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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 the first nine months of 2013

### Highlights:

- Sales revenue: MHRK **954.4**
- Gross margin: **17%**
- Operating profit: MHRK **94.1**
- Net profit: MHRK **106.8**
- Cash flow from operating activities: MHRK **70.4**

Comments by Gordana Kovačević, the president of Ericsson Nikola Tesla, on the Company's performance:

"We can be satisfied with the results achieved during this year, including also our successful performance in Q3. Operating profit increased by 20.4%, while net profit increased by 14.8% YoY. Gross margin grew to 17%, primarily due to a more favorable product/service mix. Return on sales increased to 11.2 %. Total cash balances, including current financial assets, amounted to MHRK 470.3. A solid cash flow from operating activities amounted to MHRK 70.4. The Company's balance sheet remains strong with total assets of MHRK 1,013.8 and equity ratio of 62.6%.

A positive trend in sales revenue was recorded in almost all markets, with export amounting to 75%. In the domestic market, the telecom operators continued to invest in electronic communications, primarily due to implementation of new technologies. Operators' revenue growth mainly comes from Internet broadband access services and TV media distribution, while the expected decrease was recorded in the area of traditional fixed-line telephone services. The negative financial situation of fixed network alternative operators has no impact on Ericsson Nikola Tesla's performance due to company's minor exposure towards these customers. In the neighboring markets, a significant increase in sales revenue was achieved, where, among other things, we signed a strategic OSS/BSS contract. In CIS market, the Company has been successfully repositioned in order to adjust to challenging and demanding market

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environment. Ericsson market keeps showing a positive trend. The R&D Center continues to expand its portfolio and responsibilities at the global level. Sales revenue achieved from R&D activities in advanced radio network segments, platforms and fixed network servers as well as from other expert centers' activities account for 44% of total sales revenue.

We work intensively on strategic growth plans for the period until 2016, taking into account all market potentials and risks. In the period to come, we shall try to strengthen our position in the strategic business segments (4G/LTE, OSS/BSS, TV media distribution, services) in collaboration with key customers and partners. Our efforts remain focused on profitable growth, cost reduction, increased efficiency and cash flow. Moreover, we are aware of the fact that only organizations/teams and experts who are innovative, motivated and committed to common goals may ensure successful performance and competitiveness in the future.

Although economic uncertainty and business challenges in 2013 are still present, the company is well positioned to continue with providing support to its customers and partners in the transforming ICT market.”

### Financial Summary:

- Sales revenue decreased by 39% YoY to MHRK 954.4 (first nine months 2012: MHRK 1,564.8). In total sales revenue the domestic market accounted for 25%, export to Ericsson market 44%, and export to other markets accounted for 31%.
- Network sales amounted to MHRK 558.5 (58.5% of the total sales revenue), Services MHRK 374.3 (39.2% of the total sales revenue), and Support Solutions MHRK 21.5 (2.3% of the total sales revenue).
- Gross profit of MHRK 162.1 (first nine months 2012: MHRK 150.3) increased by 7.9% YoY. Gross margin increased to 17% (first nine months 2012: 9.6%) as the result of a more favorable product/service mix.
- Distribution and administrative expenses decreased by 5.4% to MHRK 68.4 (first nine months 2012: MHRK 72.3).
- Operating profit increased by 20.4% to MHRK 94.1 (first nine months 2012: MHRK 78.2), primarily due to product/service mix, increased efficiency and sound financial management.
- Net finance income decreased by 14.6% YoY to MHRK 12.7 (first nine months 2012: MHRK 14.8), as a result of lower interest income.

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- Net profit increased by 14.8% YoY, amounting to MHRK 106.8 (first nine months 2012: MHRK 93). ROS increased to 11.2% (first nine months 2012: 5.9%).
- Cash flow from operating activities amounted to MHRK 70.4 (first nine months 2012: MHRK 113).
- Total cash balances, including current financial assets as at September 30, 2013 amounted to MHRK 470.3 (46.4% of the total assets), compared to MHRK 657 (56.2% of the total assets) as at December 31, 2012.
- As at September 30, 2013 Ericsson Nikola Tesla receivables outstanding amounted to MHRK 358.7 (end of 2012: MHRK 385.3).
- Major transactions with related parties were as follows: sales of products and services amounted to MHRK 425.9 (first nine months 2012: MHRK 388.9), purchase of products and services amounted to MHRK 343.7 (first nine months 2012: MHRK 961.4).
- Receivables outstanding with related parties, as at September 30, 2013, amounted to MHRK 70.7 (end of 2012: 81.2), and payables outstanding amounted to MHRK 105.3 (end of 2012: MHRK 115.7).
- Due to compliance with IFRS requirements and Ericsson Nikola Tesla Group consolidation, financial data for the previous year were reclassified in order to be comparable with the current reporting period.

### Business situation in major markets:

**Domestic market** sales amounted to MHRK 238.2, showing YoY growth of 25%.

In Q3, the collaboration with the strategic partner Vipnet continued in the area of expansion and modernization of radio access infrastructure, including the 4G mobile networks (LTE) and testing of new functionalities, which contribute to an increased quality as well as new services for end users. In addition, the collaboration on building and modernization of radio transmission network as well as packet core network extension has been continued. Negotiations on continued cooperation in IMS area have been successfully finalized, thus opening numerous possibilities for new converged solutions.

The business collaboration with Hrvatski Telekom (T-HT) intensively continues on modernization of converged networks and integration of solutions for new generation services towards more demanding business users.

The successful collaboration on IMS in the fixed network has resulted in migration of over one third of the total number of subscribers, who use this system as a primary phone line. The project of integration

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of centralized RCS (Rich Communication Suite) solution in T-HT IMS environment continues, thus allowing T-HT to use potentials of architectural convergence within a short period of time. In addition, Ericsson Nikola Tesla and T-HT work on integration of a whole range of new services being expected to be launched to commercial market soon. Thus the potential of Terastream concept will be additionally used, enabling almost unlimited capacities for providing services to end users.

In Q3, modernization of Tele2 core nodes, which will enable the operator an unlimited growth in mobile broadband services segment and new services development, is ongoing. In 2G and 3G radio networks, intensive work on access speed and capacity growth continues.

The major focus in ICT for Industry & Society Segment was on upgrading the national ICT healthcare system, informatization of the Land Registry administration and the upgrade/expansion of communication infrastructure for utility and transport companies.

[In export markets \(except for Ericsson market\)](#) sales decreased by 70% YoY to MHRK 296.2, although all markets except CIS recorded growth.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue increased by 39% YoY to MHRK 175.4.

The collaboration on network upgrading and modernization continues. With BH Telecom, the biggest operator in Bosnia and Herzegovina, activities continue on extension and modernisation of 2G and 3G networks. In addition, a pilot project related to the implementation of LTE technology (4G) is ongoing. We should also highlight the contract with BH Telecom in the OSS segment. This solution will provide the customer with a greater efficiency and competitiveness and, at the same time, simpler and faster implementation of modern services. The activities with HT Mostar include the extension of Bosnia and Herzegovina coverage with new 3G base stations and their connection with the radio relay systems (Mini link). Major activities in Montenegro include mobile network modernization and LTE technology implementation, whereas the activities concerning 3G technology implementation are ongoing in Kosovo.

In the ICT for Industry & Society Segment, the activities include integration and expansion of ICT infrastructure of the Operational Communications Center (OCC) 112 in Bosnia and Herzegovina. The project involves the infrastructure improvement of the existing OCC in Sarajevo, establishment of the redundant OCC 112 in Tuzla, and the integration of these two centers.

In CIS market, sales revenue amounted to MHRK 120.8, which is a decrease by 86% YoY, due to comparison with the last year's big contract on the equipment delivery for 2G and 3G mobile networks

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to Rostelecom, the leading Russian telecommunications provider. The ongoing activities include modernization and building of mobile networks with the customers in Russia and Georgia.

In [Ericsson market](#) sales revenue increased by 6% YoY to MHRK 420.

Ericsson Nikola Tesla R&D Center successfully continues to work on the development of new functionalities and expands its portfolio and responsibilities at the global level. Overall excellent performance results and the quality of delivered functionalities and R&D services were specially noted at several working and board meetings with the representatives of Ericsson umbrella organizations in charge of the development.

The Radio Platform Development unit expanded its business by taking activities of IP Security Micro RBS Products verification.

The Core Network Development Center continues with the development of new functions for internet protocol SIP (Session Initiation Protocol) with the high quality of delivery. Collaboration with customers in Japan and Russia should be highlighted.

Activities continue on the new business regarding the User Data Management.

Research activities concerning Cloud Computing, financially supported by the EU Funds, have been extended and placed in the strategic focus of further development of telecommunications functionalities and services.

Services and Solutions Center experts worked on numerous projects for the following customers: A1 Austria, Deutsche Telecom, KPN Group Belgium, Eircom Ireland, EPT Luxemburg, Telefonica O2 Great Britain, Telenor Sweden, Vodafone Georgia, Vodafone Netherlands, and Vodafone Germany. We can highlight SWAP mobile systems for EPT Luxemburg, IPTV project ("TVinPeaks project") for Telenor Sweden, activities in the segment of LTE systems for Telefonica O2 Great Britain, VoLTE IP BB design and integration of networks for Deutsche Telecom, OSS/BSS projects for numerous RWCE customers.

The Center experts also delivered optimization and dimensioning services for EE Great Britain, Telefonica Great Britain, Vodafone Netherlands, Mosaic Ireland, One Macedonia and P4 Poland. Services related to mobile network management and corresponding tools were delivered to Germany and Japan.

### [Other Information](#)

#### Dividend Tax

Related to dividend payment in June 2013, Ericsson Nikola Tesla decided to wait for the Constitutional Court decision on the constitutionality of provisions of the Law on amendments to the Law on Income Tax, published in the Official Gazette, No. 22/12. Thus, the company has retained the calculated tax

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and surtax on its account until the final decision was reached. The Constitutional Court reached a decision on 18 September 2013 and the new Law on amendments to the Law on Income Tax became effective on 19 October 2013. The Company had officially requested the Ministry of Finance, i.e. Tax Administration, to give their opinion, considering that there is still inconsistency on the status of the tax treatment of dividend, which the Company paid out to shareholders this year. The Company shall act in line with the Law and Tax Administration instructions.

### Ericsson Nikola Tesla's Major Shareholders (as at September 30, 2013)

	No. of shares	% of share capital
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 Mandatory Pension Fund	30,615	2,30
PBZ d.d. / State Street client account	29,820	2,24
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	22,244	1,67
PBZ d.d. / The Bank of New York as custodian	20,966	1,57
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	15,376	1,15
PBZ d.d. / Custodian client account	12,669	0,95
Societe Generale-Splitska banka d.d.	8,062	0,61
Other shareholders	382,020	28,69

### Q3 2013 Share Price Information:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,576.00	1,433.01	1,495.00	1,990.8

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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 30 Sep 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**

A handwritten signature in black ink, appearing to read "Gordana Kovačević".

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

*Communication*

*Ericsson Nikola Tesla*



Ericsson Nikola Tesla d.d.  
 Consolidated statement of comprehensive income  
 for the period ended 30 September 2013

	<b>2013</b>	<b>2012</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Sales revenue	954.371	1.564.787
Cost of sales	792.275	1.414.502
<b>Gross profit</b>	<b>162.096</b>	<b>150.285</b>
Selling expenses	-45.057	-45.532
Administrative expenses	-23.315	-26.777
Other operating income	2.312	2.093
Other operating expenses	-1.889	-1.865
<b>Operating profit/(loss)</b>	<b>94.146</b>	<b>78.203</b>
Finance income	12.714	14.997
Finance expense	-59	-182
Finance income – net	12.655	14.816
<b>Profit before tax</b>	<b>106.801</b>	<b>93.018</b>
Income tax	0	0
<b>Profit for the year</b>	<b>106.801</b>	<b>93.018</b>
Other comprehensive income	9	0
<b>Total comprehensive income for the year</b>	<b>106.810</b>	<b>93.018</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of financial position  
as at 30 September 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	133.844	117.026
Intangible assets	2.736	4.314
Loans and receivables	21.686	30.413
Equity securities	40	40
Deferred tax assets	-	-
<b>Total non-current assets</b>	<u>158.306</u>	<u>151.793</u>
<b>Current assets</b>		
Inventories	68.813	33.268
Trade receivables	239.099	227.586
Receivables from related parties	70.658	81.190
Other receivables	2.153	15.169
Income tax receivable	-	-
Financial assets at fair value through profit or loss	176.684	145.365
Prepayments and accrued income	4.455	3.655
Cash and cash equivalents	293.618	511.639
<b>Total current assets</b>	<u>855.480</u>	<u>1.017.872</u>
<b>TOTAL ASSETS</b>	<u>1.013.785</u>	<u>1.169.665</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-9.200	-6.928
Legal reserves	6.658	20.110
Retained earnings	504.425	608.382
<b>Total equity</b>	<u>635.048</u>	<u>754.728</u>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	-	12
Employee benefits	4.688	4.452
<b>Total non-current liabilities</b>	<u>4.688</u>	<u>4.464</u>
<b>Current liabilities</b>		
Payables to related parties	105.256	115.690
Interest-bearing borrowings	1.090	1.710
Trade and other payables	118.510	123.615
Provisions	11.138	18.566
Accrued charges and deferred revenue	138.055	150.892
<b>Total current liabilities</b>	<u>374.049</u>	<u>410.473</u>
<b>Total liabilities</b>	<u>378.738</u>	<u>414.937</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>1.013.785</u>	<u>1.169.665</u>

Ericsson Nikola Tesla d.d.  
Consolidated statement of cash flows  
for the period ended 30 September 2013

	<b>2013</b>	<b>2012</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	<i>106.801</i>	<i>93.018</i>
Adjustments for:		
Depreciation and amortisation	29.089	32.460
Impairment losses and reversals	5.860	1.289
Net increase of provisions	1.030	13.758
(Gain)/loss on sale of property, plant and equipment	-358	2
Net loss/(gain) on remeasurement of financial assets	-658	-281
Amortisation of discount	-1.221	-2.451
Interest income	-8.329	-16.815
Interest expense	59	182
Foreign exchange (gains)/losses	-2.906	8.056
Equity-settled transactions	1.643	3.907
	131.010	133.123
(Increase)/decrease in receivables	15.292	-338.893
(Increase)/decrease in inventories	-35.545	-13.606
Increase/(decrease) in payables	-40.294	332.517
<i>Cash generated from operations</i>	<i>70.463</i>	<i>113.142</i>
Interest paid	-59	-182
Income taxes (paid)/refunded	0	0
<b>Net cash from operating activities</b>	<b>70.404</b>	<b>112.960</b>
<b>Cash flows from investing activities</b>		
Interest received	8.542	18.811
Proceeds from sale of property, plant and equipment	358	77
Purchases of property, plant and equipment, and intangible assets	-48.056	-19.026
Deposits collected/(placed) with financial institutions - net	-48	680
Disposal/(purchases) of financial assets at fair value through profit and loss	-30.660	-6.199
<b>Net cash used in investing activities</b>	<b>-69.865</b>	<b>-5.655</b>
<b>Cash flows from financing activities</b>		
Repayment of interest-bearing borrowings	-633	-855
Purchase of treasury shares	-2.287	-2.463
Dividends paid	-218.450	-225.695
<b>Net cash used in financing activities</b>	<b>-221.370</b>	<b>-229.013</b>
Effects of exchange rate changes on cash and cash equivalents	2.810	-6.158
<b>Net decrease in cash and cash equivalents</b>	<b>-218.021</b>	<b>-127.867</b>
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>	<b>293.618</b>	<b>397.438</b>