
ERICSSON NIKOLA TESLA D.D.

The Management Report on the Ericsson Nikola Tesla Group performance and comments on financial results in 2013

Highlights:

- Sales revenue: MHRK **1,345.2**
- Gross margin: **16.4%**
- Operating profit: MHRK **127.2**
- Net profit: MHRK **144.4**
- Cash flow from operating activities: MHRK **141.2**

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

“Despite the challenging business environment in all markets, Ericsson Nikola Tesla in 2013 achieved excellent business results and strengthened its market position. During the year, we continued to work on numerous strategic projects and initiatives, relying on technological leadership, our employees' skills and competences, as well as on partnership with our customers. The activities focused on the efficiency improvement and cost optimization contributed to good results, contributing to profitability increase.

Consequently, operating profit increased by 9.1%, while net profit increased by 13.7% YoY. Gross margin increased to 16.4%, primarily due to a more favorable product/service mix. Return on sales (ROS) increased to 10.7%. Total cash balances, including current financial assets, amounted to MHRK 521.2 as at December 31, 2013. The Company ended the year with a solid cash flow from operating activities, amounting to MHRK 141.2 and cash conversion of 98%. The Company has a stabile balance sheet with total assets of MHRK 1,048.1 and equity ratio of 64%.

A positive trend in sales revenues was recorded in almost all markets. In the domestic market, telecom operators continued to invest in electronic communication, primarily due to implementation of new technologies (IMS, 3G network expansion, LTE...). During 2013, we strengthened our market share in the Croatian market and achieved an increase in sales revenue, despite of an uncertain economic

situation. A significant increase in sales revenue was also achieved in the neighboring countries, where, among other things, we signed a strategic contract in the area of the transformation systems for Operation Support (OSS) in Bosnia and Herzegovina market. We also worked on implementing 3G network in Kosovo and commissioned LTE in Montenegro. In CIS markets, the Company is repositioning itself, in order to adjust to the challenging and dynamic market environment. Sales revenues decreased YoY, as expected, considering the large deal with Rostelecom, which was signed and almost fully realized in 2012. The activities on modernization and building of mobile networks with the customers in Georgia and Russia, as well as on implementation of a pilot project of the healthcare information system in Armenia, are ongoing.

We continue to contribute to the vision of the networked society and Ericsson technological leadership with innovative e-Solutions such as e-Health, e-Call, e-Cadaster and land registry etc.

A significant part of our activities is related to research and development activities, and other expert activities within the Ericsson market. During the year, we have strengthened our position, which resulted in the increased business volume and new responsibilities. Sales revenue from research and development activities in the segments of advanced radio networks, platforms and fixed network servers, as well as from the other expert centers' activities, account for 42% of total sales revenue.

In 2013, we solidified our core business, employed 160 professionals mainly on research and development activities, and marked the 60th anniversary of the collaboration with the Ericsson Corporation. We also took important steps to build a leadership position in new and targeted key areas (4G/LTE, OSS/BSS, TV and media distribution, services and cloud solutions). We are gradually increasing allocation of resources and continuously develop competencies in the specified key areas. Furthermore, we continue to stay more focused on profitable growth, higher efficiency, further working capital improvement and competitiveness.

Over time, we expect the telecommunication industry in our markets to recover. A further growth in demand for fast and ultra-fast Internet access, multimedia content and cloud services is expected. The number of users of "smart" mobile user devices will significantly grow (smartphone and tablets). There will be a strong growth in fixed and mobile network data traffic. Mobile broadband access will continue its strong growth, by further implementing 3G and 3.5G mobile technologies, and in Croatia, by more intensive implementation of LTE Technology.

In edge and core networks, the transformation to "all IP" next generation convergent networks will continue. We also expect modernization of OSS (Operation Support System) and BSS (Business Support System), as well as the IPTV platforms. All this will, in the end, enable the operators to provide a broad spectrum of convergent services with the emphasis on the greater end user experience.

The long term basis of our industry remains attractive and, with our strategic initiatives, we are well positioned for further supporting our customers in a transforming ICT market”.

Financial Summary:

- Sales revenues decreased by 29.7% YoY to MHRK 1,345.2 (2012: MHRK 1,913.3). In total sales revenue the domestic market accounts for 25.3%, and export accounts for 74.7% (Ericsson market 42.3%, and other export markets account for 32.4%).
- Network sales amounted to MHRK 769.1 (57.2% of total sales), Services amounted to MHRK 535.2 (39.8% of total sales), and Support Solutions amounted to MHRK 40.9 (3% of total sales).
- Gross profit of MHRK 220.1 (2012: MHRK 211.6), increased by 4% YoY. Gross margin increased to 16.4% (2012: 11.1%) as a result of a more favorable product/service mix.
- Distribution and administrative expenses decreased by 3.9% to MHRK 93.4 (2012: MHRK 97.2).
- Operating profit increased by 9.1% to MHRK 127.2 (2012: MHRK 116.6) primarily as a result of products/service mix, further efficiency increase and financial risk management.
- Net finance income decreased by 29.9% YoY to MHRK 17.1 (2012: MHRK 24.4), as a result of lower interest gains, partially offset by foreign exchange gains.
- Net profit increased by 13.7% YoY to MHRK 144.4 (2012: MHRK 126.9). Return on sales (ROS) is 10.7% (2012: 6.6%).
- Cash flow from operating activities amounted to MHRK 141.2 (2012: MHRK 297.8). The cash conversion is 98%.
- Total cash balances, including current financial assets as at December 31, 2013 amounted to MHRK 521.2 (49.7% of total assets), compared to MHRK 657 (56.2% of total assets) as at December 31, 2012.
- The Company has a stabile balance sheet with total assets of MHRK 1,048.1. The equity ratio is 64 %.
- As at December 31, 2013 Ericsson Nikola Tesla receivables outstanding amounted to MHRK 360 (end of 2012: MHRK 385.3).
- Major transactions with related parties were as follows: sales of products and services amounted to MHRK 576.4 (2012: MHRK 567.1), purchase of products and services amounted to MHRK 477.7 (2012: MHRK 1,088.3).

- Receivables outstanding with related parties, as at December 31, 2013, amounted to MHRK 71.8 (end of 2012: MHRK 81.2), and payables outstanding were MHRK 60.9 (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 to be comparable with the current reporting period.

Business Situation in Major Markets

In the domestic market, sales revenues amounted to MHRK 341, showing growth of 27% YoY.

During 2013, a successful collaboration with the strategic partner Vipnet continued in various segments. The expansion and modernization of radio access infrastructure continues, including the fourth generation of mobile networks (LTE), and the testing of new functionalities, which contribute to the increased quality as well as new services for end users. The collaboration on building and modernization of radio transmitting network, as well as the core network package expansion continues. The negotiations were successfully completed and an agreement on continuation of collaboration in modernization segment and IMS system expansion was signed, which opens numerous possibilities for new convergent solutions and services.

Business collaboration with T-HT resulted in successful integration of solution, based on IMS backbone, for providing new generation services towards more demanding business users. The migration program to all-IP network continued, which is T-HT strategic guideline in its transformation to a modern operator. Thus, the number of migrated users that use all-IP environment as a primary telephone line rapidly increases. Currently, the implementation and execution of the acceptance tests for the projects of centralized RCS (Rich Communication Suite) solution into IMS environment reached the final stage. With this, T-HT will start to use the potentials of a convergent architecture. Besides, Ericsson Nikola Tesla and T-HT simultaneously work on a number of other projects, which will increase business efficiency.

During the year, with the mobile operator Tele2, there was continuous work on further 2G and 3G infrastructure construction, and implementation of new functionalities, with special emphasis on increasing the speed and mobile broadband internet access coverage. A successful collaboration with this operator was also confirmed by signing the contract on core network comprehensive modernization and the contract on complete support service for all the new nodes. In Q4 the modernization of Tele2 network core nodes was finished, which allowed the operator to efficiently introduce new networked society services.

In ICT for Industry & Society Segment, major activities are on upgrading the national ICT healthcare system, informatization of Land registry administration and upgrade/ expansion of communication infrastructure for utility and transport companies.

In export markets (except for Ericsson market) sales revenue decreased by 60% to MHRK 435.5, as a result of decreased sales revenue in CIS markets.

In the neighboring countries (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenue increased by 25% YoY to MHRK 256.6.

The collaboration with the operators in the region on network upgrade and modernization continues. With BH Telecom, the largest telecom operator in Bosnia and Herzegovina, activities continue on 2G and 3G networks expansion and modernization. A pilot project related to LTE technology (4G) introduction is ongoing. We should highlight the contract with BH Telecom in OSS segment. In Q4, the contract on modernization of part of BH Telecom core network was signed. Within the contract, the existing MSS commutation subsystem upgrade and capacity increase was planned. The contract encompasses the latest version of Ericsson IP Multimedia system, which will enable BH Telecom to offer new multimedia services and further develop in the direction of IP-fication and convergence.

With HT Mostar, we collaborate on the expansion of coverage on the entire Bosnia and Herzegovina territory with 3G base stations, as well as on their connecting with the radio relay systems (Mini link). In Montenegro, major activities are on upgrade and modernization of mobile core network, IMS core network, expansion and optimization of radio access network performances and introduction of LTE technology.

Major activities in Kosovo are related to implementation of 3G technologies. In the beginning of the year, with the operator Ipko, a framework contract was signed, which defines strategic relations for the following period. Furthermore, earlier agreed projects, related to hardware and software upgrade of individual nodes of the existing network, i.e. the modernization of network elements, which in Ipko 's network, are in charge of data transmission, were realized, as well as introducing new WiFi solutions.

In ICT for Industry & Society Segment activities related to expansion and upgrade of Operational Communication Center (OKC) 112 ICT infrastructure in Bosnia and Herzegovina are ongoing.

In CIS market, sales revenues decreased by 80% YoY to MHRK 178.9, as expected, considering the large contract on the equipment delivery for 2G and 3G mobile network to Rostelecom, which was signed and almost fully realized in 2012. The activities on mobile network modernization and construction with the customers in Georgia and Russia are ongoing. In Q4, a contract on delivering a

networked information health care system (e-Health system) pilot project was signed in Armenia. The implementation of this system also covers the execution of central hospital information system.

[In the Ericsson market](#), sales revenue increased by 3% YoY to MHRK 568.7.

Ericsson Nikola Tesla Research and Development Center (R&D) successfully continued its activities on developing new functionalities and expanding its portfolio and responsibilities on a global level. Within the core network segment, a series of new functionalities was developed, related to Internet protocols, with a high level of quality of delivery. Our R&D teams contributed to development of new product generation in User data management. The Cabinet Viewer prototype, realized in Ericsson Nikola Tesla, was listed in the standard product line.

The Radio Platform Development Unit took over the activities on the verification for IP security micro RBS products and in general expanded the responsibilities in the scope of continued integration testing cycles.

In fixed core network segment, where we have the global responsibility for the development, delivery and software packages maintenance and delivering services to customers worldwide, broad expert knowledge contributed to the continuity of excellent results. We should highlight the projects for Morocco Telecom, MoC Kuwait, CTM Macao, Telenor Sweden.

Research activities concerning "Cloud Computing", financially supported by EU funds were expanded and placed in strategic focus for further development of telecommunication functionalities and services. The activity on the project named "eWall", for the development of support to senior citizens life, is continued.

Remote Patient Monitoring, developed for AT&T, within which Ericsson Nikola Tesla developed m2m SE (m2m Service Enablement) platform, was commissioned.

Service Delivery Center experts have been engaged in numerous projects for the following customers: A1 Austria, Deutsche Telecom, KPN Group Belgium, Eircom Ireland, EPT Luxembourg, Magyar Telecom Hungary, Mobistar Belgium, Polkomtel Poland, Swisscom Switzerland, Telefonica O2 Great Britain, Telenor Sweden, Vodafone Czech Republic, Vodafone Georgia, Vodafone Netherlands and Vodafone Germany. We can highlight mobile system SWAP for EPT Luxembourg, IPTV project for Telenor Sweden, VoLTE IP BB design and network integration for Deutsche Telecom, activities in the segment of LTE system for Swisscom Switzerland, Telefonica O2 Great Britain and Vodafone Germany and OSS/BSS projects for numerous customers in the Ericsson Region Western and Central Europe.

The Centers' experts have also been providing consulting services and optimization, configuration and dimensioning services for A1 Austria, EE Great Britain, H3G Austria, MCCI Iran, Mosaic Ireland, One Macedonia and P4 Poland, Slovak Telecom, Telefonica Great Britain, Tele2 Norway, Ufone Pakistan

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and Vodafone Netherlands. The services related to mobile network management, as well as the corresponding tools for network optimization were delivered to Spain, Switzerland, Italy, Germany and Japan. One of our products, Smart laptop, was recognized on the global level, and its implementation program to all Ericsson regions is ongoing.

The Global Competence Centre was assigned new responsibilities in IMS, IP and User Data Management segments. Smart Rollout Support tool, developed in our Center became an official NRO (network rollout tool) for RWCE.

Other information

Ericsson Nikola Tesla major shareholders (as at Dec 31, 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
PBZ d.d. / State Street client account	31.467	2.36
Hypo Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje Mandatory Pension Fund	30.615	2.30
Zagrebačka banka d.d. / Custodian Account for Unicredit Bank Austria AG	22.802	1.71
PBZ d.d. / The Bank of New York as custodian	18.284	1.37
Societe Generale-Splitska banka d.d./ AZ Mandatory Pension Fund	15.376	1.15
PBZ d.d. / Custodian Client Account	12.969	0.97
Societe Generale-Splitska banka d.d.	8.062	0.61
Other shareholders	382.197	28.71

Share price information in 2012:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,584.00	1,234.00	1,470.00	1,957.5

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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:

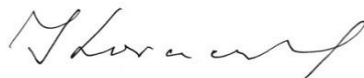
Statement of the Management Board responsibility

The accompanying consolidated and non-consolidated 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.

Audited financial statements for the period 1 Jan 2013 to 31 Dec 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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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 December 2013

	2013	2012
	HRK '000	HRK '000
Sales revenue	1.345.226	1.913.304
Cost of sales	-1.125.093	-1.701.672
Gross profit	220.133	211.632
Selling expenses	-60.694	-61.095
Administrative expenses	-32.676	-36.080
Other operating income	2.120	3.586
Other operating expenses	-1.644	-1.432
Operating profit	127.239	116.611
Finance income	17.284	24.487
Finance expense	-163	-80
Finance income – net	17.121	24.407
Profit before tax	144.360	141.018
Income tax	-5	-14.105
Profit for the year	144.355	126.913
Other comprehensive income	13	5
Total comprehensive income for the year	144.368	126.918

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

	2013 HRK '000	2012 HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	131.616	117.026
Intangible assets	2.112	4.314
Loans and receivables	18.801	30.413
Equity securities	40	40
Total non-current assets	152.569	151.793
Current assets		
Inventories	51.506	33.268
Trade receivables	246.152	227.586
Receivables from related parties	71.819	81.190
Other receivables	3.715	15.169
Financial assets at fair value through profit or loss	109.845	145.365
Prepayments and accrued income	1.156	3.655
Cash and cash equivalents	411.328	511.639
Total current assets	895.521	1.017.872
TOTAL ASSETS	1.048.090	1.169.665
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-9.571	-6.928
Legal reserves	6.658	20.110
Retained earnings	540.884	608.381
Total equity	671.136	754.728
Non-current liabilities		
Interest-bearing borrowings	68	12
Employee benefits	4.697	4.452
Total non-current liabilities	4.766	4.464
Current liabilities		
Payables to related parties	60.936	115.690
Interest-bearing borrowings	309	1.710
Trade and other payables	148.426	123.615
Provisions	13.458	18.566
Accrued charges and deferred revenue	149.059	150.892
Total current liabilities	372.188	410.473
Total liabilities	376.954	414.937
TOTAL EQUITY AND LIABILITIES	1.048.090	1.169.665

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

	2013 HRK '000	2012 HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	144.360	141.018
Adjustments for:		
Depreciation and amortisation	40.282	44.619
Impairment losses and reversals	955	1.738
Net increase of provisions	5.178	16.837
(Gain)/loss on sale of property, plant and equipment	-448	-202
Net loss/(gain) on remeasurement of financial assets	-1.479	-2.536
Amortisation of discount	-2.003	-3.021
Interest income	-10.036	-20.625
Interest expense	163	80
Foreign exchange (gains)/losses	-1.332	-3.206
Equity-settled transactions	3.645	5.257
	179.286	179.959
(Increase)/decrease in receivables	10.631	65.424
(Increase)/decrease in inventories	-18.238	-10.563
Increase/(decrease) in payables	-30.333	63.137
<i>Cash generated from operations</i>	141.346	297.957
Interest paid	-163	-80
Income taxes (paid)/refunded	-5	-113
Net cash from operating activities	141.178	297.764
Cash flows from investing activities		
Interest received	11.800	22.258
Proceeds from sale of property, plant and equipment	4.957	4.919
Purchases of property, plant and equipment, and intangible assets	-63.806	-33.073
Deposits collected/(placed) with financial institutions - net	-	594
Disposal/(purchases) of financial assets at fair value through profit and loss	37.000	-74.572
Net cash used in investing activities	-10.049	-79.874
Cash flows from financing activities		
Repayment of interest-bearing borrowings	-1.669	-1.710
Purchase of treasury shares	-5.754	-2.463
Dividends paid	-225.851	-225.695
Net cash used in financing activities	-233.274	-229.867
Effects of exchange rate changes on cash and cash equivalents	1.835	-1.689
Net decrease in cash and cash equivalents	-100.310	-13.666
Cash and cash equivalents at the beginning of the year	511.639	525.305
Cash and cash equivalents at the end of the year	411.329	511.639