

## ERICSSON NIKOLA TESLA D.D.

The Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for the nine months of 2016

### Highlights:

- Sales revenue: MHRK **1,134.3**
- Gross margin: **10.7%**
- Operating income: MHRK **59.7**
- Profit before tax: MHRK **62.4**
- Net profit: MHRK **58.2**
- Cash flow from operating activities: MHRK **75.1**

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

„During the first nine months, Ericsson Nikola Tesla continued its stable business performance. Sales revenue increased by 17% year-over-year, due to a significant increase in revenue in CIS and Ericsson market, thus neutralizing the decline in revenue in the domestic market, as well as the markets of Southeast Europe.

Despite the demanding market environment, our investments in new solutions development, as well as strong marketing and sales activities brought us success in CIS market. The main activities there concern the healthcare informatization in Kazakhstan, and the implementation of LTE networks in Belarus, Moldova and Armenia. During Q3, in collaboration with the Armenian operator Ucom, an advanced LTE network was rolled out in the capital city of Yerevan. Furthermore, the collaboration was agreed with the Belarusian company beCloud, regarding the delivery of LTE network and related services in three regions of the Republic of Belarus.

Export of services to Ericsson is growing, due to business expansion and new responsibilities in R&D center and Service Expertise Unit, which shows that the quality and added values that we deliver have been recognized by Corporation and the customers worldwide. Since the beginning of 2016, we hired 227 experts, most of whom work on research and development of new ICT products, solutions and services that address the Networked Society requirements.

In the markets of Southeast Europe, we record a decrease in sales revenue due to negative economic trends and complex political situation. In the domestic market, strong competition, as well as global customers/operators'

consolidation and centralization of sourcing processes, pose additional challenges. In the eSystems segment, many projects have been postponed due to early parliamentary elections.

In the first nine months 2016, net profit amounted to MHRK 58.2, representing 5.1% ROS. Gross margin is lower year-over-year, due to changing business mix and continued price pressure. We continue to exercise firm cost control. Sales and administrative costs decreased by 1.5% year-over-year. The end of the quarter was concluded with a lean balance sheet and an equity ratio of 31.6%. A positive cash flow from operating activities was realized, amounting to MHRK 75.1. The total cash, including short-term financial assets, amounts to MHRK 193.8. Working capital efficiency remains strong, expressed in working capital days of 25. The cash conversion rate is 59%.

Estimated income tax expense disclosed for the period amounts to HRK 4.2 million. Income tax is calculated based on the tax laws, which includes the use of the Program relating to tax incentives for research and development projects and accompanying tax loss. Since the Program expired on 31 December 2014, the legal basis for applying for new research and development projects does not exist. Accordingly, income tax expense was recognized based on the estimate that the remaining tax reliefs and tax loss are not sufficient to offset the income tax base.

At the end of September, we marked the closing of 16<sup>th</sup> Ericsson Nikola Tesla Summer Camp. In this year's Summer Camp, a total of 62 students from 16 faculties from Croatia and neighboring countries participated. With the help of their mentors they worked on 26 projects in the following segments: IoT, Big Data, e/m Health and SW tools. Over time, Summer Camp became a recognizable and valued brand, representing an example of quality collaboration between business and the academic community. More than 700 students, who participated in the Summer Camp during the last 16 years, had the opportunity to work in real ICT industry environment, and to participate in the process of creating the latest technology products, solutions and services.

During the third quarter we launched a new cycle of strategic planning for the period up to 2019, by analyzing the current situation in all relevant business and technology segments and trends relating to the future developments in the ICT industry. Our goal is to strengthen business performance in strategic segments through transformation programs (4G/LTE, Managed Services, Operations and Business Support Systems, Cloud, Industry & Society), as well as Ericsson internal market. It is expected that economic uncertainty and unfavorable industry trends will continue in the future period. Therefore, a significant place in our strategy is dedicated to responsible risk management and cost and efficiency.

We continue to strengthen our technology leadership through innovation and invest in knowledge and competences of our employees, because that is precisely what makes us a strong business partner to existing and new customers. “

### Financial highlights for the Group:

- Sales revenue amounts to MHRK 1,134.3 (first nine months 2015: MHRK 967.6), 17.2% increase year-over-year. Of the total sales revenue, the domestic market accounts for 16.3%, services to Ericsson account for 56% (of which 11.7% relates to Managed Services in Croatia), while other export markets participate with 27.7%.

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- Sales in the network segment amounts to MHRK 551.4 (48.6% of the total sales revenue), services segment amounts to MHRK 563.2 (49.7% of the total sales revenue), and support solutions segment accounts for MHRK 19.7 (1.7% of the total sales).
- Gross profit amounts to MHRK 120.8 (first nine months 2015: MHRK 124.6), down by 3% year-over-year. Due to changing business mix and continued price pressure, gross margin decreased to 10.7% (first nine months 2015: 12.9%).
- Selling and administrative expenses decreased by 1.5% year-over-year to MHRK 59.2 (first nine months 2015: MHRK 60.1).
- Operating income decreased by 2.5% year-over-year and amounts to MHRK 59.7 (first nine months 2015: MHRK 61.2).
- Net finance income is MHRK 2.8 (first nine months 2015: MHRK 0.1), primarily due to revaluation of financial assets.
- Profit before tax increased by 1.8% year-over-year and amounts to MHRK 62.4 (first nine months 2015: MHRK 61.3). The estimated income tax expense amounts to MHRK 4.2 (first nine months 2015: MHRK 0.4).
- Net profit is MHRK 58.2 (first nine months 2015: MHRK 60.9). ROS is 5.1% (first nine months 2015: 6.3%).
- Cash flow from operating activities is MHRK 75.1 (first nine months 2015: MHRK 138.1).
- Total cash and cash equivalents, including short term financial assets, as at September 30, 2016 amount to MHRK 193.8 (26.1% of the total assets), while at the end of 2015 they amounted to MHRK 287.1 (39.7% of the total assets).
- The Group has a lean balance sheet with total assets of MHRK 741.9 (end of 2015: MHRK 723.9). The equity ratio is at 31.6%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 649.6 (first nine months 2015: MHRK 610.8), while procurement of products and services amounted to MHRK 299.4 (first nine months 2015: MHRK 199.2).
- As at September 30, 2016 balances outstanding with related parties were as follows: receivables amounted to MHRK 100.6 (end of 2015: MHRK 117.0), and payables MHRK 92.5 (end of 2015: MHRK 52.7).

### Business situation in main markets

In the domestic market, the total sales revenue amounted to MHRK 185.2, a decrease by 9.9 percent year-over-year.

The cooperation with the strategic partner Vipnet has continued on the modernization of radio access network and transport telecom network, as well as on 3G and 4G technology capacity increase. Further testing of new

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functionalities is ongoing in various areas of core and access network that contribute to the increased quality and new services for end users.

Business cooperation with Hrvatski Telekom has continued in the segment of modernization of the fixed telecom network, delivering solutions for Hrvatski Telekom's access IP network and transport network. Activities in the segment of telecom infrastructure build and maintenance services have intensified. Activities related to identification and realization of future projects are ongoing.

With the mobile operator Tele2, we engaged in the upgrade of software support for the network core nodes monitoring system. In order to insure sufficient network data transfer capacity, we worked on the transport network upgrade in microwave and fiber optic areas. Furthermore, we provide support and maintenance services for Tele2 entire telecom network.

In the field of ICT solutions for Industry & Society, we have continued the healthcare informatization (eHealth). In cooperation with the Croatian Health Insurance Fund (HZZO) we started the implementation of the eHealth Record, as well as the Portal for Patients available through eCitizens system.

Implementation of the Joint Information System of Land Registry and Cadaster continues with success and will be completed with the inclusion of the Zagreb Municipal Office for Cadaster.

In export markets (Ericsson market excluded) sales revenue amounted to MHRK 313.9, an increase by 76.8 percent year-over-year.

In Southeast Europe markets (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue decreased by 21.8 percent year-over-year and amounts to MHRK 96.3. The unfavorable economic and political situation continues to have a negative impact on operators' investment dynamics making them extremely slow. Cooperation with operators in fixed and mobile networks maintenance has continued.

In Q3, a contract related to fixed core network modernization, using the state-of-the-art Ericsson solutions, was signed with the Bosnia & Herzegovina operator HT Mostar. This modernization will enable quick development of fixed and mobile multimedia services in HT Mostar network.

In the Commonwealth of Independent States market, sales revenue amounted to MHRK 217.6, an increase by 300.1 percent year-over-year. The realization of projects in Kazakhstan, Belarus, Moldova and Armenia is ongoing.

During Q3, the collaboration on LTE network delivery, roll out and related services was agreed with the Belarusian company beCloud. This project that will be implemented by end 2017, belongs to the second phase of LTE technology introduction in three Belarusian regions.

In cooperation with the Armenian operator Ucom, an advanced LTE network, based on Ericsson multi-standard radio equipment and the best in class Antenna Integrated Radio (AIR) system, was rolled out in the area of the capital city of Yerevan. The roll out of this network supports the rapidly increasing data traffic in Armenia, and enables an increased quality, speed and more advanced applications.

In the Ericsson market, sales revenue amounted to MHRK 635.2, an increase by 8.7 percent year-over-year.

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In the Research & Development, activities related to software application and platform development for radio systems within the Network Radio Development Unit significantly increased. Activities within the development units Mobile Core, User Data Management and Cloud are ongoing as planned.

Research projects are strongly focused on the segment of Big Data processing and analysis as well as on the virtualization and cloud solutions.

Ericsson Nikola Tesla Summer Camp that lasted five weeks gathered 62 students from Croatia and neighboring countries. Led by their mentors, they worked on 26 projects in the areas of Big Data processing and analysis; IoT, e/m-Health and Virtual and Augmented Reality.

Service and Solutions Delivery Center experts have been engaged in projects for customers worldwide: BASE (Belgium), DIGI (Hungary), POST (Luxembourg), Tango (Luxembourg), Telefonica (Germany), Deutsche Telekom Group, Telekom Austria Group, Vodafone (United Kingdom), Swisscom (Switzerland), Telekom Slovenije (Slovenia), Turk Telekom (Turkey), etc. We can highlight the activities related to Virtualization/Cloud for POST (Luxembourg) and Tango (Luxembourg), VSPP (Video Storage & Processing Platform) for Swisscom (Switzerland), ONE Core and BSS for Telekom Austria Group, and UDM (User Data Management) for BASE (Belgium), DIGI (Hungary) and Vodafone (United Kingdom). With our radio access network competence domain regional team transferring to Global Services Organization, Ericsson Nikola Tesla became an important site in the Global Expertise Unit, according to the number of experts. We would like to highlight that the experts of this unit developed the tool for supporting Key Events (Key Event Experience) that was used during the Olympic Games in Brazil. Furthermore, we provided e2e solutions design and consultancy services for KPN (Netherlands), MTN (Iran), Slovak Telekom (Slovakia), and Telefonica O2 (United Kingdom), as well as to Ericsson Teams in the Regions Western and Central Europe and Middle East.

There is a substantive engagement in the development and implementation of software tools for mobile networks management and optimization, such as: Smart Laptop, Smart Rollout Support, Rehoming Automation Management Tool, Radio Network Proposal Tool, Ericsson Network Engineer, Extended Support Request, etc.

The contribution of the company Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to revenue in this market segment amounts to MHRK 133.3. From key activities towards Hrvatski Telekom in the past quarter, we would like to highlight a successful completion of the VDSL (Very high bit rate Digital Subscriber Line) user migration project, successful continuation of the project regarding capacity increase and mobile broadband coverage as well as additional engagement in the program of design and construction of fiber optic networks. Activities towards other customers in Europe in the area of radio access network modernization and fiber optic network design and build expanded. The transformation process aimed to adaptation to new business models and accompanying standards in the segment of telecom network build and maintenance services is ongoing.

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### Other information

Overview of major shareholders of Ericsson Nikola Tesla (as at September 30, 2016)

	Number of shares	% of share capital held
Telefonaktiebolaget LM Ericsson	653,473	49.07
Addiko 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	41,890	3.15
Addiko bank d.d. / PBZ Croatia osiguranje Mandatory Pension Fund, B category	22,627	1.70
PBZ d.d. / The Bank of New York as custodian	21,298	1.60
Zagrebačka banka d.d. / custodian account for Unicredit Bank Austria AG	17,280	1.30
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	13,705	1.03
Addiko bank d.d. / Raiffeisen Voluntary Pension Fund	7,934	0.60
PBZ d.d. / custodian client account	7,295	0.55
OTP BANKA d.d./INS683	6,225	0.47
Other shareholders	416,409	31.25

Share prices in Q3 2016:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (MHRK)
1,165	1,000.03	1,142	1,520.7

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Ericsson Nikola Tesla d.d.  
Krapinska 45  
Zagreb

OIB: 84214771175

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:

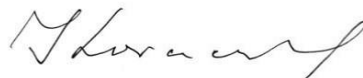
### **Statement of the Management Board responsibility**

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 2016 to 30 Sep 2016 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".

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For more information about Ericsson Nikola Tesla's business, please visit <http://www.ericsson.hr>



**ENCLOSURE 1**

Reporting period:

1.1.2016.

to

30.9.2016

**Quarterly Financial Report TFI-POD**

Tax number (MB): 03272699

Registration number (MBS): 080002028

Personal identification  
number (OIB): 84214771175

Issuer: ERICSSON NIKOLA TESLA D.D. ZAGREB

Postal code and location: 10000

ZAGREB

Street and number: Krapinska 45

E-mail: [etk.company@ericsson.com](mailto:etk.company@ericsson.com)Internet address: [www.ericsson.hr](http://www.ericsson.hr)

Code and city / municipality: 133 ZAGREB

Code and county: 21 GRAD ZAGREB

Number of employees: 2.083  
(at the end of year)

Consolidated Report: NO

Business activity code: 2630

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

Book-keeping office:

Contact person: Tatjana Ricijaš

(Name and surname of contact person)

Telephone: +385 (0)1 365 3343

Telefaks: +385 (0)1 365 3174

E-mail: [tatjana.ricijas@ericsson.com](mailto:tatjana.ricijas@ericsson.com)

Name and surname: Kovačević Gordana

(authorized representatives)

**Documents to be published:**

1. Financial Statements (Balance Sheet, Income statement, Cash Flow Statement, Statement of Changes in Equity)
2. Management Commentary Statement with notes
3. Responsibility of the Management for the preparation of the financial statements

(seal)

(signature of authorized representative)

**Balance Sheet**  
as at 30 September 2016

Issuer: Ericsson Nikola Tesla d.d.			
Item	AOP	Previous period	Current period
1	2	3	4
<b>A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL</b>	<b>001</b>		
<b>B) NON CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>146.403.814</b>	<b>195.650.444</b>
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	814.351	1.251.605
1. Research & Development expenditure	<b>004</b>		
2. Patents, licences, royalties, trade marks, software&similar rights	<b>005</b>	814.351	1.251.605
3. Goodwill	<b>006</b>		0
4. Prepayments for intangible assets	<b>007</b>		
5. Intangible assets under construction	<b>008</b>		
6. Other intangible assets	<b>009</b>		
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	<b>010</b>	126.281.544	109.630.074
1. Land	<b>011</b>	15.605.344	15.605.344
2. Property	<b>012</b>	28.795.979	27.312.186
3. Plants and equipment	<b>013</b>	76.099.189	54.282.984
4. Tools, plants&vehicles	<b>014</b>	4.160.106	4.979.415
5. Biological asset	<b>015</b>		
6. Prepayments for tangible assets	<b>016</b>		
7. Assets under construction	<b>017</b>	1.529.374	7.364.429
8. Other tangible assets	<b>018</b>	91.552	85.716
9. Investments property	<b>019</b>		
III. FINANCIAL ASSETS (021 do 028)	<b>020</b>	7.388.900	17.513.108
1. Investments in subsidiaries	<b>021</b>	73.385	73.385
2. Loans to subsidiaries	<b>022</b>		
3. Participating interests (stakes)	<b>023</b>		
4. Loans to participating interest	<b>024</b>		
5. Investments in securities	<b>025</b>		
6. Loans & deposits	<b>026</b>	7.315.515	17.439.723
7. Other non-current financial assets	<b>027</b>		
8. Investment accounted by equity method	<b>028</b>		
IV. RECEIVABLES (030 do 032)	<b>029</b>	11.919.018	67.255.656
1. Receivables from subsidiaries	<b>030</b>	3.087.341	1.887.364
2. Receivables from credit sales	<b>031</b>	4.996.512	61.639.315
3. Other receivables	<b>032</b>	3.835.165	3.728.977
V. DEFERRED TAX ASSETS	<b>033</b>		0
<b>C) CURENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>542.930.938</b>	<b>502.686.721</b>
I. INVENTORIES (036 do 042)	<b>035</b>	19.760.973	55.341.116
1. Raw materials & consumables	<b>036</b>	16.698	116.712
2. Work in progress	<b>037</b>	19.725.777	55.205.907
3. Products	<b>038</b>		
4. Merchandise	<b>039</b>		
5. Prepayments for inventories	<b>040</b>	18.498	18.498
6. Other available-for-sale assets	<b>041</b>		
7. Biological asset	<b>042</b>		
II. RECEIVABLES (044 do 049)	<b>043</b>	250.753.689	266.941.173
1. Receivables for trade debt of subsidiaries	<b>044</b>	117.472.219	99.658.722
2. Trade receivables	<b>045</b>	130.219.180	164.949.933
3. Receivables for trade debts of participating entities	<b>046</b>		
4. Amounts receivable from employees	<b>047</b>		
5. Receivables from government agencies	<b>048</b>	1.216.957	1.249.513
6. Other receivables	<b>049</b>	1.845.334	1.083.005
III. FINANCIAL ASSETS (051 do 057)	<b>050</b>	53.916.783	85.583.873
1. Investments in subsidiaries	<b>051</b>		
2. Loans to subsidiaries	<b>052</b>		
3. Participating interests (stakes)	<b>053</b>		
4. Loans to participating interest	<b>054</b>		
5. Investments in securities	<b>055</b>	53.916.783	85.583.873
6. Loans & deposits	<b>056</b>		
7. Other financial assets	<b>057</b>		
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	218.499.492	94.820.559
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>1.836.290</b>	<b>6.893.030</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>691.171.041</b>	<b>705.230.195</b>
<b>F) OFF-BALANCE SHEET ITEMS</b>	<b>061</b>		

<b>EQUITY AND LIABILITIES</b>			
<b>A) EQUITY (063+064+065+071+072+075+078)</b>	<b>062</b>	<b>300.427.129</b>	<b>225.480.056</b>
I. SHARE CAPITAL	<b>063</b>	133.165.000	133.165.000
II. CAPITAL RESERVES	<b>064</b>		
III. RESERVES FROM PROFIT (066+067-068+069+070)	<b>065</b>	21.131.256	21.131.256
1. Legal reserves	<b>066</b>	6.658.250	6.658.250
2. Reserves for treasury shares	<b>067</b>	17.907.366	17.907.366
3. Treasury shares and stakes (less)	<b>068</b>	3.434.360	3.434.360
4. Statutory reserves	<b>069</b>		
5. Other reserves	<b>070</b>		
IV. REVALUATION RESERVES	<b>071</b>		
V. RETAINED EARNINGS (073-074)	<b>072</b>	56.490.462	14.232.223
1. Retained earnings	<b>073</b>	56.490.462	14.232.223
2. Loss brought forward	<b>074</b>		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	<b>075</b>	89.640.412	56.951.578
1. Profit for the financial year	<b>076</b>	89.640.412	56.951.578
2. Loss for the financial year	<b>077</b>		
VII. MINORITY INTEREST	<b>078</b>		
<b>B) PROVISIONS (080 do 082)</b>	<b>079</b>	5.623.193	5.645.237
1. Provisions for redundancy costs	<b>080</b>	5.623.193	5.645.237
2. Provisions for tax obligations	<b>081</b>		
3. Other provisions	<b>082</b>		
<b>C) NON-CURRENT LIABILITIES (084 do 092)</b>	<b>083</b>	<b>3.087.341</b>	<b>8.105.579</b>
1. Amounts payable to subsidiaries	<b>084</b>	3.087.341	1.887.364
2. Liabilities for loans, deposits and other	<b>085</b>		0
3. Liabilities towards banks and other financial institutions	<b>086</b>		2.992.132
4. Amounts payable for prepayment	<b>087</b>		0
5. Trade payables	<b>088</b>		0
6. Amounts payable for securities	<b>089</b>		0
7. Liabilities toward participating interests	<b>090</b>		0
8. Other non-current liabilities	<b>091</b>		3.226.084
9. Deferred tax	<b>092</b>		
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	<b>214.835.013</b>	<b>230.435.606</b>
1. Amounts payable to subsidiaries	<b>094</b>	74.543.935	100.924.575
2. Liabilities for loans, deposits and other	<b>095</b>		
3. Liabilities towards banks and other financial institutions	<b>096</b>		0
4. Amounts payable for prepayment	<b>097</b>		
5. Trade payables	<b>098</b>	39.158.486	34.400.224
6. Amounts payable for securities	<b>099</b>		
7. Liabilities toward participating interests	<b>100</b>		
8. Amounts payable to employees	<b>101</b>	78.542.671	71.522.110
9. Liabilities for taxes and contributions	<b>102</b>	22.589.920	23.588.697
10. Dividend payables	<b>103</b>		
11. Liabilities directly associated with the assets classified as held for sale	<b>104</b>		
12. Other current liabilities	<b>105</b>		
<b>E) ACCRUED CHARGES AND DEFERRED REVENUE</b>	<b>106</b>	<b>167.198.365</b>	<b>235.563.716</b>
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>691.171.041</b>	<b>705.230.195</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>108</b>		
<b>ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Attributable to equity holders of the parent company's capital	<b>109</b>		
2. Attributable to minority interest	<b>110</b>		

Note 1.: APPENDIX TO THE BALANCE SHEET (to be filled in by entites who submitting consolidated financial statements).

**INCOME STATEMENT**  
for the period 01 January 2016 to 30 September 2016

Issuer: Ericsson Nikola Tesla d.d.

Item	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
<b>I. OPERATING INCOME (112+113)</b>	<b>111</b>	<b>948.672.071</b>	<b>288.174.132</b>	<b>1.130.265.196</b>	<b>403.790.763</b>
1. Sales revenue	112	936.151.461	284.499.546	1.118.384.705	399.687.889
2. Other operating income	113	12.520.610	3.674.585	11.880.492	4.102.874
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>890.968.445</b>	<b>279.303.564</b>	<b>1.072.487.199</b>	<b>394.511.553</b>
1. Changes in inventories of finished products and work in progress	115	-6.166.862	-2.635.255	-35.480.130	13.833.500
2. Raw material and consumables used (117 do 119)	116	443.823.305	131.441.493	600.686.269	201.220.427
a) Cost of raw materials & consumables	117	151.978.024	27.769.476	259.350.813	90.465.055
b) Cost of goods sold	118				
c) Other costs	119	291.845.280	103.672.017	341.335.456	110.755.372
3. Staff costs (121 do 123)	120	392.282.714	131.962.956	428.313.281	142.837.506
a) Net salaries	121	180.179.257	60.923.156	230.232.934	79.682.425
b) Employee income tax and contributions	122	156.416.964	52.888.525	139.084.482	44.173.775
c) Employer's contributions	123	55.686.493	18.151.275	58.995.865	18.981.306
4. Depreciation and amortisation expense	124	36.944.824	12.832.147	34.356.697	10.769.308
5. Other costs	125	21.507.490	4.874.356	24.026.798	7.593.141
6. Impairment losses (127+128)	126	1.497.548	772.900	15.801.943	14.787.792
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	1.497.548	772.900	15.801.943	14.787.792
7. Provisions	129				
8. Other operating expenses	130	1.079.426	54.968	4.782.341	3.469.879
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>2.596.017</b>	<b>1.300.039</b>	<b>3.743.173</b>	<b>534.973</b>
1. Interest, foreign exchange gains, dividends and other income from related parties	132			238.762	37.519
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	2.522.135	1.300.039	1.680.405	497.454
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	73.882		1.824.006	0
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>2.481.319</b>	<b>47.023</b>	<b>979.700</b>	<b>12.104</b>
1. Interest, foreign exchange losses and other expenses with related parties	138				
2. Interest, foreign exchange differences and other expenses with non-related and other entities	139	2.481.319	47.023	979.700	305
3. Unrealized losses	140				
4. Other financial expenses	141				11.799
<b>V. SHARE OF INCOME OF ASSOCIATES</b>	<b>142</b>				
<b>VI. SHARE OF LOSS OF ASSOCIATES</b>	<b>143</b>				
<b>VII. EXTRAORDINARY - OTHER INCOME</b>	<b>144</b>				
<b>VIII. EXTRAORDINARY - OTHER EXPENSES</b>	<b>145</b>				
<b>IX. TOTAL INCOME (111+131+142 + 144)</b>	<b>146</b>	<b>951.268.088</b>	<b>289.474.171</b>	<b>1.134.008.369</b>	<b>404.325.736</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>893.449.764</b>	<b>279.350.587</b>	<b>1.073.466.899</b>	<b>394.523.657</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>57.818.324</b>	<b>10.123.584</b>	<b>60.541.470</b>	<b>9.802.079</b>
1. Profit before tax (146-147)	149	57.818.324	10.123.584	60.541.470	9.802.079
2. Loss before tax (147-146)	150	0	0	0	0
<b>XII. INCOME TAX EXPENSE</b>	<b>151</b>				
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>57.818.324</b>	<b>10.123.584</b>	<b>60.541.470</b>	<b>9.802.079</b>
1. Profit for the period (149-151)	153	57.818.324	10.123.584	60.541.470	9.802.079
2. Loss for the period (151-148)	154	0	0	0	0
<b>ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)</b>					
<b>XIV. PROFIT OR LOSS FOR THE PERIOD</b>					
1. Attributable to owners of the company	155				
2. Attributable to non-controlling interests	156				
<b>STATEMENTS OF COMPREHENSIVE INCOME (to be filled in by entities who work in compliance with IFRS)</b>					
<b>I. PROFIT OR LOSS FOR THE PERIOD (= 152)</b>	<b>157</b>	<b>57.818.324</b>	<b>10.123.584</b>	<b>60.541.470</b>	<b>9.802.079</b>
<b>II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)</b>	<b>158</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. Exchange differences arising from foreign operations	159				
2. Revaluation of non-current assets and intangible assets	160				
3. Gains or loss available for sale investments	161				
4. Gains or loss on net movement on cash flow hedges	162				
5. Gains or loss on net investments hedge	163				
6. Share of the other comprehensive income/loss of associates	164				
7. Actuarial gain / loss on post employment benefit obligations	165				
<b>III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD</b>	<b>166</b>				
<b>IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)</b>	<b>167</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>57.818.324</b>	<b>10.123.584</b>	<b>60.541.470</b>	<b>9.802.079</b>
<b>APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)</b>					
<b>VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD</b>					
1. Attributable to owners of the company	169				
2. Attributable to non-controlling interests	170				
		57.703.626	8.870.567	57.777.997	9.279.210

**CASH FLOW STATEMENT - Indirect method**  
**in the period 01 January 2016 to 30 September 2016**

Issuer: Ericsson Nikola Tesla d.d.			
Item	AOP	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	001	57.818.324	60.541.470
2. Depreciation and amortisation	002	36.944.824	34.356.697
3. Increase in liabilities	003		77.902.215
4. Decrease in receivables	004	60.525.415	
5. Decrease in inventories	005		
6. Other increase in cash flow	006	486.934	20.540.588
<b>I. Total increase in operating cash flow (001 do 006)</b>	<b>007</b>	<b>155.775.497</b>	<b>193.340.970</b>
1. Decrease in liabilities	008	22.751.601	
2. Increase in receivables	009		90.446.722
3. Increase in inventories	010	6.164.898	35.580.143
4. Other decrease in cash flow	011		
<b>II. Total decrease in operating cash flow (008 do 011)</b>	<b>012</b>	<b>28.916.500</b>	<b>126.026.865</b>
<b>A1) NET INCREASE IN OPERATING CASH FLOW (007-012)</b>	<b>013</b>	<b>126.858.997</b>	<b>67.314.105</b>
<b>A2) NET DECREASE IN OPERATING CASH FLOW (012-007)</b>	<b>014</b>		
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Proceeds from sale of property, plant and equipment	015	294.874	75.068
2. Net disposal of financial assets	016	78.142.023	58.795.335
3. Interest received	017	2.438.179	1.967.426
4. Dividend received	018		211.771
5. Other cash from investing activities	019	62.201	
<b>III. Total cash flow from investing activities (015 do 019)</b>	<b>020</b>	<b>80.937.277</b>	<b>61.049.600</b>
1. Purchase of property, plant and equipment and intangible assets	021	44.988.402	19.145.220
2. Purchase of financial instruments	022	62.000.000	89.000.000
3. Other cash flow used in investing activities	023		10.139.857
<b>IV. Total cash flow from investing activities (021 do 023)</b>	<b>024</b>	<b>106.988.402</b>	<b>118.285.077</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>025</b>		
<b>B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)</b>	<b>026</b>	<b>26.051.125</b>	<b>57.235.477</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Proceeds from issuance of financial instruments	027		
2. Proceeds from loans	028		
3. Other cash flow from financial activities	029		
<b>V. Total cash flow from financial activities (027 do 029)</b>	<b>030</b>	<b>0</b>	<b>0</b>
1. Repayment of interest-bearing borrowings	031		
2. Dividend paid	032	119.714.758	132.845.626
3. Repayment of finance lease	033		
4. Repurchase of treasury shares	034		
5. Other cash flow used in financial activities	035	2.585.043	911.936
<b>VI. Total cash flow used in financial activities (031 do 035)</b>	<b>036</b>	<b>122.299.801</b>	<b>133.757.562</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)</b>	<b>037</b>		
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)</b>	<b>038</b>	<b>122.299.801</b>	<b>133.757.562</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039		
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	21.491.929	123.678.934
Cash and cash equivalents at the beginning of the period	041	182.106.153	218.499.492
Increase in cash and cash equivalents	042	0	0
Decrease in cash and cash equivalents	043	21.491.929	123.678.934
Cash and cash equivalents at the end of the period	044	160.614.224	94.820.559

## STATEMENT OF CHANGES IN EQUITY

for the period from 1.1.2016 to 30.9.2016

Item	AOP	Previous period	Current period
1	2	3	4
1. Share capital	001	133.165.000	133.165.000
2. Capital reserves	002		
3. Reserves from profit	003	22.942.695	21.131.256
4. Retained earnings	004	56.221.186	14.232.223
5. Profit or loss for the period	005	57.818.324	56.951.578
6. Revaluation of property, plant and equipment	006		
7. Revaluation of intangible assets	007		
8. Revaluation of financial financial assets available for sale	008		
9. Other revaluations	009		
<b>10. Total capital and reserves (AOP 001 do 009)</b>	<b>010</b>	<b>270.147.205</b>	<b>225.480.056</b>
11. Foreign exchange differences from investments in foreign operations	011		
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Changes in accounting policies	014		
15. Prior year adjustment	015		
16. Other changes in equity	016		
<b>17. Total increase/decrease in equity (AOP 011 do 016)</b>	<b>017</b>	<b>0</b>	<b>0</b>
17 a. Parent company share in subsidiary	018		
17 b. Minority interest	019		

Items that decrease equity have negative sign

Items from 001 to 009 are state of balance sheet date

## Notes to the Financial Statements

### 1. Segment reporting

	Networks		Professional Services		Support services		Unallocated		Total	
	30.9.2016.	30.9.2015.	30.9.2016.	30.9.2015.	30.9.2016.	30.9.2015.	30.9.2016.	30.9.2015.	30.9.2016.	30.9.2015.
	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Segment sales revenue	537.275	418.905	561.241	487.903	19.869	29.343	0	0	1.118.385	936.151
Operating profit	12.471	8.632	72.051	69.760	-1.330	1.762	-25.415	-22.451	57.778	57.704

### 2. Transactions with related parties

	30.9.2016.	30.9.2015.
	'000 kn	'000 kn
Total sales	659.385	622.541
Total purchases	444.691	317.613

### 3. Balances with related parties

	30.9.2016.	31.12.2015.
	'000 kn	'000 kn
Receivable	101.546	120.559
Payable	102.812	77.631

### 4. Other notes to the financial statements are disclosed within the Management Board report.