
ERICSSON NIKOLA TESLA D.D.

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

Highlights:

- Sales revenues: MHRK **967.6**
- Gross margin: **12.9 %**
- Operating profit: MHRK **61.2**
- Net profit: MHRK **60.9**
- Cash flow from operating activities: MHRK **138.1**

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

"Sales revenues in the first nine months 2015 increased by 6.2% year-over-year. A significant increase in revenue was recorded in Ericsson market, thus neutralizing revenue decrease in other markets. During 2015, Ericsson Nikola Tesla Group employed 410 new professionals.

Almost all the key financial performance indicators show positive trends. Operating profit increased by 10% year-over-year to MHRK 61.2, while net profit increased by 3% to MHRK 60.9. Gross margin is lower year-over-year, as a result of change in business mix (increase in services to Ericsson) and a continuous price pressure. This change in business mix results in lower margin, however, at the same time it reduces exposure to business and operating risks. Our continuous focus on cost efficiency brings good results. Sales and administrative costs decreased by 11% year-over-year, thus ensuring a solid operating profit growth. A strong cash flow from operating activities of MHRK 138.1, allowed build-up of the total cash balances, including short term financial assets to MHRK 195.8. The working capital efficiency, measured by the performance indicator Working Capital Days (WCD) is 33 days. The cash conversion rate is at high 138%.

In the domestic market, together with the intensive activities with our key customers in the operator segment, I believe that the role of Ericsson Nikola Tesla is recognized in the informatization of national healthcare system and the realization of projects that ensure a more efficient management at the state administration level. Sales revenues decreased year-over-year, because our customers in the radio access network and eSystems segments postponed their investments or delayed contract signing. As far as the export markets are concerned, new business opportunities, primarily in Bosnia & Herzegovina, are expected in the next period. In CIS market, marketing and sales activities are ongoing on several projects in the telecom, as well as in the Industry & Society segment (eHealth).

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End of September, we marked the 15th Anniversary of Ericsson Nikola Tesla Summer Camp. This project is one of the successful examples of bringing together education and economy, launched in collaboration with the Faculty of Electrical Engineering and Computing in 2001. To this day, more than 600 students participated in the Summer Camp and together with the support of their mentors from Croatia and abroad, they realized more than 400 projects. In this way, we find top talents and strengthen our position in a demanding global market, and at the same time, we provide an opportunity for students to work in teams on innovative high-tech projects.

During the third quarter we launched a new cycle of strategic planning for the period up to 2018, by analyzing the current situation in all relevant markets and trends related to the future developments in the ICT industry. Our goal is to strengthen the position in strategic business segments (4G/LTE, OSS/BSS, TV & Media, Managed Services, Industry & Society). Moreover, on the Ericsson market, we want to keep and extend our responsibilities, while maintaining a high quality of delivered services.

With our strategic initiatives, we are well positioned to create values to our customers in a transforming ICT market.”

Financial summary:

- Sales revenues amount to MHRK 967.6 (first nine months 2014: MHRK 911.5), 6.2% increase year-over-year. Of the total sales revenues, the domestic market accounts for 21.2%, services to Ericsson account for 60.4%, while other export markets participate with 18.4%.
- Sales in the network segment amounts to MHRK 438.8 (45.4% of the total sales revenue), services segment amounts to MHRK 496.9 (51.3% of the total sales revenue), and support solution segment accounts for MHRK 31.9 (3.3% of the total sales revenue).
- Gross profit amounts to MHRK 124.6 (first nine months 2014: MHRK 122.3), an increase by 2% year-over-year. Gross margin decreased to 12.9% (first nine months 2014: 13.4%), primarily due to business mix changes.
- Distribution and administrative expenses decreased by 11% year-over-year and amount to MHRK 60.1 (first nine months 2014: MHRK 67.5).
- Operating profit increased by 10% year-over-year and amounts to MHRK 61.2 (first nine months 2014: MHRK 55.7).
- Net finance income is MHRK 0.1 (first nine months 2014: MHRK 3.3) primarily due to lower interest income and net foreign exchange losses on cash and short-term financial assets as a result of HRK appreciation.
- Net profit increased by 3% year-over-year and amounts to MHRK 60.9 (first nine months 2014: MHRK 58.9). Return on Sales (ROS) is 6.3% (first nine months 2014: 6.5%).
- Cash flow from operating activities is MHRK 138.1 (first nine months 2014: MHRK 133.3). The cash conversion rate is at 138%. WCD is 33 days.

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- Total cash and cash equivalents, including short term financial assets, as at 30 September 2015 amount to MHRK 195.8 (31.5% of the total assets), while at the end of 2014 amounted to MHRK 231.0 (33.0% of the total assets).
- The Company has a lean balance sheet with total assets of MHRK 621.5. The equity ratio is at solid 44.9%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 610.8 (first nine months 2014: MHRK 430.8), while the purchase of products and services amounted to MHRK 199.2 (first nine months 2014: MHRK 265.7).
- As at 30 September 2015, balances outstanding with related parties were as follows: receivables amounted to MHRK 105.4 (end 2014: MHRK 86.6), and payables MHRK 37.5 (end 2014: MHRK 46.5).

Business situation in major markets

In the domestic market sales revenues amounted to MHRK 205.6, 13.3% decrease year-over-year.

During Q3, the collaboration with the strategic partner Vipnet continued on the modernization of radio access network and transport telecom network, as well as on increasing the capacity of 3G and 4G technology. Further testing is ongoing, regarding new functionalities in various core and radio access network segments that contribute to the increased quality and new services to end users.

With Hrvatski Telekom (HT) we are working on strategic projects related to development and transformation of network and services, and we continue to provide the services of telecommunications infrastructure build and maintenance.

With Tele2, activities are ongoing on software upgrading and finalizing the project of enhancing functional reliability of core network infrastructure. The focus is placed on further enhancing the capacities of transmission network in the segments of microwave connections and fiber technologies.

In the business segment of ICT solutions for Industry & Society, a two-year contract was signed regarding maintenance and upgrades of CEZIH – Central Healthcare Information System of the Republic of Croatia. Furthermore, the contract was signed with Hrvatska elektroprivreda (HEP) relating to maintenance of communication network. For the Ministry of the Interior of the Republic of Croatia for the need of Operational and communication center we successfully implemented the solution for assistance in emergency situations.

In export markets (except for Ericsson market), sales revenues amount to MHRK 177.6, 26.3% decrease year-over-year. The unfavorable political and economic situation impacts the operators' investment.

In Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenues decreased by 2.7% year-over-year to MHRK 123.2.

In Bosnia and Herzegovina, the collaboration with BH Telecom and HT Mostar (HT Eronet) continues in the segment of modernizing fixed and mobile networks with an emphasis on mobile broadband internet access.

With HT Eronet, a contract was signed related to the Evolved Packet Core, a technology solution that ensures greater capacities and the development of new services.

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In Montenegro market, with Crnogorski Telekom, we continue our successful collaboration on expanding and upgrading the radio access network (2G, 3G and LTE). During Q3, the Mobile Positioning System (MPS), which enables positioning of the mobile subscribers who are calling the Emergency call number 112, was implemented.

For the Ministry of the Interior of Montenegro we successfully implemented a new solution for emergency calls 112 based on Coordcom solution.

In Kosovo market, with the operator IPKO, we continued collaboration in the segment of radio access network expansion and the upgrade of microwave and 2G/3G/4G radio networks.

In CIS market, sales revenues amount to MHRK 54.4, 52.4% decrease year-over-year. The marketing and sales activities are ongoing on several projects in the telecom, as well as in the Industry & Society segment (eHealth).

In Ericsson market, sales revenues amounted to MHRK 584.4, an increase by 34.9% year-over-year. Ericsson Nikola Tesla Servisi d.o.o. (managed services) contributed with MHRK 125.8.

Within the Ericsson Nikola Tesla Research and Development Centre (R&D), along with activities on numerous development projects, the transfer of competencies and responsibilities for several work domains was finished. We should highlight the software application development within the Radio Development Unit. In other Development Units (PDU Mobile Core, PDU User Data Management, PDU Infrastructure & Hardware and BUGS Global legacy & Harvest Network) all the activities were carried out successfully and according to plan.

End of September, a series of meetings were held between R&D Development Units with the representatives of Ericsson Product Development Units. Based on the detailed business performance analysis, at the final meeting held in Zagreb, the quality of work and the current high ranking of our center were highlighted. The results confirm continuity of excellence and boost the future work and development of collaboration.

Service Delivery Center experts have been engaged in numerous projects for the following customers: Base Belgium, Deutsche Telekom Germany, EE Great Britain, Translink Netherlands, Vodafone Czech Republic, Vodafone Ireland, Swisscom Switzerland, P4 Poland. We can highlight the activities connected with the IPTV project for Vodafone Ireland, Order care project for Translink Netherlands, VoLTE and WiFi projects for EE Great Britain, PostLUX Luxembourg and Vodafone Czech Republic.

The Centre's experts also provided consulting services and services of configuration and dimensioning for Orange Botswana, Vodafone Netherlands, T-mobile Czech Republic, Turkcell Turkey and MTN and Zain Sudan. There is intensive work ongoing on developing and implementing software tools for mobile network management and optimization, such as: Smart Laptop, E/// Design Optimization Service, Smart Rollout Support, Rehoming Automation Management Tool, Radio Network Proposal Tool, etc.

The Global Competence Domain for RAN & OSS has ongoing activities on Facebook project. The responsibility for RAN network e2e optimization has been obtained.

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Other information

Ericsson Nikola Tesla's major shareholders (as at 30 September 2015)

	Number 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 osiguranje Mandatory Pension Fund, B category	27,523	2.07
PBZ d.d. / State Street client account	23,542	1.77
PBZ d.d. / The Bank of New York as custodian	22,367	1.68
Zagrebačka banka d.d. / Custodian client account for Unicredit Bank Austria AG	17,320	1.30
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	12,350	0.93
PBZ d.d. / Custodian Client Account	10,988	0.83
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Voluntary Pension Fund	7,934	0.60
Other shareholders	399,678	30.00

Information on share price in Q3 2015:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,177.99	1,030.01	1,051.01	1,399.6

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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 2015 to 30 Sep 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", is written over a faint, light-colored rectangular stamp or watermark.

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For more information about Ericsson Nikola Tesla's business performance, please visit:

<http://www.ericsson.hr>

Communication

Ericsson Nikola Tesla

Ericsson Nikola Tesla d.d.
 Consolidated statement of comprehensive income
 for the period ended 30 September 2015

	2015	2014
	HRK '000	HRK '000
Sales revenue	967.615	911.463
Cost of sales	-842.970	-789.155
Gross profit	124.645	122.308
Selling expenses	-35.552	-42.617
Administrative expenses	-24.524	-24.864
Other operating income	2.152	2.434
Other operating expenses	-5.535	-1.590
Operating profit	61.186	55.670
Finance income	281	3.258
Finance expense	-176	-1
Finance (expense)/income – net	<i>104</i>	<i>3.258</i>
Profit before tax	61.290	58.928
Income tax	-396	-
Profit for the year	60.894	58.928
Other comprehensive income	-59	45
Total comprehensive income for the year	60.835	58.973

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 September 2015

	2015	2014
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	145.093	135.715
Intangible assets	6.700	5.481
Loans and receivables	19.198	19.153
Equity securities	40	40
Total non-current assets	<u>171.032</u>	<u>160.389</u>
Current assets		
Inventories	32.254	30.946
Trade receivables	110.148	190.572
Receivables from related parties	102.519	81.849
Other receivables	1.462	2.820
Income tax receivable	515	8
Financial assets at fair value through profit or loss	27.892	44.081
Prepayments and accrued income	7.752	1.956
Cash and cash equivalents	167.946	186.963
Total current assets	<u>450.487</u>	<u>539.195</u>
TOTAL ASSETS	<u>621.519</u>	<u>699.584</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-8.462	-8.462
Legal reserves	6.658	6.658
Retained earnings	147.651	204.106
Total equity	<u>279.012</u>	<u>335.467</u>
Non-current liabilities		
Interest-bearing borrowings	-	32
Employee benefits	5.733	5.622
Other non-current liabilities	11.030	8.933
Total non-current liabilities	<u>16.763</u>	<u>14.587</u>
Current liabilities		
Payables to related parties	29.507	41.661
Interest-bearing borrowings	10	356
Trade and other payables	136.476	147.559
Provisions	7.198	11.073
Accrued charges and deferred revenue	152.552	148.881
Total current liabilities	<u>325.743</u>	<u>349.530</u>
Total liabilities	<u>342.506</u>	<u>364.117</u>
TOTAL EQUITY AND LIABILITIES	<u>621.519</u>	<u>699.584</u>

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 30 September 2015

	2015 HRK '000	2014 HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	61.290	58.928
Adjustments for:		
Depreciation and amortisation	38.412	33.757
Impairment losses and reversals	1.542	7.342
Net increase of provisions	1.628	1.349
Gain on sale of property, plant and equipment	-172	-41
Net gain on remeasurement of financial assets	47	-353
Amortisation of discount	0	-161
Interest income	-2.543	-4.698
Interest expense	176	1
Foreign exchange losses/(gains)	2.112	2.726
Equity-settled transactions	-2.304	6.555
	100.187	105.404
<i>Changes in working capital</i>		
In receivables	53.975	92.661
In inventories	-1.308	-643
In payables	-12.886	-64.153
<i>Cash generated from operations</i>	139.968	133.269
Interest paid	-177	-1
Income taxes paid	-1.717	-5
Net cash from operating activities	138.074	133.263
Cash flows from investing activities		
Interest received	2.445	5.426
Proceeds from sale of property, plant and equipment	295	104
Purchases of property, plant and equipment, and intangible assets	-53.736	-36.960
Deposits collected with financial institutions - net	62	964
Purchases of financial assets at fair value through profit and loss	78.142	105.000
Proceeds from sale of financial assets at fair value through profit and loss	-62.000	-25.900
Net cash generated/(used) in investing activities	-34.792	48.634
Cash flows from financing activities		
Dividends paid	-119.714	-424.919
Net cash used in financing activities	-119.714	-424.919
Effects of exchange rate changes on cash and cash equivalents	-2.585	-2.650
Net increase/decrease in cash and cash equivalents	-19.017	-245.675
Cash and cash equivalents at the beginning of the year	186.963	411.328
Cash and cash equivalents at the end of the year	167.946	165.653