

PRESS INFO

October 28, 2014



ERICSSON NIKOLA TESLA D.D.

The Management Report on the Ericsson Nikola Tesla Company and the Group business position and comments on the financial reports for the first nine months 2014

Highlights:

- Sales revenues: MHRK **911.5**
- Gross margin: **13.4%**
- Operating profit: MHRK **55.7**
- Net profit: MHRK **58.9**
- Cash flow from operating activities: MHRK **133.3**

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

“Third quarter results show continuing stable business performance. Reflecting the first nine months, sales revenue decreased by 4.5% year-over-year. Sales revenue in the domestic market equals the last years, while the Ericsson market records further growth, which partially mitigated revenue decrease in other markets. Export share in total sales revenue is 74%.

With Hrvatski Telecom (HT), the negotiations on collaboration in the managed services segment were successfully finished and resulted in agreement signing. Ericsson Nikola Tesla Servisi d.o.o. (EHR), a newly founded Ericsson Nikola Tesla d.d. daughter company, will manage HT mobile and fixed network within the five year agreement framework, which encompasses Network Operations Centre, field operations, planning and functionalities regarding development.

Despite the unfavorable economic and political environment in the region and beyond, during Q3 we signed several new deals, from which I would like to highlight the continuing collaboration with BH Telecom on expanding their 3G network and new deals agreed with Velcom in Belarus. Ericsson market shows a stable trend with business activities and further income growth, and accounts for almost 48 % in the Company's total sales revenues.

Net profit amounting to MHRK 58.9 was achieved, representing 6.5 % return on sales. Gross margin is lower year-over-year, as a result of business mix, price pressure and investments in products and services development. The end of the quarter was concluded with a solid balance sheet and an equity ratio of 50%. A strong cash flow from operating activities was achieved, amounting to MHRK 133.3. Total cash balances, including short term financial assets amount to MHRK 196.8 which accounts for 31.6% of the total assets.

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In line with our strategic plan, we work on strengthening our position/sales in new and targeted areas for telecom operators and in the Industry & Society segment. At the recently held evaluation meeting of Ericsson Heads of organizations, responsible for the development of certain products, our R&D Center was evaluated as one of the best and the most reliable research centers within the Ericsson Corporation. The evaluation of the collaboration so far, represents an excellent basis for further partnership and responsibilities expansion, which is our strategic priority.

During the third quarter, we have begun a new cycle of strategic planning, based on facts which describe the current position in the business and technology segments, as well as on the analysis of the future movements/trends in a transforming ICT market. Ericsson Nikola Tesla development strategy is focused on further position strengthening in four interest areas. We want to be the leading ICT transformation partner for our customers, recognised as a company that attracts, develops and retains talented employees, leads and drives positive changes in the society and creates value for shareholders. Our goal is to achieve the best business results by transforming, focusing on new business opportunities, improving operative efficiency, managing working capital and risks.“

Financial Highlights:

- Sales revenue decreased by 4.5% YoY, amounting to MHRK 911.5 (first nine months 2013: MHRK 954.4). In total sales revenue, the domestic market accounts for 26%, Ericsson market accounts for 47.6%, while export to other markets accounts for 26.4%.
- Network infrastructure amount to MHRK 486.8 (53% of total Sales revenue), Professional Services amount to MHRK 393.2 (43% of total Sales revenue), and Support Solutions amount to MHRK 31.5 (4% of total Sales revenue).
- Gross profit amounts to MHRK 122.3 (first nine months 2013: MHRK 162.1), a decrease by 25% YoY. Gross margin decreased to 13.4% (first nine months 2013: 17%) primarily due to business mix, price pressure and investment in new products and services.
- Distribution and administrative expenses were reduced by 1.3% to MHRK 67.5 (first nine months 2013: MHRK 68.4).
- Operating profit records a decrease by 40.9% and amounts to MHRK 55.7 (first nine months 2013: MHRK 94.1).
- Net finance income decreased to MHRK 3.3 (first nine months 2013: MHRK 12.7) as a result of lower interest income and negative foreign exchange differences.
- Net profit decreased by 44.8% YoY to MHRK 58.9 (first nine months 2013: MHRK 106.8). ROS is 6.5% (first nine months 2013: 11.2%).
- Cash flow from operating activities is MHRK 133.3 (first nine months 2013: MHRK 70.4) as a result of successful collection of due receivables.

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- After the dividend payment in Q2, amounting to MHRK 424.9, total cash balances, including short term financial assets as at September 30, 2014, amount to MHRK 196.8, which accounts for 31.6% of total assets (end of 2013 : MHRK 521.2, i.e. 49.7% of total assets).
- The Company has a stable balance sheet with total assets of MHRK 622.9. The value of total assets decreased by 40.6% compared to end of 2013, as a result of decrease in cash and cash equivalents and short term financial assets. The equity ratio is 50%.
- The major transactions with related parties, were as follows: sales of products and services amount to MHRK 430.8 (first nine months 2013: MHRK 425.9), while the purchase of products and services amount to MHRK 265.7 (first nine months 2013: MHRK 343.7).
- Balances outstanding with related parties as at September 30, 2014 were as follows: MHRK 83.3 (end 2013: MHRK 71.8), and payables amounted to MHRK 39.1 (end 2013: MHRK 60.9).

Business situation in major markets

Domestic market sales revenue equals to the first nine months 2013, and amounts to MHRK 237.2.

The trends in the domestic electronic communication market are related to the expansion of new technologies, including the increase of subscriber connections in broadband Internet access, as well as positive trends in using TV program transmission service. In parallel with telephone service income decrease, the number of connections and Internet traffic increased the total income from Internet access service. Due to competition strengthening, different service packages and tariff models are offered.

During Q3 2014, the collaboration with the strategic partner Vipnet continues in various segments of mobile telecom network expansion and modernization, including the fourth generation mobile networks (LTE) and testing new functionalities, which contribute to the enhanced quality, as well as to new services for end users.

Business collaboration with HT successfully continues with the project of strategic migration to all-IP environment and other transformation projects, by which the operator's business efficiency will be enhanced. An agreement was signed regarding insourcing HT Technical Unit for Construction and Maintenance. Since, Sep1, 2014, 638 employees, who work on the activities mentioned above, were outsourced from HT and insourced by a newly founded daughter company, Ericsson Nikola Tesla Servisi d.o.o., 100% owned by Ericsson Nikola Tesla d.d.

With the mobile operator Tele 2, an intensive collaboration continues on further expansion of the existing infrastructure and new functionalities introduction in the segment of speed increase and service coverage.

In ICT Solutions for Industry and Society segment, major activities concern the national ICT healthcare system upgrading. Ericsson Nikola Tesla experts are currently finishing the migration of the Central Healthcare Information System of the Republic of Croatia (CEZIH) to new system software. Although the migration activities are not visible to end users, such as implementing ePrescription or eReferral, they are equally important, because they ensure the existing functionalities reliable operability in the long term, and they simplify adding new services, which will additionally increase the health care quality in the Republic of Croatia.

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Regarding the communication infrastructure, the Croatian Control Ltd (HKZP) chose Ericsson Nikola Tesla to execute the complete cross over from old technologies to new IP Technology. Introducing new IP technology will enable savings, and also a broad specter of new functionalities.

Among the realised projects, we would like to highlight the project of Digital Archive Information System (DAIS) for the Agency for Medicinal Products and Medical Devices of the Republic of Croatia (HALMED) financed by IPA fund. With this project, HALMED ensured everything necessary for the “paperless office“ to operate, as well as the HALMED integration with the European Medicines Agency.

[In export markets \(except for Ericsson market\)](#) sales revenue amounts to MHRK 241, a decrease by 19% YoY.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue decreased by 28% YoY and amounts to MHRK 126.6.

In Bosnia and Herzegovina market, the collaboration with BH Telecom and HT Mostar continues in the segment of 3G mobile network expansion. In Kosovo market the collaboration continues by expanding Ipko mobile network, as well in Montenegro with Montenegro Telekom.

The political and economic uncertainty in the region impacts the operators' investment cycles. In accordance, investments in further mobile and fixed networks expansion were prolonged for H2 2014, and were partially realized during Q3 2014.

In the Commonwealth of Independent States (CIS) markets, sales revenue amounts to MHRK 144.4, a decrease by 5% YoY. The activities on mobile networks upgrade with several key customers are ongoing.

[In the Ericsson market](#), sales revenue records an increase by 3 percent YoY. Sales revenue amounted to MHRK 433.3.

Research and Development Center (R&D) continues its successful operating. End of September, a regular meeting was held with the managers and representatives of Ericsson units, responsible for product development on which our R&D experts work on. Total excellent results and the quality of delivered functionalities and services were specially evaluated, which represents an excellent basis for the continuing collaboration and business increase. Currently, hiring new employees, who will work on new product generation development, is ongoing.

The Cloud Computing research and development as well as other research activities, partially financed by the EU funds, are successfully ongoing.

In fixed core network segment, where we have the global responsibility for development, implementation and support, we would like to highlight the activities related to customers in Italy, Malta and Poland.

The 14th International Summer Camp was held, in which 82 students from Croatia and abroad, mentored by Ericsson Nikola Tesla experts and the colleagues from other Ericsson R&D centers from Sweden, China and Hungary, worked on developing projects. A total of 28 projects were realized, regarding support to Company's laboratory for the Networked Society, IPTV, VisualCom and m-commerce, telecommunication network visualization and related services, research-development tools and efficiency, as well as software engineering and development.

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Ericsson is the winner of the M2M TeleHealth Award for the product „Remote Patient Monitoring“, developed for AT&T, for which Ericsson Nikola Tesla developed an m2mDM (Machine to Machine Data Management) platform. Our experts participate in the realization of this project from its very beginning, and by working together with their North American colleagues, develop new functionalities and support this solution.

Service Delivery Center experts have been engaged in numerous projects for the following customers: A1 Austria, Deutsche Telecom, EE Great Britain, Mobistar Belgium, Post Luxemburg, Vodafone Germany, Vodafone Great Britain, Vodafone Netherlands. We can highlight the activities related to the Media & Applications project for A1 Austria and Telenor Sweden, VoLTE projects for Vodafone Great Britain and Vodafone Netherlands, IMS “Pasau“ programme for Deutsche Telecom and network optimization projects for Mobistar Belgium. The Centers' experts have also been providing consulting services and services of configuration and dimensioning for KPN Netherlands, Slovak Telekom, Magyar Telecom Hungary, Mobilink Pakistan, STC Saudi Arabia, Telekom Slovenia, Turkcell Turkey, Vodafone Netherlands, Vodafone Germany.

The experts of the Global Competence Center work on realizing several strategic corporate projects. Our Global Center is the driver of Ericsson Customer Experience Management Mission 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...).

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Other information

Ericsson Nikola Tesla's Major Shareholders (as at September 30, 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	29,822	2.24
PBZ d.d. / The Bank of New York as custodian	22,407	1.68
Zagrebačka banka d.d. / Custodian client account for Unicredit Bank Austria AG	13,125	0.99
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	12,350	0.93
PBZ d.d. / Custodian Client Account	9,349	0.70
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Voluntary Pension Fund	7,934	0.60
Other shareholders	396,100	29.73

Information on share price in Q3 2014:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,509.50	1,250.10	1,413.00	1,881.6

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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 2014 to 30 Sep 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 30 September 2014

	2014	2013
	HRK '000	HRK '000
Sales revenue	911.463	954.371
Cost of sales	-789.155	-792.275
Gross profit	122.308	162.096
Selling expenses	-42.617	-45.056
Administrative expenses	-24.864	-23.317
Other operating income	2.434	257
Other operating expenses	-1.590	165
Operating profit	55.670	94.146
Finance income	3.258	12.714
Finance expense	-1	-59
Finance income – net	3.258	12.655
Profit before tax	58.928	106.801
Income tax	0	0
Profit for the year	58.928	106.801
Other comprehensive income	45	9
Total comprehensive income for the year	58.973	106.810

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 September 2014

	2014	2013
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	132.264	131.616
Intangible assets	1.368	2.112
Loans and receivables	14.351	18.801
Other non-current assets	40	40
Total non-current assets	<u>148.023</u>	<u>152.569</u>
Current assets		
Inventories	52.149	51.506
Trade receivables	135.318	246.152
Receivables from related parties	83.335	71.819
Other receivables	2.728	3.715
Income tax receivable	5	-
Financial assets at fair value through profit or loss	31.098	109.845
Prepayments and accrued income	4.616	1.156
Cash and cash equivalents	165.653	411.328
Total current assets	<u>474.902</u>	<u>895.521</u>
TOTAL ASSETS	<u>622.925</u>	<u>1.048.090</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-9.571	-9.571
Legal reserves	6.658	6.658
Retained earnings	181.505	540.884
Total equity	<u>311.757</u>	<u>671.136</u>
Non-current liabilities		
Interest-bearing borrowings	68	68
Employee benefits	5.224	4.697
Total non-current liabilities	<u>5.293</u>	<u>4.766</u>
Current liabilities		
Payables to related parties	39.095	60.936
Interest-bearing borrowings	270	309
Trade and other payables	117.625	148.426
Provisions	9.688	13.458
Accrued charges and deferred revenue	139.197	149.059
Total current liabilities	<u>305.875</u>	<u>372.188</u>
Total liabilities	<u>311.167</u>	<u>376.954</u>
TOTAL EQUITY AND LIABILITIES	<u>622.925</u>	<u>1.048.090</u>

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 30 September 2014

	2014	2013
	HRK '000	HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	58.928	106.801
Adjustments for:		
Depreciation and amortisation	33.757	29.089
Impairment losses and reversals	7.342	5.860
Net increase of provisions	1.349	1.030
(Gain)/loss on sale of property, plant and equipment	-41	-358
Net loss/(gain) on remeasurement of financial assets	-353	-658
Amortisation of discount	-161	-1.221
Interest income	-4.698	-8.329
Interest expense	1	59
Foreign exchange (gains)/losses	2.726	-2.906
Equity-settled transactions	6.555	1.643
	105.404	131.010
(Increase)/decrease in receivables	92.661	15.292
(Increase)/decrease in inventories	-643	-35.545
Increase/(decrease) in payables	-64.153	-40.294
<i>Cash generated from operations</i>	133.269	70.463
Interest paid	-1	-59
Income taxes (paid)/refunded	-5	0
Net cash from operating activities	133.263	70.404
Cash flows from investing activities		
Interest received	5.426	8.542
Proceeds from sale of property, plant and equipment	104	358
Purchases of property, plant and equipment, and intangible assets	-36.960	-48.056
Deposits collected/(placed) with financial institutions - net	964	-48
Disposal/(purchases) of financial assets at fair value through profit and loss	79.100	-30.660
Net cash used in investing activities	48.634	-69.865
Cash flows from financing activities		
Repayment of interest-bearing borrowings	0	-633
Purchase of treasury shares	0	-2.287
Dividends paid	-424.922	-218.450
Net cash used in financing activities	-424.922	-221.370
Effects of exchange rate changes on cash and cash equivalents	-2.650	2.810
Net decrease in cash and cash equivalents	-245.675	-218.021
Cash and cash equivalents at the beginning of the year	411.328	511.639
Cash and cash equivalents at the end of the year	165.653	293.618