

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 2016.

Highlights:

- Sales revenue: MHRK **1,591.6**
- Gross margin: **11.9%**
- Operating income: MHRK **113.6**
- Income before tax: MHRK **118.8**
- Net profit: MHRK **110.7**
- Cash flow from operating activities: MHRK **187**
- Information on dividend proposal will be subsequently published

Gordana Kovačević, President of Ericsson Nikola Tesla, comments:

"In 2016 Ericsson Nikola Tesla Group continued with a series of its successful business years. Sales revenue increased by 16.7% year-over-year due to strong revenue growth in CIS market and continued growth of revenue in Ericsson market.

2016 will be remembered by signing of important contracts in export markets with three new customers: beCloud in Belarus, Ucom in Armenia and the Ministry of Healthcare in Kazakhstan. All three are very demanding projects regarding LTE technology and healthcare informatization. Furthermore, our Research and Development Center, Global and Regional Expert Centers for Services and Customer Solutions Centers received new responsibilities within the global corporation, which shows that the quality and added value that we deliver have been recognized by the corporation and among customers worldwide. In line with that, we continued to hire, employing 318 experts in 2016. We remain the largest Research and Development center in Croatia, currently employing more than 1200 people, while Ericsson Nikola Tesla Group has almost 3000 employees. We have kept our position of the largest Croatian ICT exporter, and the largest exporter of knowledge.

In Southeast Europe markets, sales revenue decreased due to negative economic trends and political turmoil, which slowed down operators' investments. Competition and pervasive trends of consolidation and centralization of sourcing processes by global customers/operators are main challenges on domestic market.

We are pleased to have kept strong position and customers' trust in Croatia and the region, above all by working with our traditional partners, such as: Vipnet, Hrvatski Telekom, HT Mostar, BH Telecom, Crnogorski Telekom and Ipko.

In the domestic market, I would like to highlight a surge in ICT Solutions for Industry & Society. Among key projects, we should mention continuing collaboration with the Ministry of Healthcare of the Republic of Croatia on implementing new functionalities, such as eHealth Record and Portal for Patients. We are proud of the Joint Information System of Land Registry and Cadaster project, which was fully realized at the end of the year, meaning that all land-registry and cadaster offices in Croatia have been connected in a single information system. One of the last signed projects in 2016 is a strategically important project in the field of public safety. It is the project of building the Republic of Croatia border control system, which was realized in record time in mid-January 2017. All these activities demonstrate that our Networked Society Strategy is not just a vision, but real projects changing the world we live in.

Our daughter company, Ericsson Nikola Tesla Servisi d.o.o., records solid business results. In the last two years, the company went through demanding transformation processes, whilst implementing complex network build and maintenance projects for Hrvatski Telekom.

Risk Management is very high on our list of priorities and is essential for sustainability of our business as a whole. In order to mitigate business, market and financial risks in the export business, we have successfully expanded cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and commercial banks. In this way, we have met our customers' needs for financing and, at the same time, significantly reduced our exposure to long term receivables.

Financial performance continues to be very strong. Operating profit increased by 24.3% year-over-year while net profit increased by 21.2% year-over-year. Gross margin continues to be under pressure due to business mix, continuous price pressure and challenging projects on export markets. Our continuous focus on cost control through Cost Efficiency and Operational Excellence program has brought good savings. Sales and administrative costs decreased by 5.5% year-over-year. A solid cash flow of MHRK 187 was realized from operating activities, which allowed the total cash funds, including short term financial assets, to remain on the same level as the previous year, amounting to MHRK 287.7. The working capital efficiency, measured by the performance indicator Working Capital Days (WCD) further improved to 26 days. Cash conversion rate is at high 97%.

We achieved excellent business results, primarily due to professionalism and knowledge of our leaders and employees, which is increasingly being recognized as the key differentiator in the market. A high level of customer satisfaction was confirmed once again by annual survey of our largest customers/partners. The opening of innovation incubator "Ericsson Garage Croatia", made ours one of the eight global sites for agile and quick customer oriented innovations.

Digital transformation is becoming our reality. Those who want to develop their business, irrespective of their business field, use ICT as the foundation to achieve their competitive advantages. Our numerous customers in Croatia and the region, as well as globally, are embarking on digital transformation projects. In the operator segment, these are primarily telecom network virtualization projects and implementation of Cloud solutions. Special emphasis here is on OSS and BSS transformation, which entails changes in their organizations, as well as in their market and end user approach.

We live in the digital revolution age, in which ICT fundamentally changes our way of working, living and doing business. Big transformation processes are happening in the entire corporation, including our company. I believe that the results we achieved in 2016, as well as our ongoing strategic transformation processes, represent a quality and sound foundation for the Company's future development. "

Financial highlights for the Group:

- Sales revenue amounts to MHRK 1,591.6 (2015: MHRK 1,364.3), 16.7% increase year-over-year. Of the total sales revenue, the domestic market accounts for 16.9%, services to Ericsson account for 54.8% (of which 11.5% relates to managed services in Croatia), while other export markets participate with 28.3%.
- Sales in the network segment amounts to MHRK 776.5 (48.8% of the total sales revenue), services segment amounts to MHRK 779.2 (48.9% of the total sales revenue), and support solutions segment accounts for MHRK 35.9 (2.3% of the total sales revenue).
- Gross profit amounts to MHRK 189.8 (2015: MHRK 177.2), an increase by 7.1% year-over-year. Gross margin decreased to 11.9% (2015: 13%) due to change in business mix, continued price pressure and demanding projects in export markets.
- Sales and administrative costs decreased by 5.5% to MHRK 77.7 (2015: MHRK 82.2).
- Operating profit increased by 24.3% and amounts to MHRK 113.6 (2015: MHRK 91.4).
- Profit from financial activities has significantly increased year-over-year, and amounts to MHRK 5.2 (2015: MHRK 1.6), as a result of financial assets revaluation and positive currency deviations effect.
- Profit before tax increased by 27.9% to MHRK 118.8 (2015: MHRK 92.9). The remaining accumulated tax reliefs from R&D projects have been completely used in 2016. Income tax accrued at MHRK 8.1 (2015: MHRK 1.6) comprises current income tax charge of HRK 22.3 million (2015: MHRK 1.6) which is partially offset by deferred income tax recognized in the amount of MHRK 14.2 (2015: HRK nil).
- Net profit increased by 21.2% year-over-year and amounts to MHRK 110.7 (2015: MHRK 91.3). ROS is 7% (2015: 6.7%).
- Cash flow from operating activities is at solid MHRK 187 (2015: MHRK 243.1) due to good collection of trade receivables especially in Q4. The cash conversion rate is at 97% (2015: 153%), while WCD is 26 days (2015: 32 days).



- Total cash and cash equivalents, including short term financial assets, as at December 31, 2016 amount to MHRK 287.7 (35.6% of the total assets), while at the end of 2015 amounted to MHRK 287.1 (39.7% of the total assets).
- The Group has a lean balance sheet with total assets of MHRK 808.1 (2015: MHRK 723.9), 11.6% increase year-over-year, as a result of increased trade receivables. Equity ratio is 35.5% (2015: 42.5%).
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 894.9 (2015: MHRK 868.5), while procurement of products and services amounted to MHRK 396.9 (2015: MHRK 253.3).
- As at December 31, 2016, balances outstanding with related parties were as follows: receivables amounted to MHRK 90.9 (end of 2015: MHRK 117.0), and payables MHRK 89.3 (end of 2015: MHRK 52.7).

Business situation in major markets

[In the domestic market](#) sales revenue amounted to MHRK 268.8 (2015: MHRK 293.5), which is a decrease by 8.4% year-over-year.

Cooperation with our strategic partner Vipnet was continued on the modernization of radio access network and transport telecom network as well as on the increase of the capacity of 3G and 4G technologies. In Q1, the first Radio Dot system was successfully integrated into Vipnet's commercial network, thus increasing the service quality and end-user experience, to the level which is globally considered to be one of the best. The testing of new functionalities, contributing to increased quality and new services for end users in various areas of core and access network, is ongoing.

Business cooperation with Hrvatski Telekom (HT) was expanded in the segment of fixed telecommunication network modernization by delivering solutions for IP access network and transport network. Activities in the area of Managed Services, that is, the build and maintenance services of telecommunications infrastructure have been intensified. Preparation activities related to identification and realization of future HT Group (HT, Iskon, Optima) projects have been completed.

With the mobile operator Tele 2 we worked on software support improvements, core network modernization as well as transport network upgrade in the microwave and fiber optic segment. Furthermore, we provided support and maintenance services for the entire telecommunication network. Business volume decrease year-over-year as a result of another vendor selection for telecom network modernization.

In the segment of ICT solutions for Industry & Society, there is a continuation of numerous activities in the healthcare informatization and joint information system for land registry and cadaster. In Q4, a strategically important contract was signed with the Ministry of Interior of the Republic of Croatia, regarding the delivery of the state border control system.



In export markets (the Ericsson market excluded) sales revenue amounted to MHRK 450.4 (2015: MHRK 249.4), 80.6% increase year-over-year.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue amounted to MHRK 149.3 (2015: MHRK 176.7), 15.5% decrease year-over-year. Slow economic development and political uncertainty have affected the level and the dynamics of operators' investments.

In Bosnia and Herzegovina, we continued providing technical support for BH Telecom mobile and fixed network maintenance. With the operator, HT Mostar, we worked on fixed and mobile network modernization, with an emphasis on broadband Internet access. In Q4, with HT Mostar, further 3G network expansion was agreed, which will enable better coverage and network capacity.

In Montenegro, a frame agreement was signed with Crnogorski Telekom regarding a new investment cycle in radio access network and mobile core network until the end of 2018. Within the agreement, at the end of 2016, the state of the art technology LTE Advanced 3CA (*Three-Carrier Aggregation*) was commissioned.

In Kosovo, with the operator IPKO, we continued the collaboration on radio access and microwave network modernization and expansion, with an emphasis on mobile broadband expansion, based on LTE technology. We have also signed agreements on the modernization of this operator's core network, thus creating conditions for the introduction of new services based on IP technology.

In CIS market, sales revenue increased by 314.7% year-over-year, amounting to MHRK 301.1 (2015: MHRK 72.6). Our investments in new solutions development, as well as strong marketing and sales activities resulted in several significant contracts in operators and eHealth segments.

With Moldova operator IDC, a contract comprising the LTE network construction was signed. After successful implementation of packet core network, the activities on LTE network build, including corresponding services and necessary software upgrades are ongoing. This project includes swap of the existing LTE commercial network of another vendor with Ericsson network, with the addition of new functionalities.

In cooperation with Belarussian company beCloud, LTE technology was commissioned in all regional centers of the Republic of Belarus. The plan is to cover all densely-populated cities with LTE by the end of 2017. In the capital city of Armenia, Yerevan, in cooperation with the operator Ucom, an advanced LTE network based on Ericsson multi-standard radio equipment and Antenna Integrated Radio (AIR) system was commissioned.

The implementation of strategically important contract on the healthcare system informatization of the Republic of Kazakhstan is ongoing. This contract will enable the Ministry of Healthcare of the Republic of Kazakhstan and related healthcare institutions to introduce international standards and to support key reforms of healthcare sector. Within the contract, National Electronic Health Record System and Business Intelligence System will be designed.



In the Ericsson market, sales revenue amounted to MHRK 872.4 (2015: MHRK 821.4), an increase by 6.2% year-over-year.

In Ericsson Nikola Tesla Research & Development Center (R&D) the jobs related to application and platform software development for radio systems within the Radio Development Unit have been expanded. Respectively, hiring and competence development of new experts is ongoing. Activities within the development units Mobile Core, User Data Management and Cloud are ongoing as planned.

Research projects related to virtualization and Big Data processing continue. A significant focus is placed on developing network function virtualization, with the aim of enabling new solutions on Cloud platform. Ericsson Nikola Tesla's new innovation cycle was supported.

At the end of 2016, Ericsson Garage Croatia was officially opened, acting as an incubator for innovations in the areas related to our current research and sales segments. It was designed to respond to a wide range of projects - from spontaneous ideas to big concepts.

Service and Solutions Delivery Center experts have been engaged in numerous projects for the customers worldwide, such as: BASE Belgium, China Telecom China, China Unicom, DIGI Hungary, Deutsche Telekom Group, Irancell Iran, KPN Netherlands, MTN Iran, POST Luxembourg, Robi Bangladesh, Swisscom Switzerland, Tango Luxembourg, Telefonica Germany, Telekom Austria Group, Telekom Slovenije, Turk Telekom Turkey, Vodafone Netherlands, Vodafone United Kingdom and Vimpelcom Russia. These are complex expert activities in defining and creating new solutions, analyzing existing networks and providing consulting support in optimization and upgrade of tools and functionalities in convergent communication networks.

Furthermore, we are positioned as the leading center in the Region Western and Central Europe for all services and solutions in the Cloud domain.

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

The contribution of Ericsson Nikola Tesla Servisi to revenue in this market segment amounts to MHRK 182.7 (2015: MHRK 181.8). We would like to highlight some of the key goals and business results towards Hrvatski Telekom during Q4:

- fulfilling the goal of developing and building optical networks (*Fibre to the Home and Fibre to the Cabinet*), as well as preparation for continuation of project in 2017;
- successful project realization regarding mobile broadband access capacity and coverage expansion;
- additional engagement on the program to accelerate the realization of customer service request (so called small projects), with the aim to additionally reduce the total number of open requests and improve satisfaction of Hrvatski Telekom end users;
- providing a greater level of service quality of management, monitoring and maintenance of Hrvatski Telekom fixed and mobile network, in line with the results of the key network performance indicators.

Activities towards other customers in Europe in the area of radio access network modernization, as well as design and fiber optic network build, continues.

Other information

Ericsson Nikola Tesla's major shareholders (as at December 31, 2016)

	Number of shares	% of share capital
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	18,569	1.39
Zagrebačka banka d.d. / Custodian client account for Unicredit Bank Austria AG	17,230	1.29
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	13,935	1.05
Addiko bank d.d. / Raiffeisen Voluntary Pension Fund	7,934	0.60
PBZ d.d. / Custodian client account	7,376	0.55
PBZ d.d. / State Street client account	6,256	0.47
Other shareholders	418,846	31.45

Information on share price in 2016:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,177.99	940.00	1,164.00	1,550.0

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:

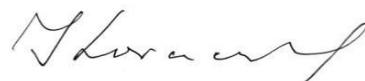
Statement of the Management Board responsibility

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 31 Dec 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



For additional information, please contact:

Snježana Bahtijari

Company Communications Director

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: + 385 1 365 4556

Mob.: +385 91 365 4556

Fax: +385 1 365 3156

E-mail: snjezana.bahtijari@ericsson.com

Orhideja Gjenero

Investor Relations Manager

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: +385 1 365 4431

Mob.: +385 91 365 4431

Fax: +385 1 365 3156

E-mail: orhideja.gjenero@ericsson.com

E-mail: odnosi.investitora@ericsson.com

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

Ericsson Nikola Tesla d.d.
 Statement of comprehensive income
 for the period ended 31 December 2016

	2016	2015
	HRK '000	HRK '000
Sales revenue	1.575.862	1.329.114
Cost of sales	-1.389.129	-1.157.127
Gross profit	186.733	171.987
Selling expenses	-43.420	-48.298
Administrative expenses	-32.525	-32.119
Other operating income	4.809	4.666
Other operating expenses	-3.179	-8.168
Operating profit	112.418	88.068
Finance income	5.813	1.738
Finance expense	-563	-166
Finance income – net	5.250	1.572
Profit before tax	117.668	89.640
Income tax	-8.101	0
Profit for the year	109.567	89.640
Other comprehensive income	0	0
Total comprehensive income for the year	109.567	89.640

Ericsson Nikola Tesla d.d.
 Statement of financial position
 as at 31 December 2016

	2016	2015
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	107.933	126.282
Intangible assets	1.912	814
Loans and receivables	81.160	19.235
Equity securities	73	73
Deferred tax assets	13.558	0
Total non-current assets	204.636	146.404
Current assets		
Inventories	9.189	19.761
Trade receivables	173.363	130.219
Receivables from related parties	90.141	117.472
Other receivables	14.040	3.062
Financial assets at fair value through profit or loss	62.993	53.917
Prepayments and accrued income	4.422	1.837
Cash and cash equivalents	213.375	218.499
Total current assets	567.523	544.767
TOTAL ASSETS	772.159	691.171
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-1.629	-3.434
Legal reserves	6.658	6.658
Retained earnings	140.056	164.038
Total equity	278.250	300.427
Non-current liabilities		
Interest-bearing borrowings	13.347	0
Employee benefits	5.487	5.623
Other non-current liabilities	5.554	3.087
Total non-current liabilities	24.388	8.710
Current liabilities		
Payables to related parties	96.211	74.544
Trade and other payables	152.119	130.508
Provisions	15.967	9.783
Accrued charges and deferred revenue	205.225	167.199
Total current liabilities	469.522	382.034
Total liabilities	493.910	390.744
TOTAL EQUITY AND LIABILITIES	772.160	691.171

Ericsson Nikola Tesla d.d.
 Statement of cash flows
 for the period ended 31 December 2016

	2016 HRK '000	2015 HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	117.668	89.640
Adjustments for:		
Depreciation and amortisation	44.235	49.528
Impairment losses and reversals	16.359	2.739
Net increase of provisions	12.422	3.916
Gain on sale of property, plant and equipment	-68	-231
Net (gain)/loss on remeasurement of financial assets	-2.033	21
Amortisation of discount	-657	-69
Interest income	-3.332	-3.811
Interest expense	563	165
Foreign exchange (gains)/losses	-5.273	2.447
Equity-settled transactions	1.263	2.933
	<hr/> 181.147	<hr/> 147.278
<i>Changes in working capital</i>		
In receivables	-71.803	25.670
In inventories	10.571	1.367
In payables	61.775	45.684
	<hr/> 181.690	<hr/> 219.999
Interest paid	-563	-165
Income taxes paid	-	-
Net cash from operating activities	<hr/> 181.127	<hr/> 219.834
Cash flows from investing activities		
Interest received	2.745	2.936
Dividends received	212	-
Proceeds from sale of property, plant and equipment	83	355
Purchases of property, plant and equipment, and intangible assets	-28.224	-50.729
Deposits (given)/collected with financial institutions - net	-19.846	66
Purchases of financial assets at fair value through profit and loss	-89.000	-92.000
Proceeds from sale of financial assets at fair value through profit and loss	81.745	82.142
Net cash used in investing activities	<hr/> -52.285	<hr/> -57.230
Cash flows from financing activities		
Purchase of treasury shares	-1.140	-4.062
Dividends paid	-132.846	-119.715
Net cash used in financing activities	<hr/> -133.986	<hr/> -123.777
Effects of exchange rate changes on cash and cash equivalents	20	-2.434
Net (decrease)/increase in cash and cash equivalents	<hr/> -5.124	<hr/> 36.394
Cash and cash equivalents at the beginning of the year	218.499	182.106
Cash and cash equivalents at the end of the year	<hr/> 213.375	<hr/> 218.499
	<hr/>	<hr/>

ENCLOSURE 1

Reporting period:

1.1.2016.

to

31.12.2016

Quarterly Financial Report TFI-PODTax 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.comInternet address: www.ericsson.hrCode and city / municipality **133** **ZAGREB**Code and county **21** **GRAD ZAGREB**Number of employees: **2.148**

(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.comName 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 31 December 2016

Issuer: Ericsson Nikola Tesla d.d.

Item	AOP	Previous period	Current period
1	2	3	4
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL	001		
B) NON CURRENT ASSETS (003+010+020+029+033)	002	146.403.814	204.635.689
I. INTANGIBLE ASSETS (004 do 009)	003	814.351	1.911.621
1. Research & Development expenditure	004		
2. Patents, licences, royalties, trade marks, software&similar rights	005	814.351	1.911.621
3. Goodwill	006		
4. Prepayments for intangible assets	007		
5. Intangible assets under construction	008		
6. Other intangible assets	009		
II. PROPERTY, PLANT AND EQUIPMENT (011 do 019)	010	126.281.544	107.932.942
1. Land	011	15.605.344	15.605.344
2. Property	012	28.795.979	27.637.641
3. Plants and equipment	013	76.099.189	56.968.443
4. Tools, plants&vehicles	014	4.160.106	7.367.806
5. Biological asset	015		
6. Prepayments for tangible assets	016		
7. Assets under construction	017	1.529.374	269.937
8. Other tangible assets	018	91.552	83.770
9. Investments property	019		
III. FINANCIAL ASSETS (021 do 028)	020	7.388.900	28.190.325
1. Investments in subsidiaries	021	73.385	73.385
2. Loans to subsidiaries	022		
3. Participating interests (stakes)	023		
4. Loans to participating interest	024		
5. Investments in securities	025		
6. Loans & deposits	026	7.315.515	28.116.940
7. Other non-current financial assets	027		
8. Investment accounted by equity method	028		
IV. RECEIVABLES (030 do 032)	029	11.919.018	53.042.871
1. Receivables from subsidiaries	030	3.087.341	2.041.774
2. Receivables from credit sales	031	4.996.512	50.395.179
3. Other receivables	032	3.835.165	605.918
V. DEFERRED TAX ASSETS	033		13.557.930
C) CURENT ASSETS (035+043+050+058)	034	542.930.938	563.101.414
I. INVENTORIES (036 do 042)	035	19.760.973	9.189.927
1. Raw materials & consumables	036	16.698	
2. Work in progress	037	19.725.777	9.183.998
3. Products	038		
4. Merchandise	039		
5. Prepayments for inventories	040	18.498	5.929
6. Other available-for-sale assets	041		
7. Biological asset	042		
II. RECEIVABLES (044 do 049)	043	250.753.689	277.542.973
1. Receivables for trade debt of subsidiaries	044	117.472.219	90.140.539
2. Trade receivables	045	130.219.180	173.362.621
3. Receivables for trade debts of participating entities	046		
4. Amounts receivable from employees	047		
5. Receivables from government agencies	048	1.216.957	1.280.627
6. Other receivables	049	1.845.334	12.759.185
III. FINANCIAL ASSETS (051 do 057)	050	53.916.783	62.993.020
1. Investments in subsidiaries	051		
2. Loans to subsidiaries	052		
3. Participating interests (stakes)	053		
4. Loans to participating interest	054		
5. Investments in securities	055	53.916.783	62.993.020
6. Loans & deposits	056		
7. Other financial assets	057		
IV. CASH AND CASH EQUIVALENTS	058	218.499.492	213.375.495
D) PREPAYMENTS AND ACCRUED INCOME	059	1.836.290	4.422.371
E) TOTAL ASSETS (001+002+034+059)	060	691.171.041	772.159.474
F) OFF-BALANCE SHEET ITEMS	061		

EQUITY AND LIABILITIES			
A) EQUITY (063+064+065+071+072+075+078)	062	300.427.129	278.249.670
I. SHARE CAPITAL	063	133.165.000	133.165.000
II. CAPITAL RESERVES	064		
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	21.131.256	20.849.076
1. Legal reserves	066	6.658.250	6.658.250
2. Reserves for treasury shares	067	17.907.366	15.820.446
3. Treasury shares and stakes (less)	068	3.434.360	1.629.620
4. Statutory reserves	069		
5. Other reserves	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS (073-074)	072	56.490.462	14.668.954
1. Retained earnings	073	56.490.462	14.668.954
2. Loss brought forward	074		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	075	89.640.412	109.566.640
1. Profit for the financial year	076	89.640.412	109.566.640
2. Loss for the financial year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	5.623.193	5.486.755
1. Provisions for redundancy costs	080	5.623.193	5.486.755
2. Provisions for tax obligations	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 do 092)	083	3.087.341	18.901.100
1. Amounts payable to subsidiaries	084	3.087.341	2.041.774
2. Liabilities for loans, deposits and other	085		
3. Liabilities towards banks and other financial institutions	086		8.954.389
4. Amounts payable for prepayment	087		
5. Trade payables	088		
6. Amounts payable for securities	089		
7. Liabilities toward participating interests	090		
8. Other non-current liabilities	091		7.904.937
9. Deferred tax	092		
D) CURRENT LIABILITIES (094 do 105)	093	214.835.013	264.297.352
1. Amounts payable to subsidiaries	094	74.543.935	96.211.444
2. Liabilities for loans, deposits and other	095		
3. Liabilities towards banks and other financial institutions	096		
4. Amounts payable for prepayment	097		
5. Trade payables	098	39.158.486	42.594.642
6. Amounts payable for securities	099		
7. Liabilities toward participating interests	100		
8. Amounts payable to employees	101	78.542.671	82.421.635
9. Liabilities for taxes and contributions	102	22.589.920	43.069.632
10. Dividend payables	103		
11. Liabilities directly associated with the assets classified as held for sale	104		
12. Other current liabilities	105		
E) ACCRUED CHARGES AND DEFERRED REVENUE	106	167.198.365	205.224.597
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	691.171.041	772.159.474
G) OFF-BALANCE SHEET ITEMS	108		

ANNEX TO THE BALANCE SHEET (to be filled in by entrepreneur submitting consolidated financial report)

A) CAPITAL AND RESERVES

1. Attributable to equity holders of the parent company's capital	109		
2. Attributable to minority interest	110		

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

INCOME STATEMENT
for the period 01 January 2016 to 31 December 2016

Issuer: Ericsson Nikola Tesla d.d.

Item	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112+113)	111	1.346.526.127	397.854.056	1.594.587.010	464.321.814
1. Sales revenue	112	1.329.114.380	392.962.919	1.575.861.758	457.477.054
2. Other operating income	113	17.411.747	4.891.137	18.725.252	6.844.760
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	1.258.457.920	367.489.476	1.482.168.967	409.681.772
1. Changes in inventories of finished products and work in progress	115	1.378.846	7.545.708	10.541.779	46.021.909
2. Raw material and consumables used (117 do 119)	116	641.020.080	197.196.776	793.642.721	192.956.457
a) Cost of raw materials & consumables	117	208.413.960	56.435.936	322.733.734	63.382.921
b) Cost of goods sold	118				
c) Other costs	119	432.606.120	140.760.839	470.908.987	129.573.536
3. Staff costs (121 do 123)	120	531.883.571	139.600.857	579.868.892	151.555.610
a) Net salaries	121	290.026.385	79.332.147	315.566.242	85.333.308
b) Employee income tax and contributions	122	166.662.894	40.760.912	184.801.090	45.716.608
c) Employer's contributions	123	75.194.292	19.507.798	79.501.560	20.505.695
4. Depreciation and amortisation expense	124	49.527.576	12.582.752	44.235.199	9.878.501
5. Other costs	125	29.852.112	8.344.622	29.535.918	5.509.120
6. Impairment losses (127+128)	126	2.688.050	1.190.501	16.357.255	555.312
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	2.688.050	1.190.501	16.357.255	555.312
7. Provisions	129				
8. Other operating expenses	130	2.107.686	1.028.260	7.987.204	3.204.863
III. FINANCIAL INCOME (132 do 136)	131	3.978.299	1.477.567	5.813.030	2.973.586
1. Interest, foreign exchange gains, dividends and other income from related parties	132	270.373	145.056	248.920	10.158
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	3.539.634	1.238.101	3.280.658	2.557.377
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	168.292	94.410	2.283.452	406.052
IV. FINANCIAL EXPENSES (138 do 141)	137	2.406.093	20.060	563.282	487.307
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	2.406.093	20.060	563.282	487.307
3. Unrealized losses	140				
4. Other financial expenses	141				
V. SHARE OF INCOME OF ASSOCIATES	142				
VI. SHARE OF LOSS OF ASSOCIATES	143				
VII. EXTRAORDINARY - OTHER INCOME	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL INCOME (111+131+142 + 144)	146	1.350.504.426	399.331.623	1.600.400.039	467.295.400
X. TOTAL EXPENSES (114+137+143 + 145)	147	1.260.864.013	367.509.535	1.482.732.249	410.169.080
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	89.640.412	31.822.088	117.667.790	57.126.320
1. Profit before tax (146-147)	149	89.640.412	31.822.088	117.667.790	57.126.320
2. Loss before tax (147-146)	150	0	0	0	0
XII. INCOME TAX EXPENSE	151			8.101.150	8.101.150
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	89.640.412	31.822.088	109.566.640	49.025.170
1. Profit for the period (149-151)	153	89.640.412	31.822.088	109.566.640	49.025.170
2. Loss for the period (151-148)	154	0	0	0	0
ANNEX TO THE PROFIT AND LOSS ACCOUNT (to be filled in by entities submitting consolidated financial statements)					
XIV. PROFIT OR LOSS FOR THE PERIOD					
1. Attributable to owners of the company	155				
2. Attributable to non-controlling interests	156				
STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)					
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	0	0	0	0
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)	158	0	0	0	0
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				
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)	167	0	0	0	0
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)	168	0	0	0	0
APPENDIX Statement of Comprehensive Income (to be filled in by entities submitting consolidated financial statements)					
VI. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD					
1. Attributable to owners of the company	169				
2. Attributable to non-controlling interests	170				

88.068.206 30.364.580 112.418.043 54.640.041

CASH FLOW STATEMENT - Indirect method
 in the period 01 January 2016 to 31 December 2016

Issuer: Ericsson Nikola Tesla d.d.

Item	AOP	Previous period	Current period
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	89.640.412	117.667.790
2. Depreciation and amortisation	002	49.527.576	44.235.199
3. Increase in liabilities	003	45.683.936	61.774.955
4. Decrease in receivables	004	25.670.482	
5. Decrease in inventories	005	1.367.234	10.571.046
6. Other increase in cash flow	006	7.944.199	18.681.045
I. Total increase in operating cash flow (001 do 006)	007	219.833.839	252.930.035
1. Decrease in liabilities	008		
2. Increase in receivables	009		71.803.336
3. Increase in inventories	010		
4. Other decrease in cash flow	011		
II. Total decrease in operating cash flow (008 do 011)	012	0	71.803.336
A1) NET INCREASE IN OPERATING CASH FLOW (007-012)	013	219.833.839	181.126.699
A2) NET DECREASE IN OPERATING CASH FLOW (012-007)	014		
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Proceeds from sale of property, plant and equipment	015	354.981	82.840
2. Net disposal of financial assets	016	82.142.023	81.745.408
3. Interest received	017	2.935.584	2.744.745
4. Dividend received	018		211.771
5. Other cash from investing activities	019	65.846	
III. Total cash flow from investing activities (015 do 019)	020	85.498.433	84.784.764
1. Purchase of property, plant and equipment and intangible assets	021	50.729.110	28.223.625
2. Purchase of financial instruments	022	92.000.000	89.000.000
3. Other cash flow used in investing activities	023		19.845.976
IV. Total cash flow from investing activities (021 do 023)	024	142.729.110	137.069.601
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025		
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	57.230.676	52.284.837
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Proceeds from issuance of financial instruments	027		
2. Proceeds from loans	028		
3. Other cash flow from financial activities	029		19.767
V. Total cash flow from financial activities (027 do 029)	030	0	19.767
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	4.061.560	1.140.000
5. Other cash flow used in financial activities	035	2.433.505	
VI. Total cash flow used in financial activities (031 do 035)	036	126.209.823	133.985.626
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037		
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	126.209.823	133.965.859
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	36.393.340	
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040		5.123.998
Cash and cash equivalents at the beginning of the period	041	182.106.153	218.499.492
Increase in cash and cash equivalents	042	36.393.340	0
Decrease in cash and cash equivalents	043	0	5.123.998
Cash and cash equivalents at the end of the period	044	218.499.492	213.375.495

STATEMENT OF CHANGES IN EQUITY
 for the period from 1.1.2016 to 31.12.2016

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	21.131.256	20.849.076
4. Retained earnings	004	56.490.462	14.668.954
5. Profit or loss for the period	005	89.640.412	109.566.640
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		
10. Total capital and reserves (AOP 001 do 009)	010	300.427.129	278.249.670
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		
17. Total increase/decrease in equity (AOP 011 do 016)	017	0	0
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	
	31.12.2016. '000 kn	31.12.2015. '000 kn								
Segment sales revenue	762.378	590.282	777.490	695.670	35.994	43.163	0	0	1.575.862	1.329.114
Operating profit	44.488	32.649	92.024	81.678	1.566	4.654	-25.659	-30.913	112.418	88.068

2. Transactions with related parties

	31.12.2016. '000 kn	31.12.2015. '000 kn
Total sales	<u>913.806</u>	<u>890.782</u>
Total purchases	<u>584.529</u>	<u>465.645</u>

3. Balances with related parties

	31.12.2016. '000 kn	31.12.2015. '000 kn
Receivable	<u>92.182</u>	<u>120.559</u>
Payable	<u>98.253</u>	<u>77.631</u>

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