

## 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 Q1 2017

### Highlights:

- Sales revenue: MHRK **360.4**
- Gross margin: **14.75%**
- Operating income: MHRK **29.2**
- Income before tax: MHRK **26.2**
- Net profit: MHRK **19.9**
- Cash flow from operating activities: MHRK – **65.9**

Gordana Kovačević, President of Ericsson Nikola Tesla, comments:

„In Q1 2017, sales revenue of Ericsson Nikola Tesla Groups increased by 9% year-over-year due to continuous revenue growth in services for Ericsson and a significant growth in revenue in the domestic market. This neutralized the decline in revenue in CIS markets and the markets of South East Europe. We have kept the position of the largest Croatian ICT exporter and the largest exporter of knowledge. In line with our expectations, Ericsson market records a positive trend, primarily due to expanding responsibilities as well as competences of our experts in new technological areas.

Gross profit increased by 9.3%, while operating profit equals the profit level realized in Q1 2016. Profit before tax decreased by 8.4% year-over-year to MHRK 26.2 due to negative currency deviations. Although operating profit is at the same level as in Q1 2016 amounting to MHRK 29.2, net profit declined by 29.4 to MHRK 19.9. Unfavorable current legislation regarding R&D incentives, i.e. the absence of tax incentives, has directly impacted the decrease in net profit.

The end of Q1 was concluded with a lean balance sheet and equity ratio of 41.2 percent. Working capital efficiency, measured by the Working Capital Days (WCD) performance indicator further improved to 26 days. Total cash and cash equivalents, including short term financial assets, at the end of Q1 amount to MHRK 208.8. In line with expectations, a negative cash flow from operating activities was realized, mainly due to decreased inflows from customers and variable compensation payment to employees related to Company's good performance in 2016.

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Given the quarterly volatility, the cash flow should be observed at the annual level. We expect a return to a positive cash conversion rate in the upcoming quarters.

In the domestic market, a significant increase in sales revenue was recorded, mainly due to successful implementation of the Republic of Croatia border control system. This project, as well as our solutions for healthcare digitalization and the Joint Information System of Land Registry and Cadaster (JIS), is one of those projects that provide the platform for the wider structural reforms in Croatia. Sales growth on the domestic market neutralized the decline in sales on CIS and Southeast Europe markets. In these export markets, we continue with intense marketing and sales activities and expect new business in the upcoming period.

As part of our marketing and sales activities, the delegation of Ericsson Nikola Tesla, accompanied by numerous customers, visited Mobile World Congress 2017 (MWC) in Barcelona. I would like to highlight that also this year, our experts have contributed significantly to Ericsson solutions related to digital transformation. Their contribution was related to backbone of Ericsson's offer aimed at datacenters for work in a cloud characterized by high scalability. Another solution that was presented was the optimization of video content within the framework of Ericsson's cooperation with the leading Chinese video streaming service (iQIYI) and the most important telecom operator China Unicom.

Our company, as well as global Ericsson, continues with transformation processes and organizational and structural changes. By efficiently implementing transformation programs, we aim to strengthen business performance in strategic segments (4G/5G, Managed Services, OSS and BSS, Cloud solutions, Industry& Society) and on Ericsson's internal market and continuously invest in development of knowledge and competences. We have established a model of firm compliance between innovative ideas and strategic initiatives to support business growth and improve our way of working. Strengthening profitability and cost reductions continue to be our key priorities.

It is expected that economic uncertainty and business challenges will continue throughout 2017. Therefore, continuous adjustments to technological and market conditions, responsible risk management and optimal use of all resources remains in our focus.“

### Financial highlights for the Group:

- Sales revenue amounts to MHRK 360.4 (Q1 2016: MHRK 330.8), 9% increase year-over-year. Of the total sales revenue, the domestic market accounts for 24.4%, services to Ericsson account for 61.6% (of which 10.7% relates to Managed Services in Croatia), while other export markets participate with 14%.
- Sales in the Network segment amount to MHRK 212.3 (58.9% of the total sales revenue), IT&Cloud segment amount to MHRK 147.1 (40.8% of the total sales revenue), and Media segment is MHRK 1 (0.3% of the total sales revenue).
- Gross profit amounts to MHRK 53.2 (Q1 2016: MHRK 48.6), an increase by 9.3% year-over-year. Gross margin is at the level realized in Q1 2016, amounting to 14.7% (Q1 2016: 14.7%).

- Sales and administrative costs increased by 29.3% year-over-year to MHRK 24.2 (Q1 2016: MHRK 18.7), primarily as a result of variable compensation to employees and intensified marketing and sales activities.
- Operating profit equals profit realized in Q1 2016, amounting to MHRK 29.2 (Q1 2016: MHRK 29.2).
- Loss from financial activities amounts to MHRK 3 (Q1 2016: loss from financial activities was MHRK 0.6), primarily due to negative currency deviations.
- Profit before tax decreased by 8.4% year-over-year to MHRK 26.2 (Q1 2016: MHRK 28.6).
- All tax losses carried forward on the basis of tax reliefs from R&D projects have been used in 2016. Respectively, in Q1 2017, income tax liability was calculated amounting to MHRK 6.2 (Q1 2016: MHRK 0.3).
- Net profit is MHRK 19.9 (Q1 2016: MHRK 28.2), and is lower 29.4% year-over-year. ROS is 5.5% (Q1 2016: 8.5%).
- Cash flow from operating activities amounts MHRK – 65.9 (Q1 2016: MHRK -25.3). The cash conversion rate is -137%.
- Total cash and cash equivalents, including short term financial assets, as at March 31, 2017 amount to MHRK 208.8 (28% of the total assets), while at the end of 2016 they amounted to MHRK 287.7 (35.6% of the total assets).
- The Company has a lean balance sheet with the total assets of MHRK 745.2. Equity ratio is 41.2%.
- With related parties, the transactions were as follows: sales of products and services amount to MHRK 204.1 (Q1 2016: MHRK 202.7), while procurement of products and services amount to MHRK 60.1 (1 Q1 2016: MHRK 74.6).
- As at March 31, 2017 balances outstanding with related parties were as follows: receivables amounted to MHRK 134.1 (end of 2016: MHRK 90.9), and payables to MHRK 64.9 (end of 2016: MHRK 89.3).

### Business situation in major markets

[In the domestic market](#), sales revenue amounted to MHRK 87.9, 59% increase 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 increasing the capacity of 3G and 4G technologies. Testing of new functionalities in various areas of core and access network, contributing to increased quality of service and new services for end users, is ongoing.

Business cooperation with Hrvatski Telekom (HT) was extended with a three-year contract on telecommunication equipment maintenance, and in the segment of fixed telecommunication network modernization, by IMS system upgrade. Furthermore, we delivered solutions for modernization of access, core and transport IP network of HT Group (HT, Iskon, Optima).

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With the mobile operator Tele2, cooperation was agreed regarding core network upgrade. We increased their transport network capacity in the microwave and fiber optics segments. Furthermore, we provided core network support services, as well as maintenance services for their network.

In the segment of ICT solutions for Industry & Society, numerous activities regarding of healthcare digitalization are ongoing. In January 2017, the Republic of Croatia border control system was successfully delivered. Seven border locations (six in the east, and one in the south of Croatia) were equipped with the latest sensor equipment (radar and cameras) and connected into a joint "green border" surveillance system.

[In export markets \(Ericsson market excluded\)](#) sales revenue decreased by 20% year-over-year to MHRK 50.3.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue decreased by 33.4% year-over-year, amounting to MHRK 19.9. Unfavorable economic and political situation impacts the level and the dynamics of operator's investments. The collaboration with the operators in the segment of maintenance and modernization of fixed and mobile networks is ongoing.

With HT Mostar, contracts were signed for the extension and modernization of the mobile network monitoring systems, as well as for maintenance services for Ericsson equipment in HT Mostar network.

In CIS market, sales revenue amounts to MHRK 30.4, decrease by 8.4% year-over-year. Implementation of projects contracted in 2016 is ongoing. Strong marketing and sales activities continue, with the aim of further business development with existing and new customers.

[In Ericsson market](#), sales revenue amounts to MHRK 222.2, an increase by 5% year-over-year. Ericsson Nikola Tesla Servisi d.o.o. (daughter company of Ericsson Nikola Tesla d.d.) contributed to revenue in this market segment with MHRK 38.5.

During the management meeting of Ericsson Nikola Tesla Research and Development Center (attended by representatives of all Ericsson Corporation units with which we cooperate), our Center was given recognition for its performance. Furthermore, the readiness for even more intense cooperation in the future was expressed. During Q1, in line with our expectation, increased business volume in network radio products and products related to user data was approved. All development projects were realized as planned.

Research projects in developing network virtualization functionalities have continued, with the aim of enabling new solutions on Cloud platform. We strengthen competencies in the segment of Data science through research projects as well as Ericsson Garage Croatia projects. Machine learning algorithms are being applied in the area of care for elderly citizens and network security.

The experts of Center for Services and Solutions for Network & Media have been engaged in numerous projects for our customers worldwide, such as: A1 Austria, Swisscom Switzerland, Slovak Telekom Slovakia, Vodafone Global, Vodafone United Kingdom, O2 United Kingdom, Three United Kingdom, China Unicom China, MTN Rwanda, and Orange Togolese Republic. These are complex activities in defining and creating new solutions, analysis, optimization and upgrade of existing networks, as well as providing consulting services. Furthermore, there was substantive engagement in the development and implementation of software tools for management and

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optimization of mobile networks, such as: Smart Laptop, Smart Rollout Support, Rehoming Automation, and Ericsson Network Engineer.

The experts of Center for Solutions and Services for IT&Cloud have been engaged in numerous projects for the customers worldwide, such as: Tango Luxembourg, Vodafone United Kingdom, O2 United Kingdom, Motorola United Kingdom, British Telecom/Everything Everywhere, Telekom Austria Group (TAG), DT Pan-Net, Telekom Slovenije Slovenia, T-Mobile Czech Republic, Vodafone Czech Republic, DIGI Hungary, TMO USA and DoCoMo Japan. In the listed projects, the Network Applications & Cloud Infrastructure and Digital Business Systems experts were the most engaged ones. Furthermore, the Center's Project Office was engaged in activities for the needs of the following customers: Telekom Slovenije, TAG, A1 Austria, Post Luxembourg, Orange Belgium, DT Germany, etc.

### Other information

Ericsson Nikola Tesla Annual General Meeting shall be held on June 6, 2017. The right to participate at the Annual General Meeting have all shareholders, or their proxies, respectively, who register to participate until May 30, 2017, at the latest.

The shareholders who have the Company shares registered on their securities account in the Central Depository & Clearing Company on June 12, 2017 are entitled for dividend payment in total amount of HRK 90 per share (HRK 20 regular dividend and HRK 70 extraordinary dividend). Ex-dividend date is June 9, 2017. The dividend shall be paid on July 6, 2017.

Notice of Ericsson Nikola Tesla Annual General Meeting, including the proposals of all decisions, was published on the Company's web page <http://www.ericsson.hr/20170426-notice>.

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Ericsson Nikola Tesla's major shareholders (as at March 31, 2017)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653.473	49.07
Addiko 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 d.d. / PBZ Croatia osiguranje Mandatory Pension Fund, B category	22.627	1.70
Zagrebačka banka d.d. / Custodian Account for Unicredit Bank Austria AG – clients account	17.230	1.29
PBZ d.d. / The Bank of New York as Custodian	16.504	1.24
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	13.935	1.05
PBZ d.d. / Custodian client account	8.979	0.67
Addiko d.d. / Raiffeisen Voluntary Pension Fund	7.934	0.60
OTP BANKA d.d./INS683	6.119	0.46
Other shareholders	419.445	31.50

Share price information in Q1 2017:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,444.00	1,164.99	1,364.00	1,816.4

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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 January 2017 to 31 March 2017 present a true and fair view of the financial position of the Company and of its financial performance and its cash flows in compliance with applicable accounting standards.

**Managing Director:**

**Gordana Kovačević, MSc**

A handwritten signature in black ink, appearing to read "Gordana Kovačević".

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

Ericsson Nikola Tesla d.d.  
 Consolidated statement of comprehensive income  
 for the period ended 31 March 2017

	<b>2017</b> HRK '000	<b>2016</b> HRK '000
Sales revenue	360.399	330.789
Cost of sales	-307.243	-282.140
<b>Gross profit</b>	<b>53.156</b>	<b>48.649</b>
Selling expenses	-13.317	-10.527
Administrative expenses	-10.912	-8.206
Other operating income	207	154
Other operating expenses	58	-886
<b>Operating profit</b>	<b>29.192</b>	<b>29.183</b>
Finance income	662	0
Finance expense	-3.700	-617
Finance expense – net	-3.039	-617
<b>Profit before tax</b>	<b>26.154</b>	<b>28.566</b>
Income tax	-6.206	-319
<b>Profit for the year</b>	<b>19.948</b>	<b>28.247</b>
Other comprehensive income	-68	-127
<b>Total comprehensive income for the year</b>	<b>19.879</b>	<b>28.120</b>

Ericsson Nikola Tesla d.d.  
 Consolidated statement of financial position  
 as at 31 March 2017

	2017 HRK '000	2016 HRK '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	118.318	122.897
Intangible assets	7.002	7.285
Loans and receivables	78.999	81.160
Equity securities	386	40
Deferred tax assets	14.250	14.250
<b>Total non-current assets</b>	<hr/> 218.955	<hr/> 225.632
<b>Current assets</b>		
Inventories	24.227	9.796
Trade receivables	151.675	174.952
Receivables from related parties	121.036	88.858
Other receivables	13.196	14.325
Income tax receivable	1.406	1.172
Financial assets at fair value through profit or loss	62.980	62.993
Prepayments and accrued income	5.940	5.671
Cash and cash equivalents	145.794	224.725
<b>Total current assets</b>	<hr/> 526.253	<hr/> 582.492
<b>TOTAL ASSETS</b>	<hr/> 745.208	<hr/> 808.124
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-1.630	-1.630
Legal reserves	6.658	6.658
Retained earnings	168.632	148.686
<b>Total equity</b>	<hr/> 306.825	<hr/> 286.879
<b>Non-current liabilities</b>		
Interest-bearing borrowings	8.657	8.962
Other non-current liabilities	24.155	24.288
Employee benefits	8.804	8.560
<b>Total non-current liabilities</b>	<hr/> 41.616	<hr/> 41.810
<b>Current liabilities</b>		
Payables to related parties	49.795	73.215
Interest-bearing borrowings	65	0
Trade and other payables	122.224	156.413
Income tax payable	27.863	21.659
Provisions	16.865	16.011
Accrued charges and deferred revenue	179.956	212.137
<b>Total current liabilities</b>	<hr/> 396.767	<hr/> 479.435
<b>Total liabilities</b>	<hr/> 438.383	<hr/> 521.245
<b>TOTAL EQUITY AND LIABILITIES</b>	<hr/> 745.208	<hr/> 808.124

Ericsson Nikola Tesla d.d.  
 Consolidated statement of cash flows  
 for the period ended 31 March 2017

	2017 HRK '000	2016 HRK '000
<b>Cash flows from operating activities</b>		
Profit before tax	26.154	28.566
Adjustments for:		
Depreciation and amortisation	11.009	12.870
Impairment losses and reversals	-24	-101
Net increase of provisions	5.704	257
Gain on sale of property, plant and equipment	-37	-38
Net gain on remeasurement of financial assets	13	-504
Amortisation of discount	-3	0
Interest income	-1.761	-854
Interest expense	6	20
Foreign exchange losses	7.177	1.058
Equity-settled transactions	-67	316
	48.170	41.590
<i>Changes in working capital</i>		
In receivables	-8.887	-32.498
In inventories	-14.431	-10.763
In payables	-90.373	-23.382
<i>Cash generated from operations</i>	-65.521	-25.053
Interest paid	-6	-20
Income taxes paid	-354	-204
<b>Net cash from operating activities</b>	<b>-65.881</b>	<b>-25.277</b>
<b>Cash flows from investing activities</b>		
Interest received	705	508
Acquisition of subsidiaries	-346	0
Proceeds from sale of property, plant and equipment	41	34
Purchases of property, plant and equipment, and intangible assets	-10.250	-7.920
Deposits collected with financial institutions - net	10	-3.392
Purchases of financial assets at fair value through profit and loss	0	-5.000
<i>Net cash generated/(used) in investing activities</i>	<b>-9.840</b>	<b>-15.771</b>
<b>Net cash from financing activities</b>	<b>0</b>	<b>0</b>
Effects of exchange rate changes on cash and cash equivalents	-3.209	-1.334
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-78.931</b>	<b>-42.382</b>
Cash and cash equivalents at the beginning of the year	224.725	233.195
<b>Cash and cash equivalents at the end of the year</b>	<b>145.794</b>	<b>190.812</b>

**ENCLOSURE 1**

Reporting period:

1.1.2017.

to

31.03.2017

**Quarterly Financial Report TFI-POD**Tax number (MB): 03272699Registration number (MBS): 080002028Personal identification number (OIB): 84214771175Issuer: **ERICSSON NIKOLA TESLA D.D. ZAGREB**Postal code and location: 10000 ZAGREBStreet and number: Krapinska 45E-mail: [etk.company@ericsson.com](mailto:etk.company@ericsson.com)Internet address: [www.ericsson.hr](http://www.ericsson.hr)Code and city / municipality 133 ZAGREBCode and county 21 GRAD ZAGREBNumber of employees: 3.003

(at the end of year)

Consolidated Report YesBusiness activity code: 2630

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

Libratel d.o.o. Zagreb, Selska 93 01449613ETK BH d.o.o. Sarajevo, Fra Andjela Zvizdovića broj 1 65-01-0996-11Ericsson Nikola Tesla d.d. - Branch office of Kosovo Republika Kosova, Kalabria, Obj 1., Bl 1, Kati 1 Nr.13 70633647Ericsson Nikola Tesla Servisi d.o.o. Zagreb, Krapinska 45 080921748Book-keeping office:    Contact person Tatjana Ricijaš

(Name and surname of contact person)

Telephone: +385 (0)1 365 3343Telefaks: +385 (0)1 365 3174E-mail: [tatjana.ricijas@ericsson.com](mailto:tatjana.ricijas@ericsson.com)Name and surname: Kovačević Gordana

(authorized representatives)

**Documents to be published:**

1. Consolidated 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 consolidated financial statements

(seal)

(signature of authorized representative)

**Balance Sheet**  
as at 31 March 2017

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>B) NON CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>225.631.535</b>	<b>218.955.092</b>
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	7.284.911	7.002.306
1. Research & Development expenditure	<b>004</b>		
2. Patents, licences, royalties, trade marks, software&similar rights	<b>005</b>	3.111.665	2.829.060
3. Goodwill	<b>006</b>	4.173.246	4.173.246
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>	122.897.058	118.318.487
1. Land	<b>011</b>	15.605.344	15.605.344
2. Property	<b>012</b>	27.637.641	28.303.683
3. Plants and equipment	<b>013</b>	62.902.184	56.210.595
4. Tools, plants&vehicles	<b>014</b>	16.398.060	17.146.684
5. Biological asset	<b>015</b>		
6. Prepayments for tangible assets	<b>016</b>		
7. Assets under construction	<b>017</b>	270.059	970.357
8. Other tangible assets	<b>018</b>	83.770	81.825
9. Investments property	<b>019</b>		
III. FINANCIAL ASSETS (021 do 028)	<b>020</b>	28.156.940	27.632.445
1. Investments in subsidiaries	<b>021</b>		
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>	28.116.940	27.246.686
7. Other non-current financial assets	<b>027</b>	40.000	385.759
8. Investment accounted by equity method	<b>028</b>		
IV. RECEIVABLES (030 do 032)	<b>029</b>	53.042.871	51.752.099
1. Receivables from subsidiaries	<b>030</b>	2.041.774	2.041.774
2. Receivables from credit sales	<b>031</b>	50.395.179	49.110.963
3. Other receivables	<b>032</b>	605.918	599.361
V. DEFERRED TAX ASSETS	<b>033</b>	14.249.755	14.249.755
<b>C) CURENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>576.820.993</b>	<b>520.312.875</b>
I. INVENTORIES (036 do 042)	<b>035</b>	9.795.795	24.226.566
1. Raw materials & consumables	<b>036</b>		49.292
2. Work in progress	<b>037</b>	9.788.066	24.175.474
3. Products	<b>038</b>		
4. Merchandise	<b>039</b>		
5. Prepayments for inventories	<b>040</b>	7.729	1.800
6. Other available-for-sale assets	<b>041</b>		
7. Biological asset	<b>042</b>		
II. RECEIVABLES (044 do 049)	<b>043</b>	279.307.110	287.312.465
1. Receivables for trade debt of subsidiaries	<b>044</b>	88.857.879	132.047.125
2. Trade receivables	<b>045</b>	174.952.345	140.663.483
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>	2.496.267	2.820.406
6. Other receivables	<b>049</b>	13.000.619	11.781.451
III. FINANCIAL ASSETS (051 do 057)	<b>050</b>	62.993.219	62.980.251
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>	62.993.219	62.980.251
6. Loans & deposits	<b>056</b>		
7. Other financial assets	<b>057</b>		
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	224.724.869	145.793.593
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>5.671.596</b>	<b>5.940.165</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>808.124.124</b>	<b>745.208.133</b>
<b>F) OFF-BALANCE SHEET ITEMS</b>	<b>061</b>		

<b>EQUITY AND LIABILITIES</b>			
<b>A) EQUITY</b> (063+064+065+071+072+075+078)	<b>062</b>	<b>286.878.862</b>	<b>306.825.143</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>	20.849.076	20.849.076
1. Legal reserves	<b>066</b>	6.658.250	6.658.250
2. Reserves for treasury shares	<b>067</b>	15.820.446	15.820.446
3. Treasury shares and stakes (less)	<b>068</b>	1.629.620	1.629.620
4. Statutory reserves	<b>069</b>		
5. Other reserves	<b>070</b>		
IV. REVALUATION RESERVES	<b>071</b>		
<b>V. RETAINED EARNINGS</b> (073-074)	<b>072</b>	22.120.979	132.863.396
1. Retained earnings	<b>073</b>	22.120.979	132.863.396
2. Loss brought forward	<b>074</b>		
<b>VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR</b> (076-077)	<b>075</b>	110.743.807	19.947.672
1. Profit for the financial year	<b>076</b>	110.743.807	19.947.672
2. Loss for the financial year	<b>077</b>		
<b>VII. MINORITY INTEREST</b>	<b>078</b>		
<b>B) PROVISIONS</b> (080 do 082)	<b>079</b>	8.560.375	8.804.349
1. Provisions for redundancy costs	<b>080</b>	8.560.375	8.804.349
2. Provisions for tax obligations	<b>081</b>		
3. Other provisions	<b>082</b>		
<b>C) NON-CURRENT LIABILITIES</b> (084 do 092)	<b>083</b>	<b>33.249.511</b>	<b>32.811.669</b>
1. Amounts payable to subsidiaries	<b>084</b>	14.340.912	14.524.783
2. Liabilities for loans, deposits and other	<b>085</b>		
3. Liabilities towards banks and other financial institutions	<b>086</b>	8.961.889	8.657.102
4. Amounts payable for prepayment	<b>087</b>		
5. Trade payables	<b>088</b>	2.041.774	2.041.774
6. Amounts payable for securities	<b>089</b>		
7. Liabilities toward participating interests	<b>090</b>		
8. Other non-current liabilities	<b>091</b>	7.904.937	7.588.010
9. Deferred tax	<b>092</b>		
<b>D) CURRENT LIABILITIES</b> (094 do 105)	<b>093</b>	<b>267.298.329</b>	<b>216.811.418</b>
1. Amounts payable to subsidiaries	<b>094</b>	73.215.063	49.794.502
2. Liabilities for loans, deposits and other	<b>095</b>		
3. Liabilities towards banks and other financial institutions	<b>096</b>	0	65.039
4. Amounts payable for prepayment	<b>097</b>		
5. Trade payables	<b>098</b>	49.718.507	45.815.786
6. Amounts payable for securities	<b>099</b>		
7. Liabilities toward participating interests	<b>100</b>		
8. Amounts payable to employees	<b>101</b>	92.981.733	64.362.815
9. Liabilities for taxes and contributions	<b>102</b>	51.383.027	56.773.276
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>212.137.047</b>	<b>179.955.554</b>
<b>F) TOTAL EQUITY AND LIABILITIES</b> (062+079+083+093+106)	<b>107</b>	<b>808.124.124</b>	<b>745.208.133</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>108</b>		

**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	<b>109</b>	286.878.862	306.825.143
2. Attributable to minority interest	<b>110</b>		

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 2017 to 31 March 2017

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>335.345.381</b>	<b>335.345.381</b>	<b>365.441.471</b>	<b>365.441.471</b>
1. Sales revenue	112	330.789.145	330.789.145	360.399.102	360.399.102
2. Other operating income	113	4.556.236	4.556.236	5.042.369	5.042.369
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>306.161.819</b>	<b>306.161.819</b>	<b>336.249.097</b>	<b>336.249.097</b>
1. Changes in inventories of finished products and work in progress	115	-10.788.813	-10.788.813	-14.387.408	-14.387.408
2. Raw material and consumables used (117 do 119)	116	122.486.790	122.486.790	144.729.902	144.729.902
a) Cost of raw materials & consumables	117	59.200.060	59.200.060	87.281.560	87.281.560
b) Cost of goods sold	118				
c) Other costs	119	63.286.730	63.286.730	57.448.343	57.448.343
3. Staff costs (121 do 123)	120	174.918.579	174.918.579	183.935.250	183.935.250
a) Net salaries	121	93.139.547	93.139.547	102.264.505	102.264.505
b) Employee income tax and contributions	122	57.676.108	57.676.108	56.825.665	56.825.665
c) Employer's contributions	123	24.102.923	24.102.923	24.845.080	24.845.080
4. Depreciation and amortisation expense	124	12.869.510	12.869.510	11.009.443	11.009.443
5. Other costs	125	6.419.019	6.419.019	10.099.567	10.099.567
6. Impairment losses (127+128)	126	0	0	0	0
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	0	0	0	0
7. Provisions	129				
8. Other operating expenses	130	256.734	256.734	862.342	862.342
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>902.136</b>	<b>902.136</b>	<b>661.564</b>	<b>661.564</b>
1. Interest, foreign exchange gains, dividends and other income from related	132			64.632	64.632
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	853.853	853.853	596.932	596.932
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	48.283	48.283		
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>1.519.264</b>	<b>1.519.264</b>	<b>3.700.229</b>	<b>3.700.229</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	1.519.264	1.519.264	3.687.261	3.687.261
3. Unrealized losses	140				
4. Other financial expenses	141			12.969	12.969
<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>336.247.517</b>	<b>336.247.517</b>	<b>366.103.035</b>	<b>366.103.035</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>307.681.083</b>	<b>307.681.083</b>	<b>339.949.326</b>	<b>339.949.326</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>28.566.433</b>	<b>28.566.433</b>	<b>26.153.709</b>	<b>26.153.709</b>
1. Profit before tax (146-147)	149	28.566.433	28.566.433	26.153.709	26.153.709
2. Loss before tax (147-146)	150	0	0	0	0
<b>XII. INCOME TAX EXPENSE</b>	<b>151</b>	<b>319.247</b>	<b>319.247</b>	<b>6.206.037</b>	<b>6.206.037</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>28.247.187</b>	<b>28.247.187</b>	<b>19.947.672</b>	<b>19.947.672</b>
1. Profit for the period (149-151)	153	28.247.187	28.247.187	19.947.672	19.947.672
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	28.247.187	28.247.187	19.947.672	19.947.672
2. Attributable to non-controlling interests	156				
<b>STATEMENTS OF COMPREHENSIVE INCOME (to be filled by entities who work in compliance with IFRS)</b>					
<b>I. PROFIT OR LOSS FOR THE PERIOD (= 152)</b>	<b>157</b>	<b>28.247.187</b>	<b>28.247.187</b>	<b>19.947.672</b>	<b>19.947.672</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	-127.113	-127.113	-68.459	-68.459
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>-127.113</b>	<b>-127.113</b>	<b>-68.459</b>	<b>-68.459</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>28.120.074</b>	<b>28.120.074</b>	<b>19.879.213</b>	<b>19.879.213</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	28.120.074	28.120.074	19.879.213	19.879.213
2. Attributable to non-controlling interests	170				

**CASH FLOW STATEMENT - Indirect method**  
 in the period 01 January 2017 to 31 March 2017

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	28.566.433	26.153.709
2. Depreciation and amortisation	002	12.869.510	11.009.443
3. Increase in liabilities	003		
4. Decrease in receivables	004		
5. Decrease in inventories	005		
6. Other increase in cash flow	006		10.646.554
<b>I. Total increase in operating cash flow (001 do 006)</b>	007	<b>41.435.943</b>	<b>47.809.706</b>
1. Decrease in liabilities	008	23.382.370	90.373.074
2. Increase in receivables	009	32.497.843	8.887.290
3. Increase in inventories	010	10.762.682	14.430.771
4. Other decrease in cash flow	011	70.500	
<b>II. Total decrease in operating cash flow (008 do 011)</b>	012	<b>66.713.395</b>	<b>113.691.135</b>
<b>A1) NET INCREASE IN OPERATING CASH FLOW (007-012)</b>	013		
<b>A2) NET DECREASE IN OPERATING CASH FLOW (012-007)</b>	014	<b>25.277.452</b>	<b>65.881.429</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Proceeds from sale of property, plant and equipment	015	34.105	41.268
2. Net disposal of financial assets	016		
3. Interest received	017	507.814	704.617
4. Dividend received	018		
5. Other cash from investing activities	019		
<b>III. Total cash flow from investing activities (015 do 019)</b>	020	<b>541.919</b>	<b>745.885</b>
1. Purchase of property, plant and equipment and intangible assets	021	7.920.290	10.250.239
2. Purchase of financial instruments	022	3.392.458	
3. Other cash flow used in investing activities	023	5.000.000	336.063
<b>IV. Total cash flow from investing activities (021 do 023)</b>	024	<b>16.312.749</b>	<b>10.586.302</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	025		
<b>B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)</b>	026	<b>15.770.830</b>	<b>9.840.418</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>	030	<b>0</b>	<b>0</b>
1. Repayment of interest-bearing borrowings	031		
2. Dividend paid	032		
3. Repayment of finance lease	033		
4. Repurchase of treasury shares	034		
5. Other cash flow used in financial activities	035	1.334.213	3.209.430
<b>VI. Total cash flow used in financial activities (031 do 035)</b>	036	<b>1.334.213</b>	<b>3.209.430</b>
<b>C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)</b>	037		
<b>C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)</b>	038	<b>1.334.213</b>	<b>3.209.430</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	42.382.495	78.931.277
Cash and cash equivalents at the beginning of the period	041	233.194.810	224.724.869
Increase in cash and cash equivalents	042	0	0
Decrease in cash and cash equivalents	043	42.382.495	78.931.277
Cash and cash equivalents at the end of the period	044	190.812.315	145.793.593

**STATEMENT OF CHANGES IN EQUITY**  
 for the period from 1.1.2017 to 31.3.2017

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	20.849.076	20.849.076
4. Retained earnings	004	22.120.979	132.863.396
5. Profit or loss for the period	005	110.743.807	19.947.672
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>286.878.862</b>	<b>306.825.143</b>
11. Foreign exchange differences from investments in foreign operations	011	-127.113	-68.459
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>-127.113</b>	<b>-68.459</b>
17 a. Parent company share in subsidiary	018	-127.113	-68.459
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 consolidated Financial Statements

### 1. Segment reporting

	Networks		IT & Cloud		Media		Unallocated		Total	
	31.3.2017. '000 kn	31.3.2016. '000 kn								
Segment sales revenue	212.284	211.462	147.088	119.252	1.027	75	0	0	360.399	330.789
Operating profit	24.753	23.710	18.411	13.371	527	8	-14.498	-7.905	29.192	29.184

### 2. Transactions with related parties

	31.3.2017. '000 kn	31.3.2016. '000 kn
Total sales	204.061	202.739
Total purchases	60.058	74.594

### 3. Balances with related parties

	31.3.2017 '000 kn	31.12.2016 '000 kn
Receivable	134.089	90.900
Payable	64.860	89.256

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