
ERICSSON NIKOLA TESLA D.D.

Report on the Ericsson Nikola Tesla Group's business situation and comments on the financial results for H1 2013

Highlights

- Sales revenue: **MHRK 673.6**
- Gross margin: **19%**
- Operating profit: **MHRK 84**
- Net profit: **MHRK 88**
- Cash flow from operating activities: **MHRK 10.7**

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

“The Company continued its successful business performance during H1, being focused on profitable growth, efficiency, cash flow and risk management. Operating profit increased by 34.6%, while net profit increased by 9.7% YoY. Gross margin increased to 19%, primarily due to favorable product mix. Return on sales (ROS) increased to 13.1%. Despite dividend payment in June, total cash balances, including current financial assets, remained at the high level of MHRK 429.8 at the end of the H1. Cash flow from operating activities is positive. The Company's balance sheet remained strong with total assets of MHRK 989.4 and equity ratio of 62.5%.

Sales revenue records a positive trend in all markets, except CIS. I am very pleased with the sales revenue increase in domestic and regional markets and continuous good results in the Ericsson market. In CIS markets sales revenue decreased as expected, reflecting a large single contract on equipment delivery for Rostelecom in 2012. Intensive sales activities in these markets are ongoing, resulting in new business opportunities, primarily in Georgia and Russia.

Our strong focus on export markets resulted in a high export proportion of 75% in the total sales revenue. A vast majority of export activities, accounting for even 43% in total sales revenue, refer to export of knowledge, i.e. research and development and other expertise. The Company promotes innovativeness aiming at creation of new values and business opportunities, this year having resulted in almost 400 innovative ideas and 4 new patent proposals.

In implementing our long-term business strategy, we are focused on profitable growth based on technology leadership, leadership in services, regional/global presence and e2e concept. We continue to strengthen our leading position in 4G/LTE and are focused on TV and media distribution as well as OSS and BSS solutions. Knowledge and skills development of our employees have an important place in the Company's strategy.

Although in 2013 economic uncertainty and business challenges are still present, ICT has a great potential and an important role in development of business and society as a whole. On the way towards networked society, the Company is well positioned to continue to support its partners and customers in a transforming ICT market."

Financial Summary

- Sales revenue decreased by 21% YoY to MHRK 673.6 (H1 2012: MHRK 853.4). In total sales revenue the domestic market accounts for 25%, export to Ericsson markets accounts for 43%, and export to other markets accounts for 32%.
- Network sales amounted to MHRK 410.1 (61% of the total sales revenue), Services MHRK 248.1 (37%) and Support Solutions MHRK 15.4 (2%).
- Gross profit of MHRK 128.2 (H1 2012: MHRK 109.7) increased by 17% YoY. Gross margin increased to 19% (H1 2012: 12.9%), reflecting favorable product/service mix.
- Distribution and administrative expenses are reduced to MHRK 45.5 (H1 2012: MHRK 47.8) reflecting improved efficiency.
- Operating profit increased by 34.6% to MHRK 84 (H1 2012: MHRK 62.4) primarily due to product/service mix and increased efficiency.
- Net finance income decreased to MHRK 3.9 (H1 2012: MHRK 17.8) reflecting lower interest income and negative currency deviations.
- The net profit increased by 9.7% YoY, amounting to MHRK 88 (H1 2012: MHRK 80.2). Return on sales (ROS) increased to 13.1% (H1 2012: 9.4%).
- Cash flow from operating activities amounted to MHRK 10.7 (H1 2012: MHRK 174.3).
- Total cash balances, including current financial assets as at June 30, 2013 amounted to MHRK 429.8 (43.4% of total assets) compared to MHRK 657 (56.2% of total assets) as at December 31, 2012.
- As at June 30, 2013, Ericsson Nikola Tesla receivables outstanding amounted to MHRK 396.8 (end of 2012: 385.3).
- With related parties, transactions were as follows: sales of products and services amounted to MHRK 292.9 (H1 2012: 277.7), while the purchase of products and services amounted to MHRK 263.8 (H1 2012: MHRK 736.5).
- Balances outstanding with related parties, as at June 30, 2013, were as follows: receivables totaled MHRK 63.7 (end of 2012: MHRK 81.2), and payables totaled MHRK 121.2 (end of 2012: MHRK 115.7).
- Due to 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 165.5, showing YoY growth by 29%.

During Q2 the collaboration with the strategic partner Vipnet continued in the segment of expansion and upgrading the radio access infrastructure, including the 4G mobile networks (LTE), as well as in the segment of core network upgrade by implementation and testing of new functionalities that will add to the increased quality and new services for end users. In addition, the collaboration continued on building and upgrading of the radio transmission network.

The business collaboration with Hrvatski Telekom (T-HT) has continued on the migration of voice services users to all-IP environment, as well as on the implementation of the IP/MPLS new generation backbone network. Ericsson Nikola Tesla is also the primary integrator in the integration of the application server for the new generation business users.

The successful collaboration on IMS in the fixed network has resulted in more than half a million of IMS subscribers, who use this system as the primary telephone line. With the project for integration of the centralized RCS (Rich Communication Suite) solution into T-HT IMS environment, this collaboration has been also expanded to the mobile network. The project goal is to enable T-HT subscribers a simple usage of standardized services, such as chat, presence information and media sharing.

In Q2 the upgrade of core nodes in Tele2 network, which will enable the operator to grow in the mobile broadband services segment and develop new services, started. Further on, the building of 2G and 3G infrastructure continues, with a focus on transmission rate and increased capacity in the radio access network.

The major focus in ICT for Industry and Society Segment was on upgrading the national ICT healthcare system.

In export markets (except for Ericsson market) sales decreased by 51% YoY to MHRK 219.2.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenues increased by 69% YoY, amounting to MHRK 111.5.

During Q2 the Company signed several contracts on the upgrade and extension of mobile and fixed networks.

The cooperation with BH Telecom regarding expansion and modernization of 2G and 3G networks as well as the strategic preparation for transition to LTE technology continued. BH Telecom and Ericsson Nikola Tesla have launched a pilot project related to the implementation of LTE technology (4G). Currently, market research activities and the possibility of 4G technology application for BH Telecom users are ongoing.

In the CIS markets, sales revenue decreased 72% YoY to MHRK 107.7. Despite the solid sales revenues generated in Russia and Belarus, such a significant sales decrease YoY is due to large 2012 contract on the delivery of the equipment for 2G and 3G mobile networks to Rostelecom, the leading Russian telecom service provider.

In the Ericsson market, the sales revenues amounted to MHRK 288.9, an increase of 6% YoY.

In the core network segment, the Research and Development Center developed a number of new functionalities relating to internet protocol. In the platform segment of activities, a complex project related to LTE network hardware and software solutions, EVO ET was completed. This solution has a worldwide application (Australia, Sweden, Switzerland, Portugal and Croatia). Furthermore, the development of SMBB (Smart Mobile Broadband) platform for one of the most important products in the latest network generation, i.e. – WiFi Controller, has been started.

Responsibilities relating to User Data Management were extended, as a result of excellent collaboration on actual product development. This was confirmed by a special award granted by the global organization in charge of development. Cabinet Viewer prototype, developed by Ericsson Nikola Tesla, has been included in Ericsson roadmap as a candidate.

In the research segment, 4 new patent proposals have been finalized. A new project related to software development for cloud computing, financed by EU funds, was launched.

Experts from Service and Solutions Delivery Centers worked on numerous projects for the following customers: A1 Austria, Deutsche Telekom, EPT Luxembourg, KPN Group Belgium, Magyar Telecom Hungary, Mobistar Belgium, Polkomtel Poland, Swisscom Switzerland, Telefonica O2 Great Britain, Telenor Sweden, Vodafone Czech Republic, Vodafone Germany. We can highlight mobile systems SWAP for EPT Luxembourg, IPTV project („TVinPeaks project“) for Telenor Sweden and activities related to LTE systems for Vodafone Germany and Swisscom Switzerland.

In addition, experts were also providing consulting and services of configuration and dimensioning for A1 Austria, H3G Austria, MCCI Iran, Slovak Telecom, Telefonica Great Britain, Tele2 Norway, Ufone Pakistan, Vodafone the Netherlands. Services related to mobile networks management and the corresponding tools for networks optimization have been delivered to Spain, Switzerland, Italy, Germany and Japan. One of our products, i.e. Smart Laptop was recognized at the global level, and its implementation into all Ericsson regions is currently going on.

The Global Competence Centre was awarded new responsibilities in IMS, IP and User Data Management segment.

Other information

At the Shareholders' Annual Meeting held on May 28, 2013 a decision was taken on the ordinary dividend payout in the amount of HRK 20 per share and extraordinary dividend payout in the amount of HRK 150 per share. The dividend payout was effected on June 26, 2013 to all shareholders who on May 21, 2013 had Company's shares registered on their securities account in the Central Depository & Clearing Company.

Since the dividend payout was effected from 2003 retained earnings and a part of 2004 retained earnings, the Company will keep the calculated tax and surtax for physical persons on its account until the final decision by the Constitutional Court. After that, the Company will act in accordance with the Court decision.

Ericsson Nikola Tesla major shareholders (as at June 30, 2013)

	<i>No. of shares</i>	<i>% of share capital</i>
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
Zagrebačkabankad.d. / Custodian client account for Unicredit Bank Austria AG	30,894	2.32
Hypo Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje Mandatory Pension Fund	30,615	2,30
PBZ d.d. / State Street client account	25,475	1.91
PBZ d.d. / The Bank of New York as custodian	18,906	1.42
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	15,376	1.15
PBZ d.d. / custodian client account	11,461	0.86
SocieteGenerale-Splitska banka d.d.	8,062	0.61
Other shareholders	380,983	28.61

Q2 2013 share price information:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (MHRK)
1,584.00	1,234.00	1,451.99	1,933.5

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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 June 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



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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 June 2013

	2013	2012
	HRK '000	HRK '000
Sales revenue	673.578	853.424
Cost of sales	545.411	743.725
Gross profit	128.167	109.700
Selling expenses	-29.902	-31.106
Administrative expenses	-15.570	-16.677
Other operating income	2.336	1.782
Other operating expenses	-1.001	-1.280
Operating profit/(loss)	84.030	62.418
Finance income	3.977	17.880
Finance expense	-40	-121
Finance income – net	3.938	17.759
Profit before tax	87.968	80.177
Income tax	0	0
Profit for the year	87.968	80.177
Other comprehensive income	0	0
Total comprehensive income for the year	87.968	80.177

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 June 2013

	2013	2012
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	115.679	117.026
Intangible assets	3.227	4.314
Loans and receivables	24.384	30.413
Equity securities	40	40
Deferred tax assets	-	-
Total non-current assets	<u>143.330</u>	<u>151.793</u>
Current assets		
Inventories	61.924	33.268
Trade receivables	263.644	227.586
Receivables from related parties	63.743	81.190
Other receivables	19.712	15.169
Income tax receivable	-	-
Financial assets at fair value through profit or loss	157.125	145.365
Prepayments and accrued income	7.313	3.655
Cash and cash equivalents	272.648	511.639
Total current assets	<u>846.109</u>	<u>1.017.872</u>
TOTAL ASSETS	<u>989.440</u>	<u>1.169.665</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-6.928	-6.928
Legal reserves	6.658	20.110
Retained earnings	485.031	608.382
Total equity	<u>617.927</u>	<u>754.728</u>
Non-current liabilities		
Interest-bearing borrowings	23	12
Employee benefits	4.584	4.452
Total non-current liabilities	<u>4.607</u>	<u>4.464</u>
Current liabilities		
Payables to related parties	121.158	115.690
Interest-bearing borrowings	1.386	1.710
Trade and other payables	94.081	123.615
Provisions	13.287	18.566
Accrued charges and deferred revenue	136.995	150.892
Total current liabilities	<u>366.906</u>	<u>410.473</u>
Total liabilities	<u>371.513</u>	<u>414.937</u>
TOTAL EQUITY AND LIABILITIES	<u>989.440</u>	<u>1.169.665</u>

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

	2013	2012
	HRK '000	HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	87.968	80.177
Adjustments for:		
Depreciation and amortisation	18.947	22.393
Impairment losses and reversals	946	1.298
Net increase of provisions	1.048	12.156
(Gain)/loss on sale of property, plant and equipment	-346	1
Net loss/(gain) on remeasurement of financial assets	-99	120
Amortisation of discount	-874	-1.951
Interest income	-6.504	-14.437
Interest expense	40	121
Foreign exchange gains	4.122	745
Equity-settled transactions	1.095	2.936
	106.342	103.559
(Increase)/Decrease in receivables	-23.868	-247.484
(Increase)/decrease in inventories	-28.656	-304.829
Increase/(decrease) in payables	-43.090	623.175
<i>Cash generated from operations</i>	10.728	174.420
Interest paid	-40	-121
Income taxes (paid)/refunded	0	0
Net cash from operating activities	10.688	174.299
Cash flows from investing activities		
Interest received	6.466	13.967
Proceeds from sale of property, plant and equipment	346	69
Purchases of property, plant and equipment, and intangible assets	-23.270	-11.765
Deposits collected/(placed) with financial institutions - net	94	57
Disposal/(purchases) of financial assets at fair value through profit and loss	-11.660	10.801
Net cash used in investing activities	-28.025	13.128
Cash flows from financing activities		
Repayment of interest-bearing borrowings	-314	-855
Purchase of treasury shares	0	0
Dividends paid	-218.450	-225.695
Net cash used in financing activities	-218.764	-226.550
Effects of exchange rate changes on cash and cash equivalents	-2.890	6
Net increase in cash and cash equivalents	-238.991	-39.117
Cash and cash equivalents at the beginning of the year	511.639	525.305
Cash and cash equivalents at the end of the year	272.648	486.188