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## ERICSSON NIKOLA TESLA D.D.

Report on the Ericsson Nikola Tesla Group's business situation and comments on the financial results for Q1 2013

### Highlights

- Sales revenue: MHRK **330.2**
- Gross margin: **19.8%**
- Operating profit: MHRK **42.1**
- Net profit: MHRK **48.9**
- Cash flow from operating activities: MHRK **1.4**

Gordana Kovačević, the president of Ericsson Nikola Tesla, comments:

“During Q1 the Ericsson Nikola Tesla continued its successful business performance, focusing on the implementation of the strategic priorities. We continued to focus on efficiency improvement and cost optimization in order to increase the profitability and competitiveness on the market. We achieved a solid sales revenue growth amounting to 35% year-over-year. Sales revenue growth was reported in all market segments. I am especially satisfied with the good business development with our partners and customers in the region. We continue to capture new business opportunities in the CIS market, where, intensive sales activities are ongoing. As of both the domestic market and Ericsson market, a positive trend was reported too.

The operating profit and net income improved by 34% and 37%, respectively, year-over-year. Return on sales (ROS) increased to 14.8%. The total cash balances, including current financial assets remained stable and amounted to MHRK 651 at March 31, 2013. Cash flow from operating activities was slightly positive, primarily reflecting changes in working capital. The Company has a balance sheet with the total assets amounting to MHRK 1,196.8 and equity ratio of 67.2%.

Our strategic priorities have been oriented to the areas with growth potential, such as mobile broadband access, services and OSS and BSS. We expect further strong increase in mobile network data traffic volume, generated by the significant growth in number of mobile user devices and the increase in internet use, as well. Our strategy is gaining positive momentum by the current industry trends, although in some markets we still expect microeconomic uncertainty to remain.

A vision of the Networked Society and the transformation role of ICT on all segments of the society, were in a focus of the Mobile World Congress 2013 in Barcelona, the most important event dedicated to mobile communications. Our company participated there with two solutions, i.e. a prototype RPM (Remote patient monitoring) on IPTV that connects Ericsson Mobile Health and Ericsson IPTV portal Avalanche, and with a component for m2m (machine-to-machine) Service Enablement for the USA operator AT&T.

We marked the 60th anniversary of partnership and collaboration between Ericsson and Ericsson Nikola Tesla. This model of collaboration and partnership is an example of a successful strategic interconnection, synergy and benefits to both parties. On this occasion, the company was honored by the visit paid by the Swedish Royal Couple, the President of the Republic of Croatia, as well as ministries in the Croatian Government. As a part of the official delegation of the Kingdom of Sweden, the company was visited by the Minister of Foreign Affairs, the Minister for the Environment, Hans Vestberg, the President and CEO of Ericsson Corporation, and the delegation of Swedish businessmen.”

### Financial Summary

- Sales revenue increased by 35% year-over-year to MHRK 330.2 (Q1 2012: MHRK 245.4). The domestic market accounts for 24%, the export to Ericsson markets accounts for 42%, and the export to other markets accounts for 34%.
- Network infrastructure including network rollout services amounted to MHRK 192.7 (58% of the total Sales revenue), Professional services MHRK 127.5 (39%) and Multimedia solutions MHRK 10.1 (3%).
- Gross profit of 65.2 (Q1 2012: MHRK 52.2) increased by 25% year-over-year. Gross margin decreased to 19.8% (Q1 2012: 21.3%) reflecting the product/service mix.
- Distribution and administrative expenses amounted to MHRK 22.3 (Q1 2012: 23.6) reflecting continuous efforts to improve efficiency.
- Operating profit increased by 34% to MHRK 42.1 (Q1 2012: 31.3), primarily due to the increased business volume and improved efficiency gains.
- Net finance income amounted to MHRK 6.8 (Q1 2012: 4.4). Decreased interest income was offset by positive currency gains.
- Net profit increased by 37% year-over-year, amounting to MHRK 48.9 (Q1 2012: 35.7). Return on sales (ROS) increased to 14.8% (Q1 2012: 14.6%).
- Cash flow from operating activities amounted to MHRK 1.4 (Q1 2012: MHRK 131).
- Total cash balances, including current financial assets as at March 31, 2013 amounted to MHRK 651 (54.4% of total assets) compared to MHRK 657 (56.2% of total assets) as at December 31, 2012.
- As at March 31, 2013 Ericsson Nikola Tesla receivables outstanding amounted to MHRK 402.4 (end of 2012: 385.3).

- Major transactions with related parties were as follows: sales of products and services amounted to MHRK128 (Q1 2012: 115.3), purchase of products and services amounted to MHRK 132.2 (Q1 2012: MHRK 63.1).
- As at March 31, 2013 receivables outstanding with related parties amounted to MHRK 65.4 (end of 2012: MHRK 81.2), and payables outstanding amounted to MHRK 118.4 (end of 2012: MHRK 115.7).
- To reflect change of financial reporting due to IFRS requirements and Ericsson Nikola Tesla Group consolidation, previous year was reclassified to be comparable with current reporting period.

### Business situation in major markets

[In the domestic market](#), sales revenue totaled MHRK 77.8, an increase by 21% year-over-year.

During Q1, the collaboration with strategic partner Vipnet was intensified in the area of expansion and upgrading of 2G and 3G infrastructure; building the fourth generation (4G) mobile communication network (LTE) and in the core network upgrade, by introducing and testing new functionalities, which contribute to increased service quality for end users. In addition, the collaboration on radio transmission building and upgrade has also continued (ML - minilink).

The collaboration with Hrvatski Telekom (T-HT) has continued to develop in various segments, especially in the segment of permanent migration of voice services to all-IP environment, as well as in the support with expansion of a mobile network transmission capacity and with the implementation of IP/MPLS new generation backbone. Furthermore, we are the prime integrator in the project of application server integration for the new generation of business users. T-HT has recognized the business users segment as a growing one, and prepares to offer the new innovative services in this market segment, as well.

With Tele2 mobile operator, we are continuously working on further building of 2G and 3G infrastructures and implementing new functionalities, paying special attention to speed increase and the coverage of broadband mobile Internet access services. The successful collaboration with this operator was confirmed by signing an agreement on the modernization of the core network and related service level agreement.

As of ICT solutions for industry and society segment, the major activities were on projects for upgrading the national ICT healthcare system.

[In export markets \(except for Ericsson market\)](#), sales revenue totaled MHRK 112.3, an increase by 139%, year-over-year.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenue increased by 81.1% year-over-year to MHRK 51.8.

In Bosnia and Herzegovina, Ericsson Nikola Tesla contracted with operator HT Mostar the expansion of radio network and delivery of radio links for their interconnection. With BH Telecom, the largest telecom

operator in Bosnia and Herzegovina, the company signed contracts on packet core network modernization.

In Montenegro, a multi-year agreement was signed with operator Crnogorski Telekom, thus defining the collaboration on the modernization of packet core network. By implementing this agreement, Crnogorski Telekom will be the first one within the Deutsche Telekom group, to implement a cutting edge Ericsson Packet Core solution that will provide users an even higher speed of data transfer. Further on, projects on upgrading the existing nodes in mobile and fixed network were agreed.

With Kosovo operator, Ipko, a frame agreement was signed, which defines strategic relations for the next period. In addition, an implementation of earlier agreed projects on hardware and software upgrade of particular nodes in the existing network is currently being executed. It is about the upgrading of Ipko mobile network elements engaged in data transmission and implementation of new WiFi solutions.

In the Commonwealth of Independent States (CIS) market, sales revenue totaled MHRK 60.5, an increase by 228% year-over-year. Currently the Company is engaged in intensive sales activities and agreements covering mobile network modernization with clients in Russia, Belarus and Georgia.

[In Ericsson market](#), sales revenue amounted to MHRK 140.2, an increase by 5% year-over-year.

In the Core Network segment within the Research and Development Center, the development of new functionalities for the next MSS (Mobile Softswitch) products is currently going on, whereby new functions in SIP (Session Initiation Protocol) and SCCP segments, continue to be developed. In the development of minor adaptations segment, it is to highlight a good cooperation with the operators Bouygues France, Partner Israel, Orange France, Vodafone, H3G Italy, TIM Italy and many others.

Concerning the platform segment of activities, the development of SMMB platform is to be launched soon. The platform is aimed for WiFi controller that is one of the key new products in a new generation networks.

The implementation of hardware and software solution EVO ET for LTE network generation is currently taking place on markets worldwide (Australia, Sweden, Switzerland, Portugal, Croatia). By now, it was the most complex project in the platform part of the organization.

In the fixed core network and AXE platforms segment, as a part of WSO (Wireline Switching Operations) organization, we have been awarded a global responsibility for the delivery and maintenance of software packages and services provision to clients worldwide, and in different time zones.

Our most frequent deliveries have been focused towards the buyers in Europe, North Africa, Middle East, America and Asia. And as of 1Q 2013 operations, it is to highlight upgrades of TSS (Telephony Softswitch Solution) client solutions, such as Tele2 EU, Netia Poland, Mobily Saudi Arabia.

With deliveries mentioned above, it is important to highlight that by providing global support to clients worldwide we managed to solve successfully numerous Emergency requests on AXE platform (APG/APZ) in mobile and fixed core networks, and in Radio Access network on BSC nodes, as well.

Our cooperation has been related to the biggest world operators such as British Telecom, France Telecom, O2 UK, Verizon SAD, Telefonica Spain & Latin America, Telenor Sweden & Norway, ITPC Iraq and Onse Korea.

Experts from Service and Solutions Delivery Center worked on numerous projects delivering services to the following customers: KPN Group Belgium, Vodafone Czech Republic, Polkomtel Poland, EPT Luxemburg, A1 Austria, Mobistar Belgium, Deutsche Telekom, Telefonica O2 Great Britain. We can highlight IPTV project for A1 Austria and mobile systems SWAP for EPT Luxemburg.

In addition, experts were also providing consulting and services of configuration and dimensioning for H3G Austria, A1 Austria, Vodafone Netherlands, Tele2 Norway, Slovak Telecom, MCCI Iran and Ufone Pakistan. Services related to mobile networks management and the corresponding tools for networks optimization were delivered in seven of ten Ericsson regions. The most important Customer in this business segment is Softbank Japan.

The development of two innovations in e2e network audit segment was successfully completed within the Global Competence Centre for radio access networks and was delivered to Ericsson regions in coordination with the Radio Network Development Unit.

#### Other information

Ericsson Nikola Tesla Annual General Shareholders' Meeting will be held on May 28, 2013. All the shareholders and their proxies, respectively, who register their attendance no later than May 21, 2013 are entitled to attend the meeting.

The dividend amounting to HRK 170 per share (a regular dividend of HRK 20 per share and an extraordinary dividend of HRK 150 per share) shall be paid out to all shareholders who, seven days prior to the Annual General Shareholders' Meeting, (i.e. on May 21, 2013) have Company shares registered on their securities account in the Central Depository & Clearing Company. As the entire accounts settlement and shares registration procedures take three days, the last day shares need to be purchased on Zagreb Stock Exchange is Thursday, May 16, 2013, so that shareholders can be registered on the securities account of the Central Depository & Clearing Company on May 21, 2013. Shareholders who sell their shares after May 16, 2013 will retain the right to dividend payment.

Dividend will be paid out by June 27, 2013 at the latest.

The Annual meeting agenda, including proposals for all resolutions is available on the Company internet site: <http://www.ericsson.hr/investors01> and in the Official Gazette No. 42/2013.

## Ericsson Nikola Tesla's major shareholders (as at March 31, 2013)

	<i>No. of shares</i>	<i>% of share capital</i>
Telefonaktiebolaget LM Ericsson	653,473	49.07
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund	123,444	9.27
Societe Generale-Splitska banka d.d. / Erste Plavi Mandatory Pension Fund	32,961	2.48
Hypo Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje Mandatory Pension Fund	30,615	2.30
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	30,366	2.28
PBZ d.d. / State Street client account	25,375	1.91
PBZ d.d. / The Bank of New York as custodian	17,646	1.33
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	15,376	1.15
PBZ d.d. / Custodian client account	10,580	0.79
Societe Generale-Splitska banka d.d.	8,062	0.61
Other shareholders	383,752	28.81

## Q1 2013 share price information:

<i>Highest (HRK)</i>	<i>Lowest (HRK)</i>	<i>Closing (HRK)</i>	<i>Market cap. (in MHRK)</i>
1,574.99	1,388.00	1,573.99	2,096.0

Ericsson Nikola Tesla d.d.  
Krapinska 45  
Zagreb

OIB: 84214771175  
Tax No.: 03272699

Pursuant to the Articles 407 to 410 of the Capital Market Law (Official Gazette 88/08 and 146/08) the Managing Director of the joint stock company Ericsson Nikola Tesla d.d. Zagreb, Krapinska 45 gives the following:

### **Statement of the Management Board responsibility**

The accompanying consolidated and nonconsolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statements also comply with the provisions of the Croatian Financial Accounting Law valid as of the date of these financial statements.

Unaudited financial statements for the period 1 Jan 2013 to 31 March 2013 present a true and fair view of the financial position of the Company and of its financial performance and its cash flows in compliance with applicable accounting standards.

**Managing Director:**

**Gordana Kovačević, MSc**



*For additional information, please contact:*

***Snježana Bahtijari***

***Company Communication Director***

*Ericsson Nikola Tesla d.d.*

*Krapinska 45*

*HR-10 002 Zagreb*

*Phone: + 385 1 365 4556*

*Mobile: +385 91 365 4556*

*Fax: +385 1 365 3156*

*E-mail: [snjezana.bahtijari@ericsson.com](mailto:snjezana.bahtijari@ericsson.com)*

***Orhideja Gjenero***

***Investor Relations Manager***

*Ericsson Nikola Tesla d.d.*

*Krapinska 45*

*HR-10 002 Zagreb*

*Phone: +385 1 365 4431*

*Mobile: +385 91 365 4431*

*Fax: +385 1 365 3156*

*E-mail: [orhideja.gjenero@ericsson.com](mailto:orhideja.gjenero@ericsson.com)*

*E-mail: [odnosi.investitori@ericsson.com](mailto:odnosi.investitori@ericsson.com)*

*For more information about Ericsson Nikola Tesla's business performance, please visit:*

*<http://www.ericsson.com/hr>*

*Communication*

*Ericsson Nikola Tesla*

Ericsson Nikola Tesla d.d.  
 Consolidated statement of comprehensive income  
 for the period ended 31 March 2013

	<b>2013</b>	<b>2012</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Sales revenue	330.249	245.417
Cost of sales	265.019	193.259
<b>Gross profit</b>	<b>65.230</b>	<b>52.158</b>
Selling expenses	-14.703	-15.559
Administrative expenses	-7.615	-7.969
Other operating income	160	3.161
Other operating expenses	-981	-470
<b>Operating profit/(loss)</b>	<b>42.091</b>	<b>31.321</b>
Finance income	6.863	4.456
Finance expense	-40	-45
Finance income – net	6.823	4.411
<b>Profit before tax</b>	<b>48.914</b>	<b>35.732</b>
Income tax	0	0
<b>Profit for the year</b>	<b>48.914</b>	<b>35.732</b>
Other comprehensive income	0	0
<b>Total comprehensive income for the year</b>	<b>48.914</b>	<b>35.732</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of financial position  
as at 31 March 2013

	<b>2013</b>	<b>2012</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	114.927	117.026
Intangible assets	3.741	4.314
Loans and receivables	27.067	30.413
Equity securities	40	40
Deferred tax assets	-	-
<b>Total non-current assets</b>	<b>145.775</b>	<b>151.793</b>
<b>Current assets</b>		
Inventories	42.487	33.268
Trade receivables	259.472	227.586
Receivables from related parties	65.431	81.190
Other receivables	20.133	15.169
Financial assets at fair value through profit or loss	168.708	145.365
Prepayments and accrued income	12.561	3.655
Cash and cash equivalents	482.246	511.639
<b>Total current assets</b>	<b>1.051.037</b>	<b>1.017.872</b>
<b>TOTAL ASSETS</b>	<b>1.196.813</b>	<b>1.169.665</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-6.928	-6.928
Legal reserves	20.110	20.110
Retained earnings	657.848	608.382
<b>Total equity</b>	<b>804.195</b>	<b>754.728</b>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	177	12
Employee benefits	4.508	4.452
<b>Total non-current liabilities</b>	<b>4.685</b>	<b>4.464</b>
<b>Current liabilities</b>		
Payables to related parties	118.412	115.690
Interest-bearing borrowings	1.323	1.710
Trade and other payables	95.872	123.615
Provisions	20.420	18.566
Accrued charges and deferred revenue	151.906	150.892
<b>Total current liabilities</b>	<b>387.933</b>	<b>410.473</b>
<b>Total liabilities</b>	<b>392.618</b>	<b>414.937</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1.196.813</b>	<b>1.169.665</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of cash flows  
for the period ended 31 March 2013

	2013 HRK '000	2012 HRK '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	48.914	35.732
Adjustments for:		
Depreciation and amortisation	9.377	11.640
Impairment losses and reversals	1.930	800
Net increase of provisions	475	405
(Gain)/loss on sale of property, plant and equipment	-274	-14
Net gain on remeasurement of financial assets	198	-1.522
Amortisation of discount	-406	-1.005
Interest income	-3.199	-5.808
Interest expense	40	45
Foreign exchange gains	-3.010	4.623
Equity-settled transactions	548	1.965
	54.593	46.860
(Increase)/Decrease in receivables	-27.732	85.083
(Increase)/decrease in inventories	-9.219	-7.480
Increase/(decrease) in payables	-16.220	6.539
<i>Cash generated from operations</i>	1.423	131.002
Interest paid	-40	-45
Income taxes (paid)/refunded	0	0
<b>Net cash from operating activities</b>	<b>1.383</b>	<b>130.958</b>
<b>Cash flows from investing activities</b>		
Interest received	3.319	5.062
Proceeds from sale of property, plant and equipment	274	14
Purchases of property, plant and equipment, and intangible assets	-13.414	-2.786
Deposits collected/(placed) with financial institutions - net	-73	152
Purchases of financial assets at fair value through profit and loss	-23.540	9.020
<b>Net cash used in investing activities</b>	<b>-33.434</b>	<b>11.463</b>
<b>Cash flows from financing activities</b>		
Repayment of interest-bearing borrowings	-223	0
Purchase of treasury shares	-1	0
Dividends paid	0	0
<b>Net cash used in financing activities</b>	<b>-224</b>	<b>0</b>

Effects of exchange rate changes on cash and cash equivalents	2.883	-3.018
<b>Net increase in cash and cash equivalents</b>	<u>-29.392</u>	<u>139.402</u>
Cash and cash equivalents at the beginning of the year	511.639	525.305
<b>Cash and cash equivalents at the end of the year</b>	<u><b>482.246</b></u>	<u><b>664.707</b></u>