

## ERICSSON NIKOLA TESLA D.D.

The Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for the nine months 2017

### Highlights:

- Sales revenue: MHRK **1,069.4**
- Gross margin: **11.9%**
- Operating profit: MHRK **70.4**
- Profit before tax: MHRK **67.8**
- Net profit: MHRK **51.9**
- Cash flow from operating activities: MHRK **39.0**

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

„In the first nine months, sales revenue of Ericsson Nikola Tesla Group decreased by 5.7% year-over-year. Despite continuous sales revenue growth from services in Ericsson market, we have still not been able to fully neutralize the decrease in sales in CIS markets. Sales revenue in the domestic market slightly decreased, while sales in the markets of Southeast Europe were on the same level as previous year. Ericsson market continues to record an increase in revenue due to expansion of responsibilities and new competencies of our experts in R&D and other expert centers. We have successfully entered into new technology areas, which resulted in high value added job openings. During the first nine months, we hired more than 200 new experts, primarily in R&D.

Almost all key performance indicators recorded a positive trend. Gross profit increased by 5.6%, while operating profit increased by 18.1% year-over-year. Profit before tax increased by 8.7% year-over-year to MHRK 67.8. Despite higher profit before tax, net profit decreased by 10.8% year-over-year due to absence of tax incentives for R&D activities. Gross margin increased year-over-year and amounts to 11.9%. We closed Q3 2017 with a healthy balance sheet and an equity ratio of 30.1%. A positive cash flow from operating activities was realized, amounting to MHRK 39. Dividend payment amounted to MHRK 119.9, so the total cash and cash equivalents, including short-term financial assets at the end of Q3 amounted to MHRK 178.4. Working capital efficiency remains strong, and expressed in Working Capital Days (WCD), is 33 days. Cash conversion is 31%.

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In the domestic market, we are positioned as a reliable partner to our customers in implementing technical solutions for the Networked Society. I would like to highlight a multi-year agreement signed with our long-term partner Vipnet, which encompasses the modernization and expansion of radio access network. This agreement confirms our solo vendor position in this segment. As far as export markets are concerned, we expect new business opportunities in the upcoming period, primarily in Bosnia & Herzegovina. In CIS markets, sales and marketing activities are ongoing on several projects in telecom segment and Industry & Society segment.

End of September, we marked the 17th Anniversary of Ericsson Nikola Tesla Summer Camp. Over the years, in cooperation with FER from Zagreb, FESB from Split, and many other scientific institutions from Croatia and abroad, nearly 800 top STEM students, as well as students from other areas, participated. This year, 70 students from various faculties from Croatia, Great Britain, and Bosnia & Herzegovina, teamed up with their mentors, and worked on projects in the IoT segment, analytics, safety and Cloud Computing.

We continuously adjust to the demands and needs of the market and our customers and make the necessary structural changes. Furthermore, we continue to employ and invest in knowledge and competences of our employees, in order to timely and with quality respond to global market demands and ensure technological leadership.

During Q3, we focused on strategic planning for the upcoming period, by analyzing the situation in all relevant markets, as well as ICT industry trends. We want to strengthen our position in strategic areas: 4G/5G, OSS and BSS, Managed Services and IoT, using the state-of-the-art technology and business models and concepts, such as Cloud solutions, X as a service model (XaaS), etc. In Ericsson internal market, our aim is to maintain the existing responsibilities, and to expand them, with a high quality of delivered services. Considering the current market environment, the company's position and business strategy, our focus remains on strengthening profitability, operational efficiency and responsible risk management, as well as investing in new strategic areas."

### Financial highlights for the Group:

- Sales revenue amounts to MHRK 1,069.4 (first nine months 2016: MHRK 1,134.3), down 5.7% year-over-year. Of the total sales revenue, the domestic market accounts for 17%, services to Ericsson account for 62.9% (of which 12.0% relates to Managed Services in Croatia), while other export markets participate with 20.1%.
- Sales in the Network segment amounts to MHRK 651.5 (60.9% of the total sales revenue), IT and Cloud segment amounts to MHRK 416 (38.9% of the total sales revenue), and Media segment amounts to MHRK 1.9 (0.2% of the total sales revenue).
- Gross profit amounts to MHRK 127.6 (first nine months 2016: MHRK 120.8), up 5.6% year-over-year. Gross margin amounts to 11.9% (first nine months 2016: 10.7%).
- Sales and administrative expenses increased by 2.9% year-over-year to MHRK 60.9 (first nine months 2016: MHRK 59.2), primarily as a result of variable compensation to employees and intensified marketing and sales activities.
- Operating profit amounts to MHRK 70.4 (first nine months 2016: MHRK 59.7), up 18.1 year-over-year.

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- Loss from financial activities amounts to MHRK 2.6 primarily due to negative currency deviations (first nine months 2016: gain from financial activities was MHRK 2.8).
- Profit before tax increased by 8.7% year-over-year and amounts to MHRK 67.8 (first nine months 2016: MHRK 62.4).
- Tax losses carried forward on the basis of tax reliefs from R&D projects were used in 2016. Respectively, the estimated income tax liability was calculated, amounting to MHRK 15.9 (first nine months 2016: HRK 4.2).
- Net profit is MHRK 51.9 (first nine months 2016: MHRK 58.2), down 10.8% year-over-year. Return on Sales (ROS) is 4.9% (first nine months 2016: 5.1%).
- Cash flow from operating activities amounts to MHRK 39.0 (first nine months 2016: MHRK 75.1). The cash conversion rate is 31%.
- Total cash and cash equivalents, including short term financial assets, as at September 30, 2017 amount to MHRK 178.4 (24.5% 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 727.0. Equity ratio is 30.1%.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 667.0 (first nine months 2016: MHRK 649.6), while procurement of products and services amounts to MHRK 184.8 (first nine months 2016: MHRK 299.4).
- As at September 30, 2017, balances outstanding with related parties were as follows: receivables amounted to MHRK 98.4 (end of 2016: MHRK 90.9), and payables to MHRK 71.0 (end of 2016: MHRK 89.3).

### Business situation in major markets

**In the domestic market,** sales revenue amounted to MHRK 182.4, down 1.5% year-over-year.

With strategic partner Vipnet, a multi-year frame agreement was signed, encompassing modernization and expansion of radio access network by using the state-of-the-art technologies from Ericsson's extensive portfolio. The agreed activities will enable further increase in transfer speed and improve user experience for Vipnet users.

Business cooperation with Hrvatski Telekom was continued in the segment of fixed telecommunication network modernization by signing a contract on IMS core system upgrade to the latest technology. The solutions for the modernization of access, core, and transport IP network of HT Group were delivered. The implementation of access devices within TeraStream project was completed. The collaboration in the segment of telecom infrastructure build and maintenance services continues.

With the mobile operator Tele2, an upgrade of MGW nodes was realized within the core network upgrade project. Furthermore, during the third quarter we continued to provide support services for Tele2 entire telecom network.

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In the field of ICT solutions for Industry & Society, we have continued the activities in healthcare digitization, and digitization of the Joint Information System for Land Registry and Cadaster. Furthermore, with the Ministry of the Interior of the Republic of Croatia, the continuation of upgrade of the Border Control System was agreed. In addition to seven previously delivered locations, equipped for border control, the contracted project shall include additional six locations, which will further enhance border surveillance between the Republic of Croatia and the Republic of Serbia. Furthermore, we agreed the delivery of ICT solutions for smart parking for Split Parking utility company. This is the first overall solution for smart parking in Croatia, and represents one of the steps towards a smart city in the mobility segment.

**In export markets (Ericsson market excluded)** sales revenue amounted to MHRK 214.6, down 31.6% year-over-year.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue amounted to MHRK 97.1, up 0.8 % year-over-year. Long-term unfavorable economic and political situation in these markets has a negative impact on the level and dynamics of operators' investments. In Bosnia and Herzegovina, the operators' investments are expected after resolving regulatory prerequisites for introducing 4G networks. During Q3, we continued the cooperation with operators in fixed and mobile networks modernization and maintenance.

In CIS markets, sales revenue amounted to MHRK 117.5, down 46% year-over-year. We are currently engaged in implementation of projects agreed during 2016. Marketing and sales activities continue, with the aim of improving and developing business with the existing customers, as well as attracting new customers. In these markets, customer financing is key, therefore there is an increased need to cooperate with the Croatian Bank for Reconstruction and Development (HBOR) and commercial banks, in order to better take advantage of these business opportunities.

**In Ericsson market**, sales revenue amounted to MHRK 672.4, up 5.9% year-over-year. The contribution of the company Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to revenue in this market segment amounts to MHRK 128.7.

At the management meeting of Ericsson Nikola Tesla Research & Development Center (R&D), held in September, which gathered the representatives of all units with which we cooperate in Ericsson Corporation, our Center received recognition for its achievements and its ability to assume new responsibilities while retaining the quality level. The results confirm the continuity of excellence, and give impetus to future work and the development of cooperation. In Development Units (Radio, Mobile Core, User Data Management and Cloud) all activities are ongoing as planned. Within the technology innovation incubator *Ericsson Garage Croatia*, projects related to network safety, the application of machine learning algorithms, as well as the application of augmented reality technology for remote support, are ongoing.

The experts of Center for Services and Solutions for Networks & Media have been engaged in projects for numerous customers, such as: Swisscom (Switzerland), Deutsche Telekom (Germany), O2 (United Kingdom), A1 (Austria), Orange (France), Alfa (Lebanon) and Bouygues Telekom (France). These are complex activities of expert analysis, creation of new innovative solutions, optimization and upgrade of existing networks and consultancy services.

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Intense work is ongoing on the development and implementation of software tools for mobile networks management and optimization, such as: Smart Laptop, Smart Rollout Support, Rehoming Automation Management Tool, and Ericsson Network Engineer.

Experts from Digital Services and Solutions Center were engaged in various demanding projects for customers, such as: Post (Luxembourg), Vodafone (Ireland), British Telecom (United Kingdom), Telekom Austria Group (TAG), Wind3 (Italy), Telekom Slovenije (Slovenia), T-Mobile and Vodafone (Czech Republic), DIGI (Hungary), Deutsche Telekom and Telefonica (Germany), Telefonica (Colombia), Telekom Egypt, Tele2 (Sweden), Veon (Russia), Orange (Belgium), and AsiaCell (Iraq). These activities include design, network applications, Cloud and digital business systems infrastructure.

In Q3, Ericsson Nikola Tesla Servisi d.o.o. was providing services of monitoring, maintenance, and build of telecommunication network to key customer. The growth trend in the segment of providing services towards other telecommunication companies in Europe continues. In the segment of telecommunication network monitoring, the range of application of Ericsson's tools for key customer's monitoring of business processes was expanded. Furthermore, the activities are ongoing regarding mobile broadband and optic network build, focusing on providing services to business users. Despite demanding weather conditions, especially in the southern part of Croatia, we continued to timely provide telecommunication network maintenance, which resulted in a high level of key customer's telecommunication network availability to end users.

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### Other information

Ericsson Nikola Tesla major shareholders (as at September 30, 2017)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653.473	49,07
Addiko banka 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 banka d.d. / PBZ Croatia Insurance mandatory pension fund, B category	21.614	1.62
PBZ d.d. / The Bank of New York as Custodian	17.141	1,29
Zagrebačka banka d.d. / Unicredit Bank Austria AG – clients account	16.700	1.25
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	13.935	1.05
PBZ d.d. / custodian client account	9.069	0.68
Addiko banka d.d. / Raiffeisen voluntary pension fund	7.934	0.60
OTP BANKA d.d./INS683	6.944	0.52
Other shareholders	419.436	31.49

Share price information in Q3 2017:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,285.00	1,066.51	1,141.00	1,519.4

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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 30 September 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".

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For additional information, please contact:

***Snježana Bahtijari***

***Company Communications Director***

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: + 385 1 365 4556

Mob.: +385 91 365 4556

Fax: +385 1 365 3156

E-mail: [snjezana.bahtijari@ericsson.com](mailto:snjezana.bahtijari@ericsson.com)

***Orhideja Gjenero***

***Investor Relations Manager***

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: +385 1 365 4431

Mob.: +385 91 365 4431

Fax: +385 1 365 3156

E-mail: [orhideja.gjenero@ericsson.com](mailto:orhideja.gjenero@ericsson.com)

E-mail: [odnosi.investitori@ericsson.com](mailto:odnosi.investitori@ericsson.com)

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 September 2017

	2017 HRK '000	2016 HRK '000
Sales revenue	1.069.398	1.134.310
Cost of sales	-941.765	-1.013.477
<b>Gross profit</b>	<b>127.634</b>	<b>120.833</b>
Selling expenses	-35.022	-33.673
Administrative expenses	-25.853	-25.489
Other operating income	5.114	199
Other operating expenses	-1.442	-2.214
<b>Operating profit</b>	<b>70.431</b>	<b>59.656</b>
Finance income	0	2.852
Finance expense	-2.605	-94
Finance expense/income – net	-2.605	2.758
<b>Profit before tax</b>	<b>67.826</b>	<b>62.413</b>
Income tax	-15.948	-4.227
<b>Profit for the year</b>	<b>51.878</b>	<b>58.187</b>
Other comprehensive income	-39	-117
<b>Total comprehensive income for the year</b>	<b>51.839</b>	<b>58.070</b>

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

	2017 HRK '000	2016 HRK '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	109.423	122.897
Intangible assets	6.441	7.285
Loans and receivables	81.717	81.160
Equity securities	1.059	40
Deferred tax assets	14.250	14.250
<b>Total non-current assets</b>	<b>212.890</b>	<b>225.632</b>
<b>Current assets</b>		
Inventories	39.668	9.796
Trade receivables	187.469	174.952
Receivables from related parties	79.011	88.858
Other receivables	11.438	14.325
Income tax receivable	9.843	1.172
Financial assets at fair value through profit or loss	31.565	62.993
Prepayments and accrued income	8.283	5.671
Cash and cash equivalents	146.827	224.725
<b>Total current assets</b>	<b>514.105</b>	<b>582.492</b>
<b>TOTAL ASSETS</b>	<b>726.994</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	80.991	148.686
<b>Total equity</b>	<b>219.185</b>	<b>286.879</b>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	8.588	8.962
Employee benefits	8.403	8.560
Other non-current liabilities	16.699	24.288
<b>Total non-current liabilities</b>	<b>33.690</b>	<b>41.810</b>
<b>Current liabilities</b>		
Payables to related parties	58.468	73.215
Interest-bearing borrowings	0	0
Trade and other payables	204.105	156.413
Income tax payable	15.945	21.659
Provisions	14.530	16.011
Accrued charges and deferred revenue	181.072	212.137
<b>Total current liabilities</b>	<b>474.120</b>	<b>479.435</b>
<b>Total liabilities</b>	<b>507.810</b>	<b>521.245</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>726.994</b>	<b>808.124</b>

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

	2017 HRK '000	2016 HRK '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	67.826	62.413
Adjustments for:		
Depreciation and amortisation	31.628	37.617
Impairment losses and reversals	9.458	15.831
Net increase of provisions	7.599	13.616
Gain on sale of property, plant and equipment	-108	-78
Net gain on remeasurement of financial assets	-401	-1.674
Amortisation of discount	-3	-288
Interest income	-2.919	-1.932
Interest expense	121	94
Foreign exchange losses	14.156	795
Equity-settled transactions	201	947
	127.558	127.341
<i>Changes in working capital</i>		
In receivables	-13.542	-91.642
In inventories	-29.872	-34.966
In payables	-20.805	76.095
<i>Cash generated from operations</i>	63.339	76.829
Interest paid	-121	-94
Income taxes paid	-24.204	-1.593
<b>Net cash from operating activities</b>	<b>39.014</b>	<b>75.142</b>
<b>Cash flows from investing activities</b>		
Interest received	2.031	1.974
Dividend received	77	212
Acquisition of subsidiaries	-1.019	
Proceeds from sale of property, plant and equipment	131	75
Purchases of property, plant and equipment, and intangible assets	-25.550	-28.231
Deposits collected with financial institutions - net	-2.200	-10.140
Purchases of financial assets at fair value through profit and loss	-8	-89.000
Proceeds from sale of financial assets at fair value through profit and loss	31.760	58.795
<b>Net cash generated/(used) in investing activities</b>	<b>5.222</b>	<b>-66.315</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-119.887	-132.846
<b>Net cash from financing activities</b>	<b>-119.887</b>	<b>-132.846</b>
Effects of exchange rate changes on cash and cash equivalents	-2.247	-912
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-77.898</b>	<b>-124.930</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>146.827</b>	<b>108.265</b>

**ENCLOSURE 1**

Reporting period:

1.1.2017.

to

30.09.2017

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

Code and city / municipality: 133 ZAGREB

Code and county: 21 GRAD ZAGREB

Number of employees: 3.020  
(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 Anđela 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)

Telephone: +385 (0)1 365 3343

Telefaks: +385 (0)1 365 3174

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

Name and surname: Kovačević Gordana

(authorized representatives)

**Documents to be published:**

1. 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 September 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>212.889.665</b>
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	7.284.911	6.440.622
1. Research & Development expenditure	<b>004</b>		
2. Patents, licences, royalties, trade marks, software&similar rights	<b>005</b>	3.111.665	2.267.377
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	109.422.907
1. Land	<b>011</b>	15.605.344	15.605.344
2. Property	<b>012</b>	27.637.641	28.587.160
3. Plants and equipment	<b>013</b>	62.902.184	45.137.098
4. Tools, plants&vehicles	<b>014</b>	16.398.060	16.356.999
5. Biological asset	<b>015</b>		
6. Prepayments for tangible assets	<b>016</b>		
7. Assets under construction	<b>017</b>	270.059	3.658.372
8. Other tangible assets	<b>018</b>	83.770	77.934
9. Investments property	<b>019</b>		
III. FINANCIAL ASSETS (021 do 028)	<b>020</b>	28.156.940	29.908.655
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	28.849.242
7. Other non-current financial assets	<b>027</b>	40.000	1.059.413
8. Investment accounted by equity method	<b>028</b>		
IV. RECEIVABLES (030 do 032)	<b>029</b>	53.042.871	52.867.726
1. Receivables from subsidiaries	<b>030</b>	2.041.774	841.797
2. Receivables from credit sales	<b>031</b>	50.395.179	51.459.256
3. Other receivables	<b>032</b>	605.918	566.673
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>505.822.316</b>
I. INVENTORIES (036 do 042)	<b>035</b>	9.795.795	39.668.010
1. Raw materials & consumables	<b>036</b>		20.432
2. Work in progress	<b>037</b>	9.788.066	39.645.779
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	287.761.900
1. Receivables for trade debt of subsidiaries	<b>044</b>	88.857.879	97.510.917
2. Trade receivables	<b>045</b>	174.952.345	168.969.399
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	11.245.525
6. Other receivables	<b>049</b>	13.000.619	10.036.060
III. FINANCIAL ASSETS (051 do 057)	<b>050</b>	62.993.219	31.565.462
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	31.565.462
6. Loans & deposits	<b>056</b>		
7. Other financial assets	<b>057</b>		
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	224.724.869	146.826.943
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>5.671.596</b>	<b>8.282.517</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>808.124.124</b>	<b>726.994.497</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>219.184.653</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	13.292.797
1. Retained earnings	<b>073</b>	22.120.979	13.292.797
2. Loss brought forward	<b>074</b>		
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR (076-077)	<b>075</b>	110.743.807	51.877.781
1. Profit for the financial year	<b>076</b>	110.743.807	51.877.781
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	8.403.165
1. Provisions for redundancy costs	<b>080</b>	8.560.375	8.403.165
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>25.286.989</b>
1. Amounts payable to subsidiaries	<b>084</b>	14.340.912	9.597.876
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	8.588.413
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	6.258.903
9. Deferred tax	<b>092</b>		
<b>D) CURRENT LIABILITIES (094 do 105)</b>	<b>093</b>	<b>267.298.329</b>	<b>293.047.940</b>
1. Amounts payable to subsidiaries	<b>094</b>	73.215.063	58.467.830
2. Liabilities for loans, deposits and other	<b>095</b>		
3. Liabilities towards banks and other financial institutions	<b>096</b>	0	0
4. Amounts payable for prepayment	<b>097</b>		
5. Trade payables	<b>098</b>	49.718.507	111.487.716
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	81.388.450
9. Liabilities for taxes and contributions	<b>102</b>	51.383.027	41.703.943
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>181.071.750</b>
<b>F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	<b>808.124.124</b>	<b>726.994.497</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	219.184.653
2. Attributable to minority interest	<b>110</b>		

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

# INCOME STATEMENT

for the period 01 January 2017 to 30 September 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>1.148.647.712</b>	<b>409.115.988</b>	<b>1.089.599.969</b>	<b>370.427.559</b>
1. Sales revenue	112	1.134.309.553	404.021.177	1.069.398.453	360.354.207
2. Other operating income	113	14.338.159	5.094.810	20.201.516	10.073.352
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>1.088.991.998</b>	<b>400.462.432</b>	<b>1.019.169.044</b>	<b>352.883.951</b>
1. Changes in inventories of finished products and work in progress	115	-34.875.129	14.050.330	-29.857.712	28.855.216
2. Raw material and consumables used (117 do 119)	116	500.981.358	165.800.199	413.264.122	112.674.070
a) Cost of raw materials & consumables	117	272.449.531	92.083.424	191.425.230	50.508.412
b) Cost of goods sold	118				
c) Other costs	119	228.531.827	73.716.775	221.838.892	62.165.658
3. Staff costs (121 do 123)	120	527.703.838	175.531.730	555.855.120	181.679.419
a) Net salaries	121	289.387.826	99.458.227	300.708.461	104.852.577
b) Employee income tax and contributions	122	164.965.000	52.359.183	178.942.227	52.627.164
c) Employer's contributions	123	73.351.012	23.714.321	76.204.432	24.199.678
4. Depreciation and amortisation expense	124	37.617.040	11.997.362	31.628.220	9.838.946
5. Other costs	125	36.980.606	14.825.140	37.233.515	11.460.328
6. Impairment losses (127+128)	126	15.801.943	14.787.792	9.447.973	8.311.952
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	15.801.943	14.787.792	9.447.973	8.311.952
7. Provisions	129				
8. Other operating expenses	130	4.782.341	3.469.879	1.597.806	64.020
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>3.808.713</b>	<b>536.149</b>	<b>1.815.862</b>	<b>1.494.476</b>
1. Interest, foreign exchange gains, dividends and other income from related	132	238.762	37.519	136.467	44.316
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	1.692.550	498.630	1.679.394	1.344.088
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	1.877.400	0	0	106.072
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>1.051.023</b>	<b>26.905</b>	<b>4.420.963</b>	<b>109.237</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	997.628	15.106	4.199.321	109.237
3. Unrealized losses	140				
4. Other financial expenses	141	53.395	11.799	221.642	
<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>1.152.456.424</b>	<b>409.652.137</b>	<b>1.091.415.831</b>	<b>371.922.035</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>1.090.043.021</b>	<b>400.489.337</b>	<b>1.023.590.007</b>	<b>352.993.188</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>62.413.403</b>	<b>9.162.800</b>	<b>67.825.824</b>	<b>18.928.847</b>
1. Profit before tax (146-147)	149	62.413.403	9.162.800	67.825.824	18.928.847
2. Loss before tax (147-146)	150			0	0
<b>XII. INCOME TAX EXPENSE</b>	<b>151</b>	<b>4.226.837</b>	<b>2.002.696</b>	<b>15.948.043</b>	<b>4.403.914</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>58.186.566</b>	<b>7.160.104</b>	<b>51.877.781</b>	<b>14.524.933</b>
1. Profit for the period (149-151)	153	58.186.566	7.160.104	51.877.781	14.524.933
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	58.186.566	7.160.104	51.877.781	14.524.933
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>58.186.566</b>	<b>7.160.104</b>	<b>51.877.781</b>	<b>14.524.933</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	-117.048	7.078	-38.545	-50.825
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>-117.048</b>	<b>7.078</b>	<b>-38.545</b>	<b>-50.825</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>58.069.518</b>	<b>7.167.182</b>	<b>51.839.236</b>	<b>14.474.108</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	58.069.518	7.167.182	51.839.236	14.474.108
2. Attributable to non-controlling interests	170				

**CASH FLOW STATEMENT - Indirect method**  
**in the period 01 January 2017 to 30 September 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	62.413.403	67.825.824
2. Depreciation and amortisation	002	37.617.040	31.628.220
3. Increase in liabilities	003	76.095.332	
4. Decrease in receivables	004		
5. Decrease in inventories	005		
6. Other increase in cash flow	006	25.624.139	3.778.595
<b>I. Total increase in operating cash flow (001 do 006)</b>	<b>007</b>	<b>201.749.915</b>	<b>103.232.639</b>
1. Decrease in liabilities	008		20.804.852
2. Increase in receivables	009	91.642.040	13.541.679
3. Increase in inventories	010	34.965.709	29.872.215
4. Other decrease in cash flow	011		
<b>II. Total decrease in operating cash flow (008 do 011)</b>	<b>012</b>	<b>126.607.750</b>	<b>64.218.746</b>
<b>A1) NET INCREASE IN OPERATING CASH FLOW (007-012)</b>	<b>013</b>	<b>75.142.166</b>	<b>39.013.892</b>
<b>A2) NET DECREASE IN OPERATING CASH FLOW (012-007)</b>	<b>014</b>		
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Proceeds from sale of property, plant and equipment	015	75.068	131.322
2. Net disposal of financial assets	016	58.795.335	31.759.617
3. Interest received	017	1.974.246	2.031.013
4. Dividend received	018	211.771	77.166
5. Other cash from investing activities	019		
<b>III. Total cash flow from investing activities (015 do 019)</b>	<b>020</b>	<b>61.056.420</b>	<b>33.999.117</b>
1. Purchase of property, plant and equipment and intangible assets	021	28.231.363	25.549.869
2. Purchase of financial instruments	022	89.000.000	7.700
3. Other cash flow used in investing activities	023	10.139.857	3.219.413
<b>IV. Total cash flow from investing activities (021 do 023)</b>	<b>024</b>	<b>127.371.219</b>	<b>28.776.982</b>
<b>B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>025</b>		<b>5.222.135</b>
<b>B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)</b>	<b>026</b>	<b>66.314.799</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	119.887.128
3. Repayment of finance lease	033		
4. Repurchase of treasury shares	034		
5. Other cash flow used in financial activities	035	911.936	2.246.826
<b>VI. Total cash flow used in financial activities (031 do 035)</b>	<b>036</b>	<b>133.757.562</b>	<b>122.133.954</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>133.757.562</b>	<b>122.133.954</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	124.930.195	77.897.927
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	124.930.195	77.897.927
Cash and cash equivalents at the end of the period	044	108.264.615	146.826.943



**STATEMENT OF CHANGES IN EQUITY**  
for the period from 1.1.2017 to 30.9.2017

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	21.632.980	13.292.797
5. Profit or loss for the period	005	58.186.566	51.877.781
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>234.115.802</b>	<b>219.184.653</b>
11. Foreign exchange differences from investments in foreign operations	011	-117.048	-50.825
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>-117.048</b>	<b>-50.825</b>
17 a. Parent company share in subsidiary	018	-117.048	-50.825
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	
	30.9.2017.	30.9.2016. Restated	30.9.2017.	30.9.2016. Restated	30.9.2017.	30.9.2016. Restated	30.9.2017.	30.9.2016. Restated	30.9.2017.	30.9.2016.
	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Segment sales revenue	651.466	710.054	416.007	423.182	1.925	1.073			1.069.398	1.134.310
Operating profit	56.542	53.762	48.754	32.041	658	81	-35.523	-26.229	70.431	59.656

### 2. Transactions with related parties

	30.9.2017. '000 kn	30.9.2016. '000 kn
Total sales	667.032	649.618
Total purchases	184.821	299.372

### 3. Balances with related parties

	30.9.2017. '000 kn	31.12.2016. '000 kn
Receivable	98.353	90.900
Payable	71.022	89.256

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