

## 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 H1 2017

### Highlights:

- Sales revenue: MHRK **709**
- Gross margin: **13.6%**
- Operating profit: MHRK **52.9**
- Income before tax: MHRK **48.9**
- Net profit: MHRK **37.4**
- Cash flow from operating activities: MHRK **-59.3**

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

"In H1 2017, sales revenue of Ericsson Nikola Tesla Group decreased by 2.9 percent year-over-year. Despite continuous sales revenue growth from services in Ericsson market and an increase in sales revenue in the domestic market, we were not able to fully neutralize the decline in sales in CIS market and markets of Southeast Europe. Despite numerous business challenges, we have maintained the position of the largest ICT exporter and the leading exporter of knowledge in Croatia. In line with our expectations, Ericsson market records a positive trend and an increase in revenue, primarily due to expansion of our responsibilities and new competencies of our R&D experts and our other expert centers. We have successfully entered into new technology areas, which resulted in high value added job openings. In H1 2017, we hired 145 new experts. At the end of H1, Ericsson Nikola Tesla Group had 3017 employees.

Gross profit increased by 5.5 percent, while operating profit increased by 3.7 percent year-over-year. Due to operational and financial negative currency effects, profit before tax is lower by 8.2 percent year-over-year, and amounts to MHRK 48.9. Net profit has declined by 26.8 percent to MHRK 37.4. The absence of tax incentives for R&D activities has directly impacted the decrease in net profit year-over-year.

Gross margin increased year-over-year to 13.6 percent. We closed H1 with a healthy balance sheet and an equity ratio of 40.7 percent. Working capital efficiency, expressed in Working Capital Days (WCD), is 32 days. Total cash and cash equivalents, including short term financial assets at the end of Q2 amount to MHRK 205.4. In line with expectations, we had a negative cash flow from operating activities, mainly due to a decreased inflow from customers. Regardless of quarterly volatility, the annual cash flow projection is as planned.

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Sales revenue realized in the domestic market record growth due to an increase in sales revenue in the Industry & Society segment. We are proud to actively participate in national projects, such as the State Border Control, healthcare digitization and the Joint Information System of Land Registry and Cadaster. The growth in domestic sales has partially neutralized the decline in sales in CIS and Southeast Europe markets.

With the aim to create new business opportunities in export markets, we continue with intense marketing and sales activities. At the 20th International Economy Fair – Mostar 2017, we presented the latest technology solutions for the digital economy, with a focus on IoT solutions for agriculture and tourism and at the largest Belarusian International Forum on Telecommunications, Information and Banking Technologies “TIBO-2017” jointly with beCloud operator we presented an innovative corporate ICT transport solution.

Comprehensive transformation is ongoing across Ericsson corporation as well as in our company. Ericsson Nikola Tesla is intensively engaged in transformation and is implementing organizational and structural changes in line with both market and our customers' demands. We want to strengthen our position in strategic areas: 4G/5G, Managed Services, Operations Support Systems and Business Support Systems (OSS and BSS), Cloud solutions, Industry& Society solutions, and services for Ericsson internal market. To be able to meet the requirements of a very demanding global market in a timely and quality manner, the company has been investing intensely in knowledge, skills and competencies of our experts, and shall continue to do so in the future. We expect that economic and political uncertainty will continue throughout 2017. Therefore, we will focus on strengthening profitability, cost efficiency and responsible risk management. “

### Financial Highlights for the Group:

- Sales revenue amounts to MHRK 709 (H1 2016: MHRK 730.3), a decrease by 2.9% year-over-year. Of the total sales revenue, the domestic market accounts for 19.5%, services to Ericsson account for 65.8% (of which 12% relates to Managed Services in Croatia), while other export markets participate with 14.7%.
- Sales in the Networks segment amount to MHRK 440.6 (62.1% of the total sales revenue), in IT & Cloud segment it amounts to MHRK 266.7 (37.6% of the total sales revenue), and in the Media segment it is MHRK 1.7 (0.2% of the total sales revenue).
- Gross profit amounts to MHRK 96.3 (H1 2016: MHRK 91.3), an increase by 5.5% year-over-year. Gross margin increased year-over-year, amounting to 13.6 % (H1 2016: 12.5%).
- Sales and administrative costs increased by 9.5% year-over-year to MHRK 43.1 (H1 2016: MHRK 39.4), primarily as a result of variable compensation to employees and intensified marketing and sales activities.
- Operating profit amounts to MHRK 52.9, an increase by 3.7% year-over-year (H1 2016: MHRK 51).
- Loss from financial activities amounts to MHRK 4 (H1 2016: gain from financial activities amounted to MHRK 2.2), primarily due to negative currency effects.
- Profit before tax decreased by 8.2% year-over-year to MHRK 48.9 (H1 2016: MHRK 53.3).

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- All tax losses carried forward on the basis of tax reliefs from R&D projects have been used in 2016. In line with that, in H1 2017, income tax liability amounting to MHRK 11.5 was calculated (H1 2016: MHRK 2.2).
- Net profit is MHRK 37.4 (H1 2016: MHRK 51), a decrease by 26.8% year-over-year. Return on Sales (ROS) is 5.3 % (H1 2016: 7%).
- Cash flow from operating activities amounts to MHRK – 59.3 (H1 2016: MHRK 38.2). The cash conversion rate is – 65%.
- Total cash and cash equivalents, including short term financial assets, as at June 30, 2017 amount to MHRK 205.4 (25.8% 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 solid balance sheet with the total assets of MHRK 797.3. Equity ratio is 40.7%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 450.1 (H1 2016: MHRK 441), while procurement of products and services amount to MHRK 127 (H1 2016: MHRK 193.2).
- As at June 30, 2017 balances outstanding with related parties were as follows: receivables amounted to MHRK 121.5 (end of 2016: MHRK 90.9), and payables to MHRK 58.8 (end of 2016: MHRK 89.3).

### Business situation in major markets

**In the domestic market**, sales revenue amounted to MHRK 138.5, an increase by 5 % year-over-year.

Cooperation with strategic partner Vipnet continued with modernization of radio access network and transport telecom network, and increasing of the 3G and 4G capacity. We continuously test new functionalities in various segments of core and access network to contribute to an increased service quality and new services for end users.

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 upgrading of the core IMS system. Furthermore, we delivered solutions for modernization of access, core and transport IP network of HT Group. The implementation of a part of MPLS access network within the TeraStream project started. We also continued delivering build and maintenance services for Hrvatski Telekom's telecommunication infrastructure.

With the mobile operator Tele2, we signed a contract for the core network upgrade, and already implemented it in part of the network. In line with requirements for capacity building in transport network, additional capacity of transport network in the segments of microwave and fiber optics were ordered, and delivered in a part of the network.

In the ICT solutions for Industry & Society segment, numerous activities continue in healthcare digitization. At the beginning of 2017, the Republic of Croatia Border Control System was successfully delivered. Seven border locations were equipped with the latest sensor equipment and connected into a joint "green border" surveillance system. A new

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contract for further digitization of the Joint Information System for Land Registry and Cadaster was signed, including the continuation of activities on the OSS project (One Stop Shop).

**In export markets (Ericsson market excluded),** sales revenue amounted to MHRK 104.3, a decrease by 34.7 percent year-over-year.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue decreased by 25.3% year-over-year, amounting to MHRK 49.6. Long-term unfavorable economic and political situation in these markets has a negative impact on the level and the dynamics of operator investments. The collaboration with operators is ongoing in the segment of maintenance and modernization of fixed and mobile networks. With HT Mostar, we signed contracts related to mobile network management system extension and modernization and extension and modernization of radio access network. With BH Telecom, we signed a contract for modernization and extension of Operations Support System. The modernization and upgrade of 112 system for the Ministry of Security of Bosnia and Herzegovina was successfully implemented.

In CIS market, sales revenue amounted to MHRK 54.7, a decrease by 41.4 percent year-over-year. We are currently engaged in implementation of projects contracted during 2016. Strong marketing and sales activities continue, with the aim of improving and developing business with existing and new customers.

**In Ericsson market,** sales revenue amounts to MHRK 466.2, an increase by 6.3% year-over-year. Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., contributed to this market segment with MHRK 85.1.

In Ericsson Nikola Tesla Research & Development Center (R&D) the activities within the Development Unit Networks related to radio systems software development have been significantly extended. The activities within Mobile Core, User Data Management and Cloud development units are carried out as planned. Operations' management and other heads of Ericsson development confirm that the organizational strength of our Research and Development Center is reflected in its continuous expansion in new activities and responsibilities with no risks to the work quality and delivery. Moreover, both sides have always expressed the readiness to further continue and intensify cooperation, which was particularly highlighted after Ericsson Corporation announced the new strategic guidelines. In line with that, recruitment and education of new experts is underway to facilitate our easier and more successful inclusion into current research and development projects. The research projects are ongoing on developing the network functions virtualization with the aim to enable new solutions on the Cloud platform. Experimental development within Ericsson Garage Croatia includes network security projects and projects that apply machine learning algorithms, for example, in elderly care.

The experts of Center for Services and Solutions for Networks & Media have been engaged in numerous complex projects for our customers worldwide, such as: Swisscom (Switzerland), Slovak Telekom (Slovakia), Vodafone, Three, and O2 (United Kingdom), A1 (Austria), China Unicom (China), MTN (Rwanda), Orange (Togolese Republic), Smartone (Hong Kong), TMO (USA), Alfa (Lebanon), Robi (Bangladesh). These are complex activities of expert

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analysis, creation of new innovative solutions, optimization and upgrade of existing networks and consultancy services. Intense work on the development and implementation of software tools for mobile networks management and optimization, such as: Smart Laptop, Smart Rollout Support, Rehoming Automation, and Ericsson Network Engineer, is ongoing.

Experts from Digital Services and Solutions Center were engaged in various demanding projects for customers worldwide, such as: Tango and Post from Luxembourg, Vodafone, O2, British Telecom/Everything Everywhere from the United Kingdom, Telekom Austria Group (TAG), Telecom Italy, Telekom Slovenije, T-Mobile and Vodafone Czech Republic, DIGI Hungary, DT Germany, Vimpelcom Russia, Orange Belgium, GO Malta, TMO USA, and DoCoMo Japan. These activities include design, network applications, Cloud and digital business systems infrastructure. We are proud that our customers on projects worldwide have given a positive feedback and congratulated our Services and Solutions Center experts on their engagement.

Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., was given an extension of the contract for telecom network build, maintenance and monitoring with key customer and an extension in business volume in the segment of geodesy and documentation. In H1 2017, key projects of building mobile broadband network, as well as projects of designing and building of optical networks were successfully implemented. Delivery of high quality services continued in the segment of telecommunication network monitoring and maintenance. The quality of service realization was confirmed by ISO 9001:2015 certificate awarded in the segment of planning, design, geodesy, installation, testing, monitoring and maintenance of IT and electronic communications infrastructure and network.

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### Other information

Ericsson Nikola Tesla major shareholders (as at 30 June, 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
Splitska banka d.d. / Erste Plavi mandatory pension fund, B category	41.890	3.15
Addiko d.d. / PBZ Croatia Insurance mandatory pension fund, B category	22.627	1.70
Zagrebačka banka d.d. / Unicredit Bank Austria AG – clients account	17.230	1.29
PBZ d.d. / The Bank of New York as Custodian	17.141	1.29
Zagrebačka banka d.d. / State Street and Trust Company, Boston	13.935	1.05
PBZ d.d. / custodian client account	9.069	0.68
Addiko d.d. / Raiffeisen voluntary pension fund	7.934	0.60
OTP BANKA d.d./INS683	6.944	0.52
Other shareholders	417.893	31.37

Share price information in Q2 2017:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (In MHRK)
1,399.00	1,150.00	1247.00	1660.6

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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:

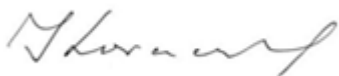
### Statement of the Management Board responsibility

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 30 June 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 dark ink, appearing to read "Gordana Kovačević", written over a light blue horizontal line.

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For additional information, please contact:

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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 30 June 2017

	2017	2016
	HRK '000	HRK '000
Sales revenue	709.044	730.288
Cost of sales	-612.695	-638.963
<b>Gross profit</b>	<b>96.349</b>	<b>91.326</b>
Selling expenses	-24.794	-22.312
Administrative expenses	-18.350	-17.089
Other operating income	260	217
Other operating expenses	-579	-1.139
<b>Operating profit</b>	<b>52.887</b>	<b>51.002</b>
Finance income	-	2.327
Finance expense	-3.990	-79
Finance expense/income – net	-3.990	2.248
<b>Profit before tax</b>	<b>48.897</b>	<b>53.251</b>
Income tax	-11.544	-2.224
<b>Profit for the year</b>	<b>37.353</b>	<b>51.026</b>
Other comprehensive income	-89	-124
<b>Total comprehensive income for the year</b>	<b>37.263</b>	<b>50.902</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of financial position  
as at 30 June 2017

	2017 HRK '000	2016 HRK '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	114.743	122.897
Intangible assets	6.721	7.285
Loans and receivables	82.699	81.160
Equity securities	386	40
Deferred tax assets	14.250	14.250
<b>Total non-current assets</b>	<b>218.799</b>	<b>225.632</b>
<b>Current assets</b>		
Inventories	68.515	9.796
Trade receivables	173.304	174.952
Receivables from related parties	104.434	88.858
Other receivables	11.500	14.325
Income tax receivable	4.854	1.172
Financial assets at fair value through profit or loss	62.843	62.993
Prepayments and accrued income	10.480	5.671
Cash and cash equivalents	142.587	224.725
<b>Total current assets</b>	<b>578.517</b>	<b>582.492</b>
<b>TOTAL ASSETS</b>	<b>797.315</b>	<b>808.124</b>
<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	186.083	148.686
<b>Total equity</b>	<b>324.276</b>	<b>286.879</b>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	8.761	8.962
Other non-current liabilities	17.311	24.288
Employee benefits	8.621	8.560
<b>Total non-current liabilities</b>	<b>34.694</b>	<b>41.810</b>
<b>Current liabilities</b>		
Payables to related parties	44.975	73.215
Interest-bearing borrowings	43	0
Trade and other payables	179.074	156.413
Income tax payable	11.541	21.659
Provisions	16.848	16.011
Accrued charges and deferred revenue	185.864	212.137
<b>Total current liabilities</b>	<b>438.345</b>	<b>479.435</b>
<b>Total liabilities</b>	<b>473.039</b>	<b>521.245</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>797.315</b>	<b>808.124</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of cash flows  
for the period ended 30 June 2017

	2017 HRK '000	2016 HRK '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	48.897	53.251
Adjustments for:		
Depreciation and amortisation	21.789	25.620
Impairment losses and reversals	1.140	1.016
Net increase of provisions	6.936	2.426
Gain on sale of property, plant and equipment	-87	-45
Net gain on remeasurement of financial assets	158	-2.003
Amortisation of discount	-3	-288
Interest income	-2.317	-1.429
Interest expense	12	79
Foreign exchange losses	14.102	2.126
Equity-settled transactions	134	631
	90.761	81.384
<i>Changes in working capital</i>		
In receivables	-21.035	-95.220
In inventories	-58.719	-51.118
In payables	-51.044	104.456
<i>Cash generated from operations</i>	-40.037	39.503
Interest paid	-12	-79
Income taxes paid	-19.215	-1.219
<b>Net cash from operating activities</b>	<b>-59.264</b>	<b>38.204</b>
<b>Cash flows from investing activities</b>		
Interest received	1.202	1.510
Acquisition of subsidiaries	-346	0
Proceeds from sale of property, plant and equipment	100	40
Purchases of property, plant and equipment, and intangible assets	-19.977	-21.393
Deposits collected with financial institutions - net	19	-10.167
Purchases of financial assets at fair value through profit and loss	0	-89.000
Proceeds from sale of financial assets at fair value through profit and loss	-8	51.932
<b>Net cash generated/(used) in investing activities</b>	<b>-19.010</b>	<b>-67.078</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-82	-132.846
<b>Net cash from financing activities</b>	<b>-82</b>	<b>-132.846</b>
Effects of exchange rate changes on cash and cash equivalents	-3.781	-1.303
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-82.138</b>	<b>-163.022</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>142.587</b>	<b>70.173</b>

**ENCLOSURE 1**

Reporting period:

1.1.2017.

to

30.06.2017

**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

Internet address: www.ericsson.hr

Code and city / municipality: 133 ZAGREB

Code and county: 21 GRAD ZAGREB

Number of employees: 3.017

(at the end of year)

Consolidated Report: Yes

Business activity code: 2630

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

Libratel d.o.o.

Zagreb, Selska 93

01449613

ETK BH d.o.o.

Sarajevo, Fra Andela Zvizdovića broj 1

65-01-0996-11

Ericsson Nikola Tesla d.d. - Branch office of Kosovo

Republika Kosova, Kalabria, Obj 1., BII 1, Kati 1 Nr.13

70633647

Ericsson Nikola Tesla Servisi d.o.o.

Zagreb, Krapinska 45

080921748

Book-keeping office:

Contact person: Tatjana Ricijaš

(Name and surname of contact person)

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E-mail: 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 30 June 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>001</b>		
<b>B) NON CURRENT ASSETS (003+010+020+029+033)</b>	<b>002</b>	<b>225.631.535</b>	<b>218.798.561</b>
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	7.284.911	6.721.464
1. Research & Development expenditure	<b>004</b>		
2. Patents, licences, royalties, trade marks, software&similar rights	<b>005</b>	3.111.665	2.548.219
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	114.742.931
1. Land	<b>011</b>	15.605.344	15.605.344
2. Property	<b>012</b>	27.637.641	28.091.419
3. Plants and equipment	<b>013</b>	62.902.184	51.933.709
4. Tools, plants&vehicles	<b>014</b>	16.398.060	16.413.394
5. Biological asset	<b>015</b>		
6. Prepayments for tangible assets	<b>016</b>		
7. Assets under construction	<b>017</b>	270.059	2.619.186
8. Other tangible assets	<b>018</b>	83.770	79.879
9. Investments property	<b>019</b>		
III. FINANCIAL ASSETS (021 do 028)	<b>020</b>	28.156.940	27.003.059
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	26.617.300
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	56.081.351
1. Receivables from subsidiaries	<b>030</b>	2.041.774	841.797
2. Receivables from credit sales	<b>031</b>	50.395.179	54.647.434
3. Other receivables	<b>032</b>	605.918	592.120
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>568.036.789</b>
I. INVENTORIES (036 do 042)	<b>035</b>	9.795.795	68.514.593
1. Raw materials & consumables	<b>036</b>		11.798
2. Work in progress	<b>037</b>	9.788.066	68.500.995
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	294.092.324
1. Receivables for trade debt of subsidiaries	<b>044</b>	88.857.879	120.638.155
2. Trade receivables	<b>045</b>	174.952.345	157.099.976
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	6.273.653
6. Other receivables	<b>049</b>	13.000.619	10.080.540
III. FINANCIAL ASSETS (051 do 057)	<b>050</b>	62.993.219	62.842.705
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	62.842.705
6. Loans & deposits	<b>056</b>		
7. Other financial assets	<b>057</b>		
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	224.724.869	142.587.167
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>5.671.596</b>	<b>10.479.978</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>808.124.124</b>	<b>797.315.328</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>286.878.862</b>	<b>324.276.477</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>		
V. RETAINED EARNINGS (073-074)	<b>072</b>	22.120.979	132.909.553
1. Retained earnings	<b>073</b>	22.120.979	132.909.553
2. Loss brought forward	<b>074</b>		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	<b>075</b>	110.743.807	37.352.848
1. Profit for the financial year	<b>076</b>	110.743.807	37.352.848
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>	8.560.375	8.621.397
1. Provisions for redundancy costs	<b>080</b>	8.560.375	8.621.397
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>33.249.511</b>	<b>26.072.834</b>
1. Amounts payable to subsidiaries	<b>084</b>	14.340.912	9.591.743
2. Liabilities for loans, deposits and other	<b>085</b>		0
3. Liabilities towards banks and other financial institutions	<b>086</b>	8.961.889	8.761.424
4. Amounts payable for prepayment	<b>087</b>		0
5. Trade payables	<b>088</b>	2.041.774	841.797
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>	7.904.937	6.877.871
9. Deferred tax	<b>092</b>		
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	<b>267.298.329</b>	<b>252.480.130</b>
1. Amounts payable to subsidiaries	<b>094</b>	73.215.063	44.975.381
2. Liabilities for loans, deposits and other	<b>095</b>		
3. Liabilities towards banks and other financial institutions	<b>096</b>	0	42.775
4. Amounts payable for prepayment	<b>097</b>		
5. Trade payables	<b>098</b>	49.718.507	107.292.181
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	65.315.182
9. Liabilities for taxes and contributions	<b>102</b>	51.383.027	34.854.611
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>185.864.491</b>
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>808.124.124</b>	<b>797.315.328</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>	286.878.862	324.276.477
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 30 June 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>739.531.724</b>	<b>404.289.154</b>	<b>719.172.410</b>	<b>353.755.231</b>
1. Sales revenue	112	730.288.376	399.499.231	709.044.246	348.645.144
2. Other operating income	113	9.243.348	4.789.923	10.128.164	5.110.086
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>688.529.566</b>	<b>382.470.557</b>	<b>666.285.092</b>	<b>330.060.287</b>
1. Changes in inventories of finished products and work in progress	115	-48.925.460	-38.136.646	-58.712.928	-44.325.520
2. Raw material and consumables used (117 do 119)	116	335.181.159	212.694.369	300.590.051	155.896.375
a) Cost of raw materials & consumables	117	180.366.107	121.166.047	140.916.817	53.673.768
b) Cost of goods sold	118				
c) Other costs	119	154.815.052	91.528.322	159.673.234	102.222.607
3. Staff costs (121 do 123)	120	352.172.108	177.253.529	374.175.701	190.204.226
a) Net salaries	121	189.929.600	95.248.595	195.855.884	106.545.507
b) Employee income tax and contributions	122	112.605.818	56.471.166	126.315.062	56.457.325
c) Employer's contributions	123	49.636.691	25.533.768	52.004.755	27.201.394
4. Depreciation and amortisation expense	124	25.619.678	12.750.168	21.789.274	10.779.831
5. Other costs	125	22.155.467	15.736.448	25.773.188	15.673.621
6. Impairment losses (127+128)	126	1.014.152	1.116.962	1.136.021	1.160.313
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	1.014.152	1.116.962	1.136.021	1.160.313
7. Provisions	129				
8. Other operating expenses	130	1.312.462	1.055.728	1.533.785	671.443
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>3.264.746</b>	<b>2.871.061</b>	<b>1.214.908</b>	<b>553.344</b>
1. Interest, foreign exchange gains, dividends and other income from related	132	201.243	146.326	92.152	27.520
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	1.227.698	937.213	1.122.756	525.824
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	1.835.805	1.787.522	0	0
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>1.016.300</b>	<b>5.487</b>	<b>5.205.248</b>	<b>1.505.019</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	1.016.300	5.487	4.877.534	1.190.274
3. Unrealized losses	140				
4. Other financial expenses	141			327.714	314.745
<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>742.796.470</b>	<b>407.160.215</b>	<b>720.387.317</b>	<b>354.308.575</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>689.545.866</b>	<b>382.476.044</b>	<b>671.490.340</b>	<b>331.565.306</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>53.250.604</b>	<b>24.684.171</b>	<b>48.896.977</b>	<b>22.743.268</b>
1. Profit before tax (146-147)	149	53.250.604	24.684.171	48.896.977	22.743.268
2. Loss before tax (147-146)	150			0	0
<b>XII. INCOME TAX EXPENSE</b>	<b>151</b>	<b>2.224.141</b>	<b>1.904.895</b>	<b>11.544.129</b>	<b>5.338.092</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>51.026.463</b>	<b>22.779.276</b>	<b>37.352.848</b>	<b>17.405.176</b>
1. Profit for the period (149-151)	153	51.026.463	22.779.276	37.352.848	17.405.176
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	51.026.463	22.779.276	37.352.848	17.405.176
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>51.026.463</b>	<b>22.779.276</b>	<b>37.352.848</b>	<b>17.405.176</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	-124.126	2.987	-89.370	-20.911
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>-124.126</b>	<b>2.987</b>	<b>-89.370</b>	<b>-20.911</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>50.902.337</b>	<b>22.782.263</b>	<b>37.263.478</b>	<b>17.384.265</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	50.902.337	22.782.263	37.263.478	17.384.265
2. Attributable to non-controlling interests	170				

**CASH FLOW STATEMENT - Indirect method**  
in the period 01 January 2017 to 30 June 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	53.250.604	48.896.977
2. Depreciation and amortisation	002	25.619.678	21.789.274
3. Increase in liabilities	003	104.455.993	
4. Decrease in receivables	004		
5. Decrease in inventories	005		
6. Other increase in cash flow	006	1.215.554	847.679
<b>I. Total increase in operating cash flow (001 do 006)</b>	<b>007</b>	<b>184.541.828</b>	<b>71.533.929</b>
1. Decrease in liabilities	008		51.044.090
2. Increase in receivables	009	95.219.527	21.035.229
3. Increase in inventories	010	51.117.940	58.718.798
4. Other decrease in cash flow	011		
<b>II. Total decrease in operating cash flow (008 do 011)</b>	<b>012</b>	<b>146.337.467</b>	<b>130.798.117</b>
<b>A1) NET INCREASE IN OPERATING CASH FLOW (007-012)</b>	<b>013</b>	<b>38.204.361</b>	
<b>A2) NET DECREASE IN OPERATING CASH FLOW (012-007)</b>	<b>014</b>		<b>59.264.188</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Proceeds from sale of property, plant and equipment	015	40.240	100.182
2. Net disposal of financial assets	016	51.803.193	
3. Interest received	017	1.509.950	1.201.549
4. Dividend received	018	128.883	
5. Other cash from investing activities	019		19.158
<b>III. Total cash flow from investing activities (015 do 019)</b>	<b>020</b>	<b>53.482.265</b>	<b>1.320.889</b>
1. Purchase of property, plant and equipment and intangible assets	021	21.393.049	19.977.206
2. Purchase of financial instruments	022	89.000.000	
3. Other cash flow used in investing activities	023	10.167.453	353.459
<b>IV. Total cash flow from investing activities (021 do 023)</b>	<b>024</b>	<b>120.560.502</b>	<b>20.330.665</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>67.078.237</b>	<b>19.009.776</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	132.845.626	82.310
3. Repayment of finance lease	033		
4. Repurchase of treasury shares	034		
5. Other cash flow used in financial activities	035	1.302.731	3.781.428
<b>VI. Total cash flow used in financial activities (031 do 035)</b>	<b>036</b>	<b>134.148.357</b>	<b>3.863.738</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>134.148.357</b>	<b>3.863.738</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	163.022.233	82.137.702
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	163.022.233	82.137.702
Cash and cash equivalents at the end of the period	044	70.172.578	142.587.167



**STATEMENT OF CHANGES IN EQUITY**  
for the period from 1.1.2017 to 30.6.2017

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	21.131.256	20.849.076
4. Retained earnings	004	21.310.253	132.909.553
5. Profit or loss for the period	005	51.026.463	37.352.848
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>226.632.971</b>	<b>324.276.477</b>
11. Foreign exchange differences from investments in foreign operations	011	-124.126	-89.370
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>-124.126</b>	<b>-89.370</b>
17 a. Parent company share in subsidiary	018	-124.126	-89.370
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	
	30.6.2017.	30.6.2016. Restated	30.6.2017.	30.6.2016. Restated	30.6.2017.	30.6.2016. Restated	30.6.2017.	30.6.2016. Restated	30.6.2017.	30.6.2016.
	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Segment sales revenue	440.659	471.339	266.661	258.799	1.724	151	0	0	<b>709.044</b>	<b>730.288</b>
Operating profit	42.459	44.410	38.308	24.384	473	14	-28.353	-17.807	<b>52.887</b>	<b>51.002</b>

### 2. Transactions with related parties

	30.6.2017. '000 kn	30.6.2016. '000 kn
Total sales	<u>450.093</u>	<u>441.019</u>
Total purchases	<u>127.001</u>	<u>193.215</u>

### 3. Balances with related parties

	30.6.2017. '000 kn	30.6.2016. '000 kn
Receivable	<u>121.480</u>	<u>89.374</u>
Payable	<u>58.798</u>	<u>86.860</u>

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