innovation was awarded to Vipnet and Ericsson Nikola Tesla d.d. for the implementation of the PSI system that saves energy on base stations.

In cooperation with Ericsson Nikola Tesla, Vipnet has, by implementing PSI systems on base stations that are powered by renewable energy resources, achieved a better coverage than with the standard solution for base stations that use renewable energy resources, with additional savings by even 40 to 50 percent. For years

have Ericsson and Ericsson Nikola Tesla been sharing a vision in which networking and a responsible use of modern ICT solutions positively impacts society, both in terms of better and more efficient economy or the impact on the environment. Therefore, this award additionally testifies that we are recognized as an innovative company that promotes and through concrete projects, realizes the so called “Green Business”.

Ericsson invests enormous research potential and innovativeness in creating energy efficient solutions of high performance, and these kind of interesting green projects at the same time confirm the focus of Ericsson Nikola Tesla to socially responsible business with an emphasis on environmental protection and full social contribution to an active care for a joint, safer future.

INNOVATIONS AND ADJUSTMENT - KEY OF DEVELOPMENT

Considering that the survived business models are clearly not an adequate response to the complex and changeable economic conditions of life and business, innovations represent the main strategic guideline and have a crucial role in creating new values.

It is precisely the creativity in everything we do that ensured Ericsson Nikola Tesla is recognized as a quality organization with respectable results. This innovation practice was not created over night, nor it was a left to chance; it was strategically created, and the program of encouraging innovativeness is an integral part of our balanced scorecard. The basic of innovation is creating new values, by using the creativity of all employees. We are aware that there is no strategy that can anticipate everything, but it is constantly adjusted to changes in a dynamic environment. Considering that we live in the time of the 5th technological revolution, it is clear that the future changes will never be as slow as they are today. ICT, as the driver of the 5th technological revolution contributes to the competitiveness of other industry branches, and its positive effects can be seen through positive impact on people, business and environment. Therefore, quality, motivated and creative individuals and teams are crucial for everyone, and especially for us, working in the ICT industry.

Nowadays, the continuity of successful business is measured through creating value, and the speed and quality of adapting to market, technological and social challenges, and the winners are the ones who succeed to adjust in that process. We are the witnesses of constant remixing in the markets, disappearing of the former and emerging of new competitors, new business models and even greater requests by the users. Innovativeness is more and more becoming the point of differentiation of modern organizations and the key to future competitiveness on the market. So far, our experts have proven many times, that it is precisely through creating and implementing new products, solutions and services, both for the domestic and the export market, they lead, and not just follow others. Proactivity and commitment, in synergy with continuous work on the development of innovative organizational culture, brings significant results. Our organization encourages curiosity and creative thinking, and turns smart ideas with market potential into real value.

Thus, Ericsson Nikola Tesla Innovation Days 2014 have showed, completely in line with their title, a very broad spectrum of the employees' professional playfulness along with developed social responsibility and expressed solidarity towards the population from the area hit by catastrophic floods. In a quality project of including employees in an innovation program with the focus on some of the best innovations that were created and realized during the year, innovativeness and motivation of our employees were highlighted as the foundation of our success. More than thirty innovations were realized in two locations, Zagreb and Split.

Innovations included a range of improvements: from improving the functionalities of the cutting edge technologies, commercially still not available in the European market, to a brand new use of data, which large operators have for years, but have just now shown the full potential for creating added value to business. In the accompanying humanitarian action “Rebuilding by Knowledge - add your brick for the medical clinic”, numerous employees engaged in the Company's action of rebuilding the medical clinic in Gunja, proving that socially aware individuals work in a socially responsible company.

Details from the humanitarian action - Add your brick for the medical clinic





EVENTS IN 2014

JANUARY

- > The Government of the Republic of Armenia selected Ericsson Nikola Tesla d.d. as the supplier of the healthcare networked information system (eHealth system).

FEBRUARY

- > At the press conference, the Group's business results for 2013 were published, as well as an outlook and expectations for 2014.
- > At Mobile World Congress in Barcelona, Ericsson Nikola Tesla d.d. and Vipnet, presented the revolutionary PSI system for energy savings.

MARCH

- > One of the first workshops for the younger members of International Project Management Association (IPMA) was held at the premises of Ericsson Nikola Tesla d.d., with the aim to introduce them with the work of the Company's Project Management.

APRIL

- > At the conference "e-biz 2014", within the framework of the eHealth day, the Company's experts presented the advantages of using eRecord and mHealth in monitoring the health condition of chronic patients.
- > At the Institute for Innovations, the President of Ericsson Nikola Tesla, Gordana Kovačević, successfully presented the presentation "Creating and Encouraging Innovation Culture - the Example of Ericsson Nikola Tesla."

MAY

- > At the conference Telecom, Media & Technology Arena 2014, Ericsson Nikola Tesla experts had well-received presentations.
- > Ericsson Nikola Tesla held its Annual General Meeting, during which all the proposed decisions were adopted.
- > Ericsson Nikola Tesla experts successfully participated at international gathering MIPRO 2014.

JUNE

- > The official closure of the project that developed the One Stop Shop (OSS) for the requirements of the Joint Information System of Land Registry and Cadastre, financed by the EU IPA 2008 Programme for Croatia.

JULY

- > Hrvatski Telekom, Ericsson and Ericsson Nikola Tesla d.d. signed a non-binding Letter of Intent to outsource the services of build and maintenance of HT's electronic communications networks.

AUGUST

- > Hrvatski Telekom, Ericsson and Ericsson Nikola Tesla d.d. signed a contract on collaboration in the managed services segment.
- > During their stay in Croatia, Ericsson Corporation Executive Leadership Team, led by Ericsson Corporation President and CEO, Hans Vestberg, visited Zagreb and Ericsson Nikola Tesla d.d.. The distinguished guests from Ericsson spent some time in socializing and talking to the President of Ericsson Nikola Tesla d.d. and Ericsson Nikola Tesla d.d. Executive Leadership Team. The distinguished guests visited the Technology Road, where our experts' innovative solutions were presented.

SEPTEMBER

- > Ericsson Nikola Tesla Servisi d.o.o. (EHR), a daughter company of Ericsson Nikola Tesla d.d., started operating. Ericsson Nikola Tesla Servisi d.o.o. will, on the basis of signed five-year contract that encompasses Network Operations Centre, field operations, planning and functionalities regarding development and together with managing external suppliers' relations, manage fixed and mobile network of Hrvatski Telekom. As at September 1, 2014, 638 employees were inourced from Hrvatski Telekom to Ericsson Nikola Tesla Servisi d.o.o. (EHR).
- > At the CeBIT Bilišim Trade Fair in Istanbul, Croatian ICT industry had an important joint presentation. Among 29 Croatian companies, prominence was given to Ericsson Nikola Tesla d.d., whose experts presented solutions in the field of e/m-health and eGovernment.
- > The project "Preparations for eCTD and Implementation of Digital Archival Information System" whose end beneficiary is the Agency for Medicinal Products and Medical Devices of the Republic of Croatia (HALMED) was presented at Ericsson Nikola Tesla premises. The project was funded by the EU IPA 2009 Programme for Croatia. The aim of this project was to support HALMED, to participate as efficient as possible, in the European medicines regulatory network.
- > Ericsson and Ericsson Nikola Tesla d.d. experts successfully participated at the 22nd International Scientific Conference on Software, Telecommunications and Computer Networks, SoftCOM 2014.

- > Ericsson Nikola Tesla Innovation Day was successfully held in Zagreb.
- > All-day program marked the closing of Ericsson Nikola Tesla 14th Summer Camp.

OCTOBER

- > The International Telecommunication Union Deputy Secretary-General, Houlin Zhao, who in the meantime took the position of the Secretary-General of this important institution, visited Ericsson Nikola Tesla.
- > A successful presentation of our expert, Damir Medved, at the Days of Croatian Tourism, the biggest gathering of tourist professionals in Croatia.
- > The experts of Ericsson Nikola Tesla successfully participated at the 10th International Symposium on Telecommunications - BIHTEL 2014. Except for the Ericsson Nikola Tesla experts, the presentation given by the President of Ericsson Nikola Tesla, Gordana Kovačević, who was invited as the key note speaker, was received with a lot of interest.

NOVEMBER

- > Ericsson Nikola Tesla Innovation Day was held in Split with a large number of employees participating.
- > At the Day of New Technologies - DaNTe 2014, a lecture on innovations in the Networked Society was given by Gordana Kovačević, the President of Ericsson Nikola Tesla.
- > With a range of various activities, Ericsson Nikola Tesla marked 65 years of the Company's successful and socially responsible business performance. The central event, under the auspices of the President of the Republic of Croatia, gathered a hundred guests, representatives of socio-political and economic life, as well as the customers and partners from Croatia and abroad.

DECEMBER

- > A successful presentation of the experts of our Group at the ICT Summit Osijek 2014 under the title "ICT - A key for development of the Croatian economy".
- > A successful presentation of our experts at the 9th Conference on Procurement, jointly organized by the Croatian Association of Purchasing and business weekly "Lider".
- > The unit for the development of functionalities of the Research and Development Center in Split was the host of the third gathering of experts from Ericsson (Scrum Master Gathering 2014).



PERFORMANCE IN 2014

The results in 2014 show a continuous solid financial performance with a stable top line, excellent cash generation and a healthy balance sheet. We continue to execute on our financial strategy resting on four pillars: 1) profitable growth; 2) cost efficiency; 3) cash flow and 4) risk management. Despite a challenging 2014 from a business and market perspective, we have kept our house in good financial order.

The Croatian economy continues to contract for the sixth year in a row, with loss over 12 percent of economy real value and GDP return to the level only seen back in 2005. This has clearly put pressure on the revenue of our customers which has translated into lower CAPEX spending and price pressure on us as their supplier of network equipment and telecom services. We effectively mitigated this through a broadening of our product offerings and customer base to keep our top line stable.

Sales revenues amount to MHRK 1,314.9 (2013: MHRK 1,345.2), 2 percent less year-over-year. In the domestic market, revenues are stable despite the challenges of falling revenue of the operators in Croatia. The services sale to Ericsson markets records a significant increase in sales revenues during 2014 and this has neutralized the revenue decrease in export markets such as Southeastern Europe and CIS. Ericsson Nikola Tesla has currently no financial exposure to Ukraine or Russia. The services sale to Ericsson markets is now close to half of the total sales revenue. This changing business mix put pressure on profitability but has simultaneously led to lower overall business and operational risks.

A less favorable business mix coupled with continuous price pressure has led to a decreased gross margin of 13.7 percent (2013: 16.4 percent). Our relentless cost efficiency focus continues to yield results. Selling and administrative expenses decreased by 3.1 percent securing an operating profit of MHRK 81.4 (2013: MHRK 127.2). Financial income was lower primarily due to less investable assets compared to previous years and lower yield environment. A net profit amounting to MHRK 87.4 (2013: MHRK 144.4) was achieved, representing a 6.6 percent (2013: 10.7 percent) return on sales.

We had a clear focus on working capital efficiency and cash conversion during the year. Our working capital over sales ratio continues to drop and the reduction has been achieved mainly through lower inventory levels and strong focus on cash collections. Cash flow from operating activities amounts to MHRK 176 (2013: MHRK 141.2). The cash conversion rate is at high 117 percent.

Risk management is the fourth pillar of our financial strategy and includes mitigation of all possible business, financial and operational risks through strict risk management policies and way of working. Furthermore, we continue to work closely with the Croatian Bank for



Reconstruction and Development (HBOR) to support our sales in the export market where we in partnership can generate healthy business growth with high profitability and zero financial risk.

We finalized the year with a healthy balance sheet. Total cash and cash equivalents, including short-term financial assets, as of December 31, 2014 amounted to MHRK 231 (33 percent of total assets). We closed the year with a solid equity ratio of 48 percent. Our strong balance sheet enables us to continue to implement our strategy and secure quality returns to our shareholders going forward.

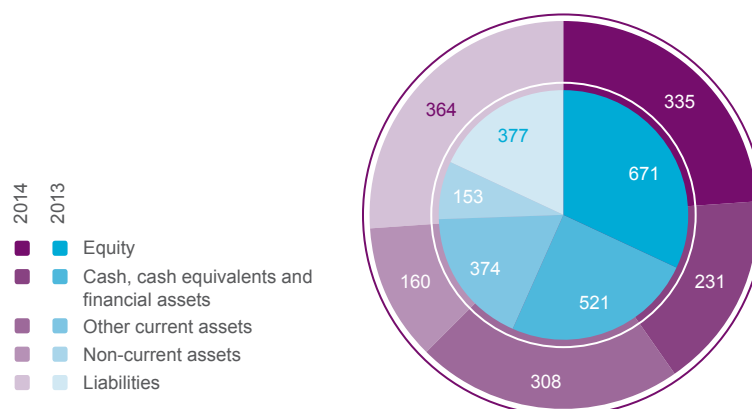
Patrik Wahlgren
Finance Director
Ericsson Nikola Tesla d.d.



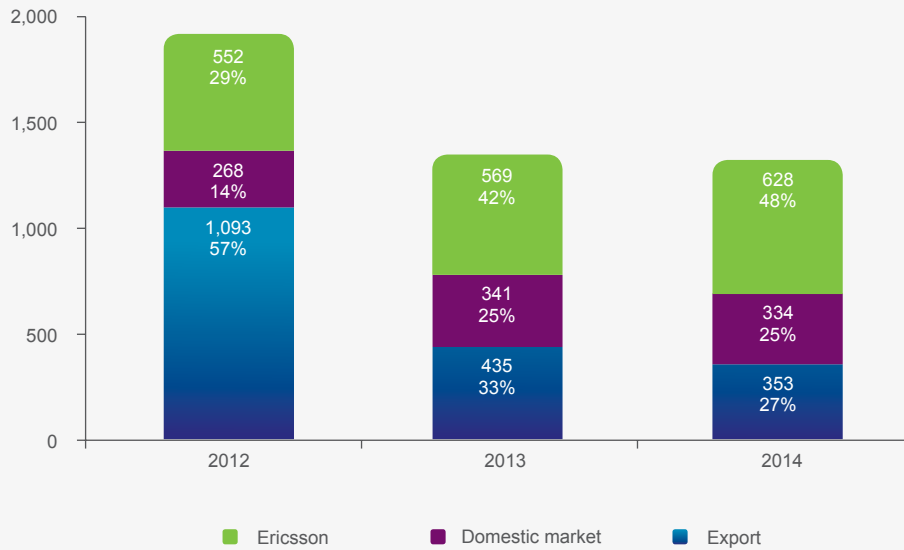
2014 FINANCIAL HIGHLIGHTS

in MHRK, except per share amounts	2014	2013	2012
Profitability:			
Sales revenue	1,315	1,345	1,913
Gross margin	13.7%	16.4%	11.1%
Operating profit	81	127	117
Operating profit %	6%	9%	6%
Profit for the year	87	144	127
Earning per share (EPS) in HRK	66	109	96
Financial position and cash flow:			
Total assets	700	1,048	1,170
Cash, cash equivalents and financial assets	231	521	657
Capital employed	350	676	759
Equity	335	671	755
Operating cash flow	176	141	298
Ratios:			
Return on equity (ROE)	17.3%	20.2%	15.8%
Return on capital employed (ROCE)	17.0%	20.1%	15.7%
Return on sales (ROS)	6.6%	10.7%	6.6%
Equity ratio	48.0%	64.0%	64.5%
Capital turnover	2.6	1.9	2.4
Current ratio	1.5	2.4	2.5
P/E ratio	19.7	13.5	14.5

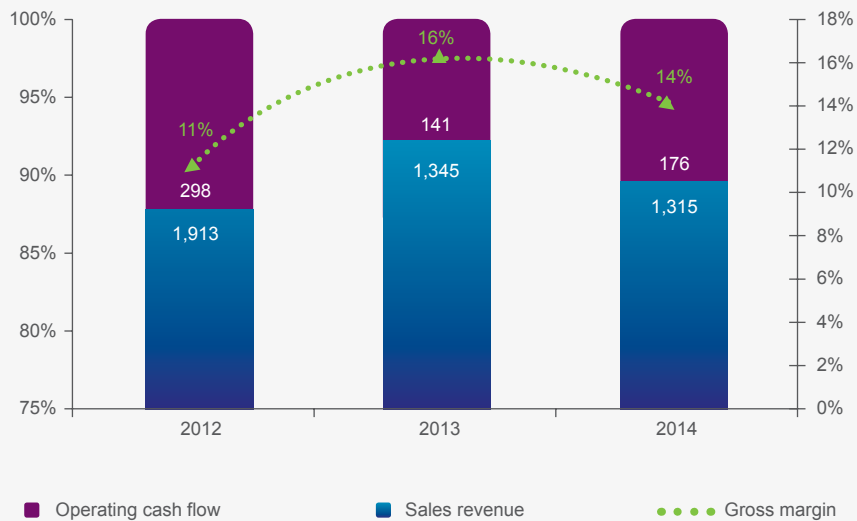
Balance sheet structure (in MHRK)



Sales revenue by Ericsson Nikola Tesla cornerstones (in MHRK and percentage)



Operating cash flow (in MHRK), sales revenue (in MHRK) and gross margin (in %)





INFORMATION FOR SHAREHOLDERS

Ericsson Nikola Tesla d.d. shares, under the stock exchange symbol ERNT-R-A, are daily traded in the Regular Market of the Zagreb Stock Exchange.

SHARE TRADING AND PRICE MOVEMENT

ERNT-R-A share is the second most liquid one on the Zagreb Stock Exchange with 6.4 percent share in the equity turnover of the Zagreb Stock Exchange. In 2014, the total share turnover amounted to MHRK 174.2 (2013: MHRK 121.5).

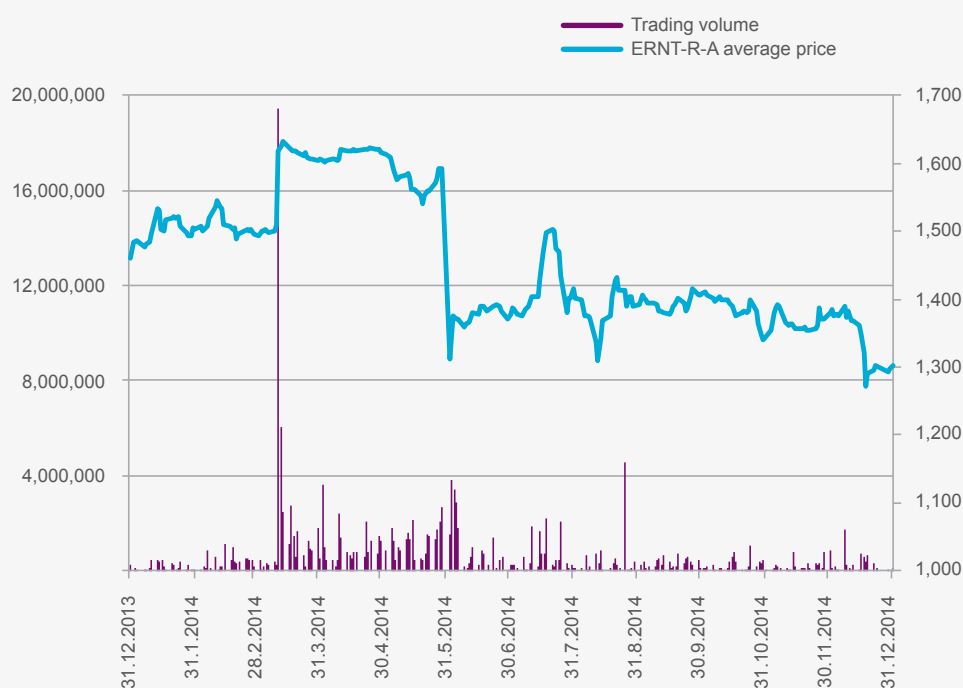
At the end of 2014, ERNT-R-A market capitalization amounted to MHRK 1,729.8, (end of 2013: MHRK 1,957.5). The share of ERNT-R-A in the market capitalization of the Zagreb Stock Exchange is 1.4 percent.

At the end of 2014, ERNT-R-A share was granted, for the fifth consecutive year, membership in the CEERIUS Sustainability Index (CEE Responsible Investment Universe) of the Vienna Stock Exchange.

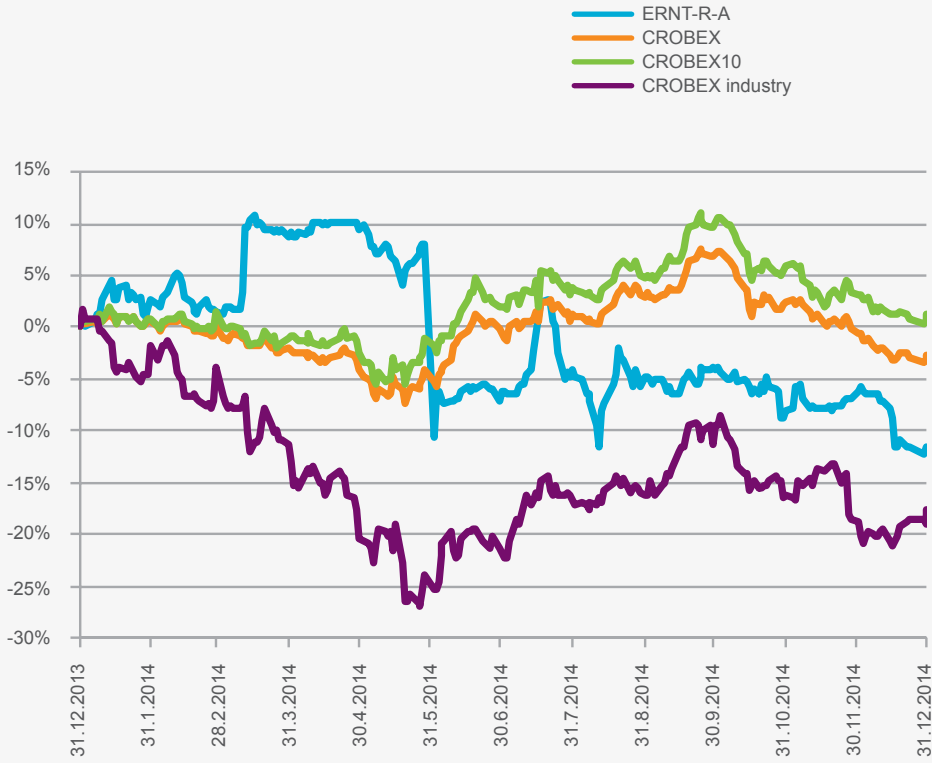
Share price and turnover	2010	2011	2012	2013	2014
Highest (HRK)	1,777	1,650	1,386	1,584	1,659
Lowest (HRK)	1,181	1,000	870	1,234	1,250
Last - end of year (HRK)	1,361	1,080	1,385	1,470	1,299
Turnover (in MHRK)	168.8	174.9	118.4	121.5	174.2
Dividend per share (HRK)					
- regular	20	20	20	20	20*
- extraordinary	170	150	150	300	70*

* Proposal for dividend amount sent to Ericsson Nikola Tesla Annual General Meeting

ERNT-R-A share trading volume and average share price movement in 2014 (in HRK)



Comparative ERNT-R-A share price movement and share indices on the Zagreb Stock Exchange in 2014



Average ERNT-R-A share price movement 2010 - 2014 (in HRK)



SHARE CAPITAL

As at December 31, 2014 the share capital of the joint stock company Ericsson Nikola Tesla amounted to HRK 133,165,000 divided into 1,331,650 ordinary registered series A shares. Each share carries one vote at the Annual General Meeting. The total number of treasury shares at the end of 2014 was 3,080, which accounts for 0.23 percent of the share capital. The shares were owned by 6,977 shareholders.

ANNUAL GENERAL MEETING

The joint stock company Ericsson Nikola Tesla held its Annual General Meeting on May 27, 2014. The amount of HRK 89,379,100 of share capital was represented, which was 67.12 percent of the total Company share capital.

Besides the Company management and representatives of shareholders, the Meeting was attended by the members of Ericsson Nikola Tesla Supervisory Board: Ignac Lovrek, Carita Jönsson, Dubravko Radošević and Zvonimir Jelić. The major shareholder, LM Ericsson, was represented by Tomas Malm. In the presence of a notary public, the Meeting was presided by Snježana Bahtijari, Director of Marketing and Communications (including Corporate Social Responsibility).

At the Annual General Meeting, it was decided that the Company shareholders shall be paid a regular dividend

amounting to HRK 20 per share, and an extraordinary dividend amounting to HRK 300 per share, i.e. totaling HRK 320 per share, from reserves representing an excess above the prescribed 5 percent of the share capital, retained earnings realized in 2004, 2010, 2011 and 2012 and part of net income realized in the financial year 2013. The dividend payment was effected on June 17, 2014 to Ericsson Nikola Tesla shareholders who had the Company shares registered on their securities account in the Central Depository & Clearing Company on June 3, 2014.

A decision was passed that the Company's net income for the financial year 2013, amounting to HRK 143,859,131.22 is allocated for dividend payment in the amount lacking after the use of unallocated retained earnings, a reserve for treasury shares; the amount of HRK 10,000,000.00 and that the rest goes into retained earnings.

Discharge from liability was given to Gordana Kovačević, the Company's Managing Director, as well as to the Chairman and the members of the Supervisory Board in relation to the exercise of their duties in the year 2013. The shareholders decided that, after his mandate expired, a member of the Supervisory Board, Dubravko Radošević, is re-elected as a member of the Supervisory Board, with a mandate renewed for the next four years. Furthermore, it was decided that PricewaterhouseCoopers d.o.o. is reappointed as the Auditor for the Company's business performance in 2014.

An overview of Ericsson Nikola Tesla d.d. major shareholders as at December 31, 2014

Shareholders	Number of shares	Percentage of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28%
Societe Generale-Splitska banka d.d. / Erste Plavi mandatory pension fund, B category	32,961	2.48%
Hypo-Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	30,615	2.30%
PBZ d.d. / State Street client account	30,274	2.27%
PBZ d.d. / The Bank of New York as custodian	22,407	1.68%
Zagrebačka banka d.d./ custodian account for Unicredit Bank Austria AG	13,558	1.02%
Zagrebačka banka d.d./ State Street and Trust company, Boston	12,350	0.93%
PBZ d.d. / custodian client account	9,347	0.70%
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen voluntary pension fund	7,934	0.60%
Other shareholders	395,217	29.67%