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## ERICSSON NIKOLA TESLA D.D.

The Management Report on Ericsson Nikola Tesla Group business situation and comments on the financial results for Q1 2014

### Highlights:

- Sales revenues: MHRK **315.4**
- Gross margin: **17.8%**
- Operating profit: MHRK **31.1**
- Net profit: MHRK **34.1**
- Cash flow from operating activities: MHRK: **9.9**

Gordana Kovačević, the President of Ericsson Nikola Tesla, commented on the Company's performance:

Ericsson Nikola Tesla continued a solid business performance in Q1 2014, despite the current market environment. A significant increase in sales revenue was achieved in the domestic market, amounting to 37%. Ericsson market has a positive trend and an increase in revenue, as planned. However, the total sales revenue decreased by 5% year-over-year, as a result of decrease in sales revenue in other export markets. A political and economic uncertainty in the countries in which we traditionally achieve good export results, resulted in operators' investment slow down and postponement.

We achieved a net profit of MHRK 34.1, which accounts for 10.8 % return on sales. We ended the quarter with a solid balance sheet and equity ratio of 69%. Total cash funds, including short term financial assets at the end of Q1 amount to MHRK 523.2, which is 51% of total assets. Thanks to a healthy financial situation and a high level of liquid assets, we can this year again, provide exceptional return on investment to our shareholders.

We remain focused on strengthening our position and sales in new and targeted areas for telecom operators (4GIP, OSS/BSS, TV and media distribution, network design and optimization and managed services) and in the segment regarding industry and society (health, e-business systems, safety). We still remain focused on operational efficiency, profitability and risk management.

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This year's Mobile World Congress in Barcelona was the telecommunication industry central spot to get acquainted with the solutions and applications, which show the kind of possibilities the future brings. Ericsson presented a range of novelties, such as an extremely fast mobile broadband access, world firsts in LTE Advanced Carrier Aggregation and Coordinated Radio Access Network, Global Network Operations Center with live data from a real network, the latest achievements in LTE Broadcast and digital signing. Furthermore, expect for presenting Ericsson PSI Coverage Solution implemented in Vipnet network, solutions and applications were presented, in which Ericsson Nikola Tesla experts participated on preparation and development.

I would like to highlight that, throughout the innovation programs and processes and individual employee goals; we encourage the development of innovative organizational culture. In doing so, we put the emphasis on two main areas: improvement/ growth of business and improvement of the way of working.

In a transforming ICT market, we are well positioned as a reliable partner to our Customers in recognizing new market opportunities."

### Financial Highlights:

- Sales revenues decreased by 5% YoY to MHRK 315.4 (Q1 2013: MHRK 330.2). In total sales revenues, the domestic market accounts for 34%, export to Ericsson market accounts for 47%, and export to other markets 19%.
- Network infrastructure amounted to MHRK 159.9 (51% of total Sales revenues), Professional Services MHRK 145.6 (46% of total Sales revenues), and Support Solutions MHRK 9.9 (3% of total Sales revenues).
- Gross profit amounts to MHRK 56.2 (Q1 2013: MHRK 65.2), decreased by 14% YoY. Gross margin decreased to 17.8% (Q1 2013: 19.8%) due to business mix.
- Distribution and administrative expenses increased year-over-year to MHRK 25.5 (Q1 2013: 22.3), due to activities focused on new business opportunities.
- Operating profit decreased by 26% to MHRK 31.1 (Q1 2013: MHRK 42.1), due to lower gross margin.
- Net finance income decreased to MHRK 3.0 (Q1 2013: MHRK 6.8) as a result of lower interest revenues and lower exchange rate gains.

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- Net profit decreased by 30% YoY to MHRK 34.1 (Q1 2013: MHRK 48.9). ROS is 10.8% (Q1 2013: 14.8%).
- Cash flow from operating activities is MHRK 9.9 (Q1 2013: MHRK 1.4).
- Total cash balances, including short term financial assets at the end of the quarter, amounted to MHRK 523.2 which accounts for 50,8% of total assets (end of 2013: MHRK 521.2, i.e. 49,7% of total assets).
- The Company has a strong balance sheet with total assets of MHRK 1,030.0. The equity ratio is 69%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 133.1 (Q1 2013: MHRK 128), while the purchase of products and services amounted to MHRK 93.8 (Q1 2013: MHRK 132.2).
- Balances outstanding with related parties as at March 31, 2014 were as follows: receivables amounted to MHRK 68.6 (end of 2013: MHRK 71.8), and payables amounted to MHRK 51.8 (end of 2013: MHRK 60.9).

### Business situation in major markets

[In the domestic market](#), sales revenue amounted to MHRK 106.3, increased by 37% YoY.

An intensive collaboration with the strategic parent Vipnet is continued. IMS system upgrade was successfully finished, which opens numerous possibilities for implementation of new convergent solutions. In addition, the expansion and modernization of mobile telecom network is ongoing, including the fourth generation of mobile networks (LTE) and testing new functionalities, which contribute to enhanced quality and new services for end users, as well.

Business collaboration with T-HT continues in the segment of strategic migration to all-IP environment and on other projects, which will enhance this operator business efficiency.

With the operator Tele 2, activities on constructing 2G and 3G infrastructure continue, by introducing new functionalities and an increase in speed and capacity of mobile broadband internet access service. Contracts were signed on comprehensive service support and field maintenance of all network nodes.

In ICT for Industry and Society Segment, major activities concern upgrading the national ICT healthcare system, continued informatization of Land registry administration and upgrade/ expansion of communal and transport companies' communication infrastructure.

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In export markets (except for Ericsson market) sales revenues amounted to MHRK 60.0, which is a decrease by 47% YoY.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenues decreased by 22% YoY to MHRK 40.3.

In Bosnia and Herzegovina market, the collaboration with BH Telecom and HT Mostar continued in the segment of providing support services. It is certain that the political and economic uncertainty affects the operators' investment cycle. We expect new investments in further expansion of mobile and fixed networks.

In ICT segment for industry and society, expansion of Operational Communication Center (OKC) 112 ICT infrastructure in Bosnia and Herzegovina was successfully implemented.

In CIS market, sales revenues amounted to MHRK 19.7, which is a decrease by 67% YoY. Sales activities and arrangements related to mobile network modernization with several key customers are ongoing.

In the Ericsson market, sales revenue amounted to MHRK 149.1, which is an increase by 6% year-over-year. This market share in total sales revenues reached 47%.

Ericsson Nikola Tesla Research and Development Center (R&D) successfully continues in developing cutting edge products, as well as gaining new responsibilities within the Ericsson Corporation. The quality, competences and commitment of R&D team was positively evaluated by the managers of Ericsson organizations, which are responsible for development of certain products, in recently held regular evaluation meeting in Stockholm. The evaluation of the collaboration and the results so far, represents a good base for further business and expansion of responsibility.

In core network segment, an entire range of the existing and the work on new functionalities is ongoing. The development teams, working on User data management are expanding, which is related to the ending the development of functionalities targeted at the new product generations. Furthermore, the Unit for Radio Platform Development continues its initiated development of IP functionalities. In fixed core network, where we have the global responsibility for software package development, delivery and maintenance, and providing services to customers worldwide, broad expert knowledge contributed to the continuity of excellent results, especially in the evolution of communication networks based on internet protocols. The research and development, related to "Cloud Computing", as well as other researches, which enjoy the EU funds support, are ongoing.

Service Delivery Center experts have been engaged in numerous projects for the following customers: A1 Austria, British Telecom, Deutsche Telecom, Mobistar Belgium, O2 Great Britain, Orange Slovakia,

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Telefonica Germany, Telenor Sweden, Vodafone Great Britain, Vodafone Netherlands, O2 Great Britain. We can highlight the activities related to IPTV project for A1 Austria and Telenor Sweden, VoLTE project for Deutsche Telecom and network modernization for British Telecom. The Centers' experts have also been providing consulting services and services of configuration and dimensioning for A1 Austria, Mosaic Ireland, O2 Great Britain, Slovak Telekom, Telefonica Great Britain, Vodafone Netherlands. Smart Rollout Support tool, developed in our Global Competence Center, was successfully implemented worldwide.

### Other information

Ericsson Nikola Tesla Annual General Meeting shall be held on May 27, 2014. The right to participate at the Annual General Meeting have all shareholders, or their proxies, respectively, who register to participate until May 20, 2014, at the latest.

The shareholders who have the Company shares registered on their securities account in the Central Depository & Clearing Company on June 3, 2014, are entitled for the dividend payment in total amount of HRK 320 per share (HRK 20 regular dividend and HRK 300 extraordinary dividend). Ex-dividend date is May 30, 2014.

The dividend shall be paid on June 17, 2014.

The Annual General Meeting's Agenda, including the suggestions of all the decisions, was published on the Company's web page <http://www.ericsson.hr/20140416-poziv>.

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Ericsson Nikola Tesla's major shareholders (as at March 31, 2014)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund	123,514	9.28
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
PBZ d.d. / State Street client account	19,817	1.49
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	18,290	1.37
PBZ d.d. / The Bank of New York as custodian	17,822	1.34
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	14,546	1.09
PBZ d.d. / Custodian Client Account	12,841	0.96
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	11,650	0.87
Other shareholders	396,121	29.75

Q1 2014 share price information:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,659.00	1,445.00	1,600.00	2,130.6

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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 2014 to 31 March 2014 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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*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 2014

	<b>2014</b>	<b>2013</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Sales revenue	315.372	330.249
Cost of sales	-259.187	-265.019
<b>Gross profit</b>	<b>56.186</b>	<b>65.230</b>
Selling expenses	-17.254	-14.703
Administrative expenses	-8.274	-7.615
Other operating income	1.583	160
Other operating expenses	-1.148	-981
<b>Operating profit</b>	<b>31.091</b>	<b>42.091</b>
Finance income	2.983	6.863
Finance expense	0	-40
Finance income – net	2.983	6.823
<b>Profit before tax</b>	<b>34.074</b>	<b>48.914</b>
Income tax	0	0
<b>Profit for the year</b>	<b>34.074</b>	<b>48.914</b>
Other comprehensive income	15	0
<b>Total comprehensive income for the year</b>	<b>34.089</b>	<b>48.914</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of financial position  
as at 31 March 2014

	2014	2013
	HRK '000	HRK '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	128.772	131.616
Intangible assets	1.784	2.112
Loans and receivables	15.499	18.801
Other non-current assets	40	40
<b>Total non-current assets</b>	<u>146.094</u>	<u>152.569</u>
<b>Current assets</b>		
Inventories	60.666	51.506
Trade receivables	225.446	246.152
Receivables from related parties	68.590	71.819
Other receivables	3.441	3.715
Financial assets at fair value through profit or loss	104.028	109.845
Prepayments and accrued income	2.616	1.156
Cash and cash equivalents	419.150	411.328
<b>Total current assets</b>	<u>883.937</u>	<u>895.521</u>
<b>TOTAL ASSETS</b>	<u>1.030.031</u>	<u>1.048.090</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-9.571	-9.571
Legal reserves	6.658	6.658
Retained earnings	577.323	540.884
<b>Total equity</b>	<u>707.575</u>	<u>671.136</u>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	68	68
Employee benefits	4.825	4.697
<b>Total non-current liabilities</b>	<u>4.894</u>	<u>4.766</u>
<b>Current liabilities</b>		
Payables to related parties	51.815	60.936
Interest-bearing borrowings	332	309
Trade and other payables	100.456	148.426
Provisions	10.474	13.458
Accrued charges and deferred revenue	154.485	149.059
<b>Total current liabilities</b>	<u>317.562</u>	<u>372.188</u>
<b>Total liabilities</b>	<u>322.456</u>	<u>376.954</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>1.030.031</u>	<u>1.048.090</u>

Ericsson Nikola Tesla d.d.  
Consolidated statement of cash flows  
for the period ended 31 March 2014

	2014	2013
	HRK '000	HRK '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	34.074	48.914
Adjustments for:		
Depreciation and amortisation	10.935	9.377
Impairment losses and reversals	1.519	1.930
Net increase of provisions	-784	475
(Gain)/loss on sale of property, plant and equipment	-34	-274
Net loss/(gain) on remeasurement of financial assets	-104	198
Amortisation of discount	-83	-406
Interest income	-2.235	-3.199
Interest expense	-1	40
Foreign exchange (gains)/losses	-705	-3.010
Equity-settled transactions	2.351	548
	44.933	54.593
(Increase)/decrease in receivables	24.176	-27.732
(Increase)/decrease in inventories	-9.160	-9.219
Increase/(decrease) in payables	-50.092	-16.220
<i>Cash generated from operations</i>	9.858	1.423
Interest paid	1	-40
Income taxes (paid)/refunded	0	0
<b>Net cash from operating activities</b>	<b>9.858</b>	<b>1.383</b>
<b>Cash flows from investing activities</b>		
Interest received	2.429	3.319
Proceeds from sale of property, plant and equipment	67	274
Purchases of property, plant and equipment, and intangible assets	-11.432	-13.414
Deposits collected/(placed) with financial institutions - net	-	-73
Disposal/(purchases) of financial assets at fair value through profit and loss	5.921	-23.540
<b>Net cash used in investing activities</b>	<b>-3.015</b>	<b>-33.434</b>
<b>Cash flows from financing activities</b>		
Repayment of interest-bearing borrowings	0	-223
Purchase of treasury shares	0	-1
Dividends paid	-9	0
<b>Net cash used in financing activities</b>	<b>-9</b>	<b>-224</b>
Effects of exchange rate changes on cash and cash equivalents	987	2.883
<b>Net decrease in cash and cash equivalents</b>	<b>7.822</b>	<b>-29.392</b>
Cash and cash equivalents at the beginning of the year	411.328	511.639
<b>Cash and cash equivalents at the end of the year</b>	<b>419.150</b>	<b>482.246</b>