

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).

- 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 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 30 June 2017

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

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

	2017 HRK '000	2016 HRK '000
ASSETS		
Non-current assets		
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
Total non-current assets	<u>218.799</u>	<u>225.632</u>
Current assets		
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
Total current assets	<u>578.517</u>	<u>582.492</u>
TOTAL ASSETS	<u>797.315</u>	<u>808.124</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-1.630	-1.630
Legal reserves	6.658	6.658
Retained earnings	186.083	148.686
Total equity	<u>324.276</u>	<u>286.879</u>
Non-current liabilities		
Interest-bearing borrowings	8.761	8.962
Other non-current liabilities	17.311	24.288
Employee benefits	8.621	8.560
Total non-current liabilities	<u>34.694</u>	<u>41.810</u>
Current liabilities		
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
Total current liabilities	<u>438.345</u>	<u>479.435</u>
Total liabilities	<u>473.039</u>	<u>521.245</u>
TOTAL EQUITY AND LIABILITIES	<u>797.315</u>	<u>808.124</u>

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

	2017 HRK '000	2016 HRK '000
Cash flows from operating activities		
Profit before tax	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
Net cash from operating activities	-59.264	38.204
Cash flows from investing activities		
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
Net cash generated/(used) in investing activities	-19.010	-67.078
Cash flows from financing activities		
Dividends paid	-82	-132.846
Net cash from financing activities	-82	-132.846
Effects of exchange rate changes on cash and cash equivalents	-3.781	-1.303
Net increase/decrease in cash and cash equivalents	-82.138	-163.022
Cash and cash equivalents at the beginning of the year	224.725	233.195
Cash and cash equivalents at the end of the year	142.587	70.173

Balance Sheet
as at 30 June 2017

Issuer: Ericsson Nikola Tesla d.d.

Item	AOP	Previous period	Current period
1	2	3	4
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL			
B) NON CURRENT ASSETS (003+010+020+029+033)	002	225.631.535	218.798.561
I. INTANGIBLE ASSETS (004 do 009)	003	7.284.911	6.721.464
1. Research & Development expenditure	004		
2. Patents, licences, royalties, trade marks, software&similar rights	005	3.111.665	2.548.219
3. Goodwill	006	4.173.246	4.173.246
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	122.897.058	114.742.931
1. Land	011	15.605.344	15.605.344
2. Property	012	27.637.641	28.091.419
3. Plants and equipment	013	62.902.184	51.933.709
4. Tools, plants&vehicles	014	16.398.060	16.413.394
5. Biological asset	015		
6. Prepayments for tangible assets	016		
7. Assets under construction	017	270.059	2.619.186
8. Other tangible assets	018	83.770	79.879
9. Investments property	019		
III. FINANCIAL ASSETS (021 do 028)	020	28.156.940	27.003.059
1. Investments in subsidiaries	021		
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	28.116.940	26.617.300
7. Other non-current financial assets	027	40.000	385.759
8. Investment accounted by equity method	028		
IV. RECEIVABLES (030 do 032)	029	53.042.871	56.081.351
1. Receivables from subsidiaries	030	2.041.774	841.797
2. Receivables from credit sales	031	50.395.179	54.647.434
3. Other receivables	032	605.918	592.120
V. DEFERRED TAX ASSETS	033	14.249.755	14.249.755
C) CURRENT ASSETS (035+043+050+058)	034	576.820.993	568.036.789
I. INVENTORIES (036 do 042)	035	9.795.795	68.514.593
1. Raw materials & consumables	036		11.798
2. Work in progress	037	9.788.066	68.500.995
3. Products	038		
4. Merchandise	039		
5. Prepayments for inventories	040	7.729	1.800
6. Other available-for-sale assets	041		
7. Biological asset	042		
II. RECEIVABLES (044 do 049)	043	279.307.110	294.092.324
1. Receivables for trade debt of subsidiaries	044	88.857.879	120.638.155
2. Trade receivables	045	174.952.345	157.099.976
3. Receivables for trade debts of participating entities	046		
4. Amounts receivable from employees	047		
5. Receivables from government agencies	048	2.496.267	6.273.653
6. Other receivables	049	13.000.619	10.080.540
III. FINANCIAL ASSETS (051 do 057)	050	62.993.219	62.842.705
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	62.993.219	62.842.705
6. Loans & deposits	056		
7. Other financial assets	057		
IV. CASH AND CASH EQUIVALENTS	058	224.724.869	142.587.167
D) PREPAYMENTS AND ACCRUED INCOME	059	5.671.596	10.479.978
E) TOTAL ASSETS (001+002+034+059)	060	808.124.124	797.315.328
F) OFF-BALANCE SHEET ITEMS	061		

EQUITY AND LIABILITIES			
A) EQUITY (063+064+065+071+072+075+078)	062	286.878.862	324.276.477
I. SHARE CAPITAL	063	133.165.000	133.165.000
II. CAPITAL RESERVES	064		
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	20.849.076	20.849.076
1. Legal reserves	066	6.658.250	6.658.250
2. Reserves for treasury shares	067	15.820.446	15.820.446
3. Treasury shares and stakes (less)	068	1.629.620	1.629.620
4. Statutory reserves	069		
5. Other reserves	070		
IV. REVALUATION RESERVES	071		
V. RETAINED EARNINGS (073-074)	072	22.120.979	132.909.553
1. Retained earnings	073	22.120.979	132.909.553
2. Loss brought forward	074		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	075	110.743.807	37.352.848
1. Profit for the financial year	076	110.743.807	37.352.848
2. Loss for the financial year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 do 082)	079	8.560.375	8.621.397
1. Provisions for redundancy costs	080	8.560.375	8.621.397
2. Provisions for tax obligations	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 do 092)	083	33.249.511	26.072.834
1. Amounts payable to subsidiaries	084	14.340.912	9.591.743
2. Liabilities for loans, deposits and other	085		0
3. Liabilities towards banks and other financial institutions	086	8.961.889	8.761.424
4. Amounts payable for prepayment	087		0
5. Trade payables	088	2.041.774	841.797
6. Amounts payable for securities	089		0
7. Liabilities toward participating interests	090		0
8. Other non-current liabilities	091	7.904.937	6.877.871
9. Deferred tax	092		
D) CURRENT LIABILITIES (094 do 105)	093	267.298.329	252.480.130
1. Amounts payable to subsidiaries	094	73.215.063	44.975.381
2. Liabilities for loans, deposits and other	095		
3. Liabilities towards banks and other financial institutions	096	0	42.775
4. Amounts payable for prepayment	097		
5. Trade payables	098	49.718.507	107.292.181
6. Amounts payable for securities	099		
7. Liabilities toward participating interests	100		
8. Amounts payable to employees	101	92.981.733	65.315.182
9. Liabilities for taxes and contributions	102	51.383.027	34.854.611
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	212.137.047	185.864.491
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	808.124.124	797.315.328
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	286.878.862	324.276.477
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 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
I. OPERATING INCOME (112+113)	111	739.531.724	404.289.154	719.172.410	353.755.231
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
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	688.529.566	382.470.557	666.285.092	330.060.287
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
III. FINANCIAL INCOME (132 do 136)	131	3.264.746	2.871.061	1.214.908	553.344
1. Interest, foreign exchange gains, dividends and other income from related and other entities	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
IV. FINANCIAL EXPENSES (138 do 141)	137	1.016.300	5.487	5.205.248	1.505.019
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
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	742.796.470	407.160.215	720.387.317	354.308.575
X. TOTAL EXPENSES (114+137+143 + 145)	147	689.545.866	382.476.044	671.490.340	331.565.306
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	53.250.604	24.684.171	48.896.977	22.743.268
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
XII. INCOME TAX EXPENSE	151	2.224.141	1.904.895	11.544.129	5.338.092
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	51.026.463	22.779.276	37.352.848	17.405.176
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
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	51.026.463	22.779.276	37.352.848	17.405.176
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	51.026.463	22.779.276	37.352.848	17.405.176
II. OTHER COMPREHENSIVE INCOME /LOSS BEFORE TAX (159 do 165)	158	0	0	0	0
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				
III. TAX ON OTHER COMPREHENSIVE INCOME OF THE PERIOD	166				
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE YEAR (158-166)	167	-124.126	2.987	-89.370	-20.911
V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)	168	50.902.337	22.782.263	37.263.478	17.384.265
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	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	
CASH FLOW FROM OPERATING ACTIVITIES				
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	
I. Total increase in operating cash flow (001 do 006)	007	184.541.828	71.533.929	
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			
II. Total decrease in operating cash flow (008 do 011)	012	146.337.467	130.798.117	
A1) NET INCREASE IN OPERATING CASH FLOW (007-012)	013	38.204.361		
A2) NET DECREASE IN OPERATING CASH FLOW (012-007)	014		59.264.188	
CASH FLOW FROM INVESTMENT ACTIVITIES				
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	
III. Total cash flow from investing activities (015 do 019)	020	53.482.265	1.320.889	
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	
IV. Total cash flow from investing activities (021 do 023)	024	120.560.502	20.330.665	
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025			
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	67.078.237	19.009.776	
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			
V. Total cash flow from financial activities (027 do 029)	030		0	0
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	
VI. Total cash flow used in financial activities (031 do 035)	036	134.148.357	3.863.738	
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037			
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	134.148.357	3.863.738	
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		
10. Total capital and reserves (AOP 001 do 009)	010	226.632.971	324.276.477
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		
17. Total increase/decrease in equity (AOP 011 do 016)	017	-124.126	-89.370
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.	30.6.2017.	30.6.2016.	30.6.2017.	30.6.2016.	30.6.2017.	30.6.2016.	30.6.2017.	30.6.2016.
	Restated	Restated	'000 kn	'000 kn						
Segment sales revenue	440.659	471.339	266.661	258.799	1.724	151	0	0	709.044	730.288
Operating profit	42.459	44.410	38.308	24.384	473	14	-28.353	-17.807	52.887	51.002

2. Transactions with related parties

	30.6.2017.	30.6.2016.
	'000 kn	'000 kn
Total sales	450.093	441.019
Total purchases	127.001	193.215

3. Balances with related parties

	30.6.2017.	30.6.2016.
	'000 kn	'000 kn
Receivable	121.480	89.374
Payable	58.798	86.860

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