

ERICSSON NIKOLA TESLA D.D.

The Management Report of the Company and Ericsson Nikola Tesla Group business performance and comments on the financial results for Q1 2015

Highlights:

- Sales revenues: MHRK 309.2
- Gross margin: 14.9 %
- Operating profit: MHRK 24.2
- Net profit: MHRK 25.2
- Cash flow from operations : MHRK 50.7

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

“During Q1 2015, Ericsson Nikola Tesla continued its stable business performance. We stay focused on implementing our strategic goals and initiatives related to the business development in all markets and the improvement of profitability through cost efficiency and business excellence. The program of cost reduction is progressing ahead of plan and shows solid results during Q1 2015. As far as sales in targeted areas are concerned, I would like to highlight significant results and an increased operators' interest in the segment of OSS and BSS.

Unfavorable economic trends and customer cautious approach to capital expenditure is still present. Compared to the same time period last year, a significant growth in revenue was realized in the Ericsson market. The markets of the Commonwealth of Independent States and Southeast Europe also record growth, thus partially neutralizing the decrease in revenue in the domestic market. Accordingly, total sales revenues decreased by 2% year-over-year. Currently, the Company has no financial exposure to Russia and Ukraine.

One of important achievements in Q1 is the continuation of the informatization of the state administration bodies. We have signed a contract with the Ministry of Justice and State Geodetic Administration regarding the upgrade and expansion of Joint Information System for Land Registry and Cadaster (JIS) that will enable Croatian citizens an easier and a faster access to data and create better prerequisites for business.

Revenues from research and development activities and services sales to Ericsson market are increasing and now account for more than half of the total revenue. This market segment also includes managed services sales to Hrvatski Telekom. This changing business mix put pressure on profitability but has simultaneously led to lower overall business and operational risks.

PRESS INFO

April 28, 2015



Net profit amounting to MHRK 25.2 was achieved, representing 8.1% return on sales (ROS). Gross margin is lower year-over year, as a result of change in business mix (increasing sales to Ericsson markets) and continuous price pressure from the operators. The selling and administrative expenses decreased by 18% year-over-year. We had a clear focus on working capital efficiency and cash conversion. Cash flow from operations amounted to MHRK 50.7 providing a high cash conversion rate of 130%. Cash and cash equivalents, including short term financial assets at the end of Q1, amount to MHRK 269.7.

In line with our strategy, we are focused on sales in mobile broadband access and our targeted areas: IP networks, Cloud, OSS & BSS, TV & Media and Industry & Society. At the recently held Mobile World Congress (MWC) in Barcelona, most of Ericsson key launches were related to the mentioned areas, including the new Router 6000 Series, the Hyperscale Cloud Solution, Expert Analytics 15.0, a new Media Delivery Network solution and Digital Telco Transformation. New Ericsson Radio System was also announced. This year again, Ericsson Nikola Tesla experts have contributed to presented Ericsson solutions, by participating in the development of several innovative solutions and applications.

We shall continue to innovatively contribute to Ericsson technology leadership and strengthen relations with customers and other partners. We continue to employ talented experts and to invest in the development of strategic knowledge and skills.“

Financial summary:

- Sales revenues amount to MHRK 309.2 (Q1 2014: MHRK 315.4), 2% decrease YoY. In total sales revenues, the domestic market accounts for 19.1%, services to Ericsson market account for 59%, and export to other markets is 21.9%.
- Sales in the network segment amounts to MHRK 138.4 (44.8% of total sales revenues), services segment amounts to MHRK 155.9 (50.4% of total sales revenues), and solution support segment amounts to MHRK 14.9 (4.8% of total sales revenues).
- Gross profit amounts to MHRK 46.1 (Q1 2014: MHRK 56.2), a decrease by 18% YoY. The gross margin decreased to 14.9% (Q1 2014: 17.8%) mainly due to changes in business mix.
- Selling and administrative expenses decreased by 18% YoY to MHRK 21 (Q1 2014: MHRK 25.5).
- The operating profit decreased by 22% YoY and amounts MHRK 24.2 (Q1 2014: MHRK 31.1).
- Financial income of MHRK 1 (Q1 2014: MHRK 3) was lower primarily due to less investable assets compared to previous years and lower yield environment.
- Net profit decreased by 26% YoY and amounts to MHRK 25.2 (Q1 2014: MHRK 34.1). Return on sales (ROS) is 8.1% (Q1 2014: 10.8%).
- Cash flow from operations is at a high MHRK 50.7 (Q1 2014: MHRK 9.9) allowing a high Cash conversion of 130%

PRESS INFO

April 28, 2015



- Total cash and cash equivalents, including short term financial assets as at March 31, 2015 amount to MHRK 269.7 (35.8% of total assets), while at the end of 2014 amounted to MHRK 231.0 (33.0% of total assets).
- The Company has a lean balance sheet with total assets of MHRK 752.7. The equity ratio is at a solid 48%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 167.7 (Q1 2014: MHRK 133.1), while the purchase of products and services amounted to MHRK 80.9 (Q1 2014: MHRK 93.8).
- As at March 31, 2015, Ericsson Nikola Tesla outstanding receivable amounted to MHRK 73.5 (end of 2014: MHRK 86.6), and outstanding payables were MHRK 58.8 (end of 2014: MHRK 46.5).

Business situation in major markets

In the domestic market, a total of MHRK 59 sales revenues was realized, 45% decrease year-over-year. The decrease in revenue is primarily due to changes in operators' investment trends. Operators' capital expenditures are expected in the network modernization and optimization. In addition, the operators' focus on a more efficient business shows the trend towards outsourcing build and maintenance of telecommunication network (managed services).

During Q1, the collaboration with the strategic partner Vipnet continued, primarily through the expansion and modernization of radio access and transport telecom network. Also, numerous testing of new functionalities have been performed in various core and access network segments, contributing to an increase in quality and new services for end users.

With Hrvatski Telekom (HT) we work on strategic projects related to HT network and services development. The introduction of the international DT IMS technology center that will provide services to other DT Group operators in the region is ongoing. Business collaboration with HT in Q1 was marked by continued implementation of MPLS (Multi-Protocol Label Switching) architecture in core, access and edge parts of IP network, as well as developing business collaboration with ISKON in the segment of support service provisioning. Also, Q1 was marked by a successful delivery of telecommunications infrastructure build and maintenance services.

Despite not being awarded 3G network modernization contract, we continued a solid collaboration with the mobile operator Tele2. During Q1, there was a continuous work on improving the core network infrastructure. Special attention was given to the further expansion of existing capacities and introducing new functionalities with the aim of introducing new Networked Society services and increasing the functional reliability.

In ICT solutions for Industry & Society business segment, a contract was signed with the Ministry of Justice and State Geodetic Administration regarding upgrade and expansion of Joint Information System for Land Registry and Cadaster (JIS). The project was financed by the World Bank funds and it represents a continuation of the previous contract focused on the development and expansion of the system by which JIS becomes the only comprehensive tool that integrates digitized data from land registry and cadaster for the entire territory of the Republic of Croatia.

PRESS INFO

April 28, 2015



Furthermore, a contract was also signed with the Croatian Health Insurance Fund (HZZO) and the Croatian Regulatory Authority for Network Industries (HAKOM), regarding further informatization of business processes in eHealth (eCare / eTherapy).

[In export markets \(except for Ericsson market\)](#) sales revenues amount to MHRK 67.7, an increase by 13% year-over-year, as a result of contracts / projects agreed during 2014. The political and economic uncertainty in the region and beyond is still present, which impacts the operators' investment cycle and delays tenders.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenues increased by 13% year-over-year, and amount to MHRK 44.2.

In Bosnia and Herzegovina market, the collaboration was continued with operators BH Telecom and HT Mostar in the segment of mobile networks modernization, with the special focus on new functionalities of mobile broadband access.

In Montenegro, Crnogorski Telekom and Ericsson Nikola Tesla successfully demonstrated LTE Advanced technology that enables a higher network capacity and improvement of the user experience with the downlink speed, up to 300 Mb/s.

In the Commonwealth of Independent States, sales revenues amount to MHRK 23.5, which is an increase by 19% year-over-year. The activities on projects of mobile networks build and modernization with several key customers are ongoing.

[In the Ericsson market](#), sales revenues amounted to MHRK 182.5, an increase by 22.4% year-over-year.

Ericsson Nikola Tesla Research and Development Center (R&D) continues its successful work. It is necessary to highlight the involvement in the development of modern "hyper scale data center" platform for the so called "cloud solutions". At the same time, intensive preparations for new development responsibilities in the area of LTE Radio Software are ongoing. At the end of March, a regular meeting was held with managers and representatives of Ericsson units, with which our R&D Center collaborates. The total results and the quality of work in the last six months were highly evaluated, which represents an excellent foundation for further business development.

Our global and regional centers show excellent results. In the fixed core network segment, where we have the global responsibility for development, implementation and support, we would like to highlight several successful projects for Vodafone Egypt, Vimpelcom Russia, Maroc Telecom Morocco, SK Telink South Korea and Telefonica Spain.

Service Delivery Center experts have been engaged in numerous projects on the markets worldwide for the following customers: A1 Austria, Vodafone Ireland, PostLUX Luxembourg, Vodafone and Liberty Global Netherlands, Swisscom Switzerland, Polkomtel Poland, P4 Poland, Translink Netherlands, Telekom Slovenia and Vodafone Great Britain. We can highlight the activities related to IPTV project for Vodafone Ireland, VoLTE project for Polkomtel Poland, VoWiFi project for P4 Poland, OSS project for PostLUX Luxembourg and Fabrix project for Swisscom Switzerland. The Centers' experts have also been providing consulting services and services of configuration and dimensioning for Deutsche Telekom Germany, Slovak Telekom Slovakia and Turkcell Turkey. There is intensive work ongoing regarding the development and implementation of software tools for mobile

PRESS INFO

April 28, 2015



networks managing and optimization, such as: Smart Laptop, E/// Design Optimization Service, Rehoming Automation Management Tool, Radio Network Proposal Tool, etc.

The Global Competence Centre experts (GCD) continue to be strongly engaged in the Ericsson Customer Experience Management program via Facebook project and Social Networked Application Coverage Kit (SNAC) of innovation activities.

Other information

Ericsson Nikola Tesla Annual General Meeting shall be held on June 2, 2015. The right to participate at the Annual General Meeting have all shareholders, or their proxies, respectively, who register to participate until May 26, 2015, at the latest. The shareholders who have the Company shares registered on their securities account in the Central Depository & Clearing Company on June 9, 2015, are entitled for the dividend payment in total amount of HRK 90 per share (HRK 20 regular dividend and HRK 70 extraordinary dividend). Ex-dividend date is June 8, 2015. The dividend shall be paid on June 19, 2015. The Notice of Ericsson Nikola Tesla Annual General Meeting, including the suggestions of all the decisions, was published on the Company's web page <http://www.ericsson.hr/20150416-notice>.

Ericsson Nikola Tesla major shareholders (as at March 31, 2015)

	No. of shares	% 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 Mandatory Pension Fund, B category	30.615	2.30
PBZ d.d. / State Street client account	27.460	2.06
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	14.320	1.08
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	12.350	0.93
PBZ d.d. / Custodian Client Account	10.542	0.79
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Voluntary Pension Fund	7.934	0.60
Other shareholders	396.074	29.73

PRESS INFO

April 28, 2015



Share price information in Q1 2015:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,390	1,285.45	1,325.01	1,764.4

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:

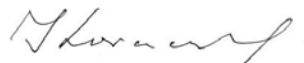
Statement of the Management Board responsibility

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 2015 to 31 March 2015 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 dark ink, appearing to read "Gordana Kovačević".

PRESS INFO

April 28, 2015



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

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

E-mail: 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 2015

	2015	2014
	HRK '000	HRK '000
Sales revenue	309.182	315.372
Cost of sales	-263.097	-259.187
Gross profit	46.086	56.186
Selling expenses	-12.375	-17.254
Administrative expenses	-8.657	-8.274
Other operating income	667	1.583
Other operating expenses	-1.528	-1.148
Operating profit	24.192	31.091
Finance income	1.050	2.982
Finance expense	-2	1
Finance income – net	1.048	2.983
Profit before tax	25.240	34.074
Income tax	-83	-
Profit for the year	25.157	34.074
Other comprehensive income	70	15
Total comprehensive income for the year	25.226	34.089

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 31 March 2015

	2015 HRK '000	2014 HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	143.613	135.715
Intangible assets	5.349	5.481
Loans and receivables	22.104	19.153
Equity securities	40	40
Total non-current assets	171.106	160.389
Current assets		
Inventories	55.624	30.946
Trade receivables	180.948	190.572
Receivables from related parties	69.334	81.849
Other receivables	2.199	2.820
Income tax receivable	9	8
Financial assets at fair value through profit or loss	34.898	44.081
Prepayments and accrued income	3.766	1.956
Cash and cash equivalents	234.793	186.963
Total current assets	581.571	539.195
TOTAL ASSETS	752.676	699.584
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-8.462	-8.462
Legal reserves	6.658	6.658
Retained earnings	229.923	204.106
Total equity	361.284	335.467
Non-current liabilities		
Interest-bearing borrowings	-	32
Employee benefits	5.722	5.622
Other non-current liabilities	8.965	8.933
Total non-current liabilities	14.687	14.587
Current liabilities		
Payables to related parties	53.983	41.661
Interest-bearing borrowings	37	356
Trade and other payables	163.393	147.559
Provisions	10.159	11.073
Accrued charges and deferred revenue	149.132	148.881
Total current liabilities	376.705	349.530
Total liabilities	391.392	364.117
TOTAL EQUITY AND LIABILITIES	752.676	699.584

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 31 March 2015

	2015 HRK '000	2014 HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	25.240	34.074
Adjustments for:		
Depreciation and amortisation	11.925	10.935
Impairment losses and reversals	321	1.519
Net increase of provisions	2.296	-784
Gain on sale of property, plant and equipment	-97	-34
Net gain on remeasurement of financial assets	-65	-104
Amortisation of discount	0	-83
Interest income	-1.066	-2.235
Interest expense	2	-1
Foreign exchange losses/(gains)	-327	-705
Equity-settled transactions	668	2.351
	38.898	44.933
<i>Changes in working capital</i>		
In receivables	17.788	24.176
In inventories	-24.678	-9.160
In payables	18.648	-50.092
<i>Cash generated from operations</i>	50.655	9.858
Interest paid	-2	1
Income taxes paid	-2	-
Net cash from operating activities	50.652	9.858
Cash flows from investing activities		
Interest received	1.287	2.429
Proceeds from sale of property, plant and equipment	197	67
Purchases of property, plant and equipment, and intangible assets	-13.091	-11.432
Deposits collected with financial institutions - net	10	-
Proceeds from sale of financial assets at fair value through profit and loss	9.248	5.921
Net cash generated/(used) in investing activities	-2.349	-3.015
Cash flows from financing activities		
Dividends paid	-	-9
Net cash used in financing activities	-	-9
Effects of exchange rate changes on cash and cash equivalents	-473	987
Net increase/decrease in cash and cash equivalents	47.830	7.822
Cash and cash equivalents at the beginning of the year	186.963	411.328
Cash and cash equivalents at the end of the year	234.793	419.150