

# 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 2018

## Highlights:

- Sales revenue: MHRK **1,558.2**
- Gross margin: **10.4 %**
- Operating profit: MHRK **118.3**
- Profit before tax: MHRK **120.6**
- Net profit: MHRK **113.6**
- Cash flow from operating activities: MHRK **75.2**

Gordana Kovačević, the President of Ericsson Nikola Tesla commented:

"Ericsson Nikola Tesla Group sales revenue in 2018 amounted to MHRK 1,558.2, up by 5.2 percent year-over-year, despite a very demanding business year. Other key performance indicators also showed growth. Domestic market recorded a significant growth in sales revenue due to operators' investment in mobile networks modernization and digital transformation projects. Export markets recorded lower sales revenue affected primarily by the ramping down of network modernization projects and challenging economic and political environments in some markets. Ericsson market continuously records solid growth and contributes to the overall stability of financial performance. Export accounts for 65% of the Group's total sales revenue.

In terms of business and technology, last year was dynamic, full of challenges and important achievements. In 2018, ICT Industry strongly focused on mobile networks modernization and preparation for the upcoming 5G technology, revealing a trend that will intensify in the period to come. In line with global trends and domestic market demands, in March 2018, we were the first in Croatia to demonstrate the possibilities of 5G technology, only a month after the global presentation at the Mobile World Congress in Barcelona. Furthermore, during summer we supported the leading Croatian operators, Hrvatski Telekom and A1 Hrvatska in their 5G demos in real environment, focusing on end-user services. In non-operator segment, we continued to cooperate with numerous customers in state administration bodies, primarily in the area of eHealth, land registry and cadaster, and on the implementation of the state border control project.

In the markets of Southeast Europe, our continuous focus on customer requirements resulted in several new agreements in the operator segment, primarily related to modernization and maintenance of the radio network. I would like to highlight the continuation of good cooperation with the operators HT Mostar, Crnogorski Telekom, and Ipko. Furthermore, we opened an office in Mostar, to provide more efficient customer support, and signed an agreement with the University of Mostar on collaboration in ICT and R&D segment.

In the market of the Commonwealth of Independent States, the project of healthcare system informatization in Kazakhstan stands out by its significance and business impact. In 2018, we delivered the latest eHealth software solution aimed at modernization of the healthcare sector, and we continue to work with the Ministry of Healthcare

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of the Republic of Kazakhstan on Electronic Health Passport pilot project. In operator segment, I would like to highlight the activities on mobile networks build and modernization with beCloud (Belarus), Ucom (Armenia), and IDC (Moldova).

Ericsson market shows a continuous growth. Ericsson Nikola Tesla's R&D Center currently employs approximately 1,400 out of total 3,200 Group's employees and is the largest R&D Center in Croatia. The Center is focused on expanding responsibilities in the field of 5G, competencies development, and technology transfer. Over the years, the largest increase in activities and responsibilities was recorded in the radio segment on the development of 3G/4G/5G functionalities which are important for Ericsson's strategic plans within the Networks segment. In 2018, along with extension of our R&D activities in Zagreb and Split, we opened an office in Osijek, which is in line with our gaining of new responsibilities for global Ericsson. Owing to R&D activities, as well as expert centers for Networks and Digital services, Ericsson Nikola Tesla has been Croatia's leading exporter of knowledge for many years.

Apart from marketing and R&D activities, Ericsson Nikola Tesla fosters long term cooperation with universities and the academia, with the aim to raise interest in STEM among young people. An example of good practice, and one of the most successful projects of collaboration between business and academia is Ericsson Nikola Tesla's Summer Camp, which was launched in cooperation with the Faculty of Electrical Engineering and Computing in Zagreb in 2001. In 2018, 57 students from 16 different universities from Croatia and abroad participated in Ericsson Nikola Tesla's Summer Camp. Assisted by their mentors, the students worked in teams on projects regarding Internet of Things (IoT), 5G technology, machine learning, radio networks, and tools for faster software development and testing. Furthermore, we continue to work on projects in the field of analytics and Internet of Things (IoT) within Ericsson ONE, a global innovation platform, with the aim to secure new areas for business growth.

As a socially responsible company, we pay special attention to sustainable business. One of the examples is an energy efficiency project concerning the Company's buildings and plants, worth more than MHRK 73. The project is co-funded by the EU "Competitiveness and Cohesion" Operational Program 2014-2020, as per the call for proposals "Increasing Energy Efficiency and Renewable Energy Sources in Manufacturing Industries", for which the Company received the maximum grant amount of MHRK 20. After project completion (end of 2020), the Company's annual energy savings are projected to amount to more than 4.6 million kWh, with the simultaneous CO2 emissions reduction by almost 1400 tonnes. Furthermore, within the European LIFE Clim'Foot project, completed towards the end of 2018, Ericsson Nikola Tesla was the only private company in Croatia that calculated its carbon footprint and, based on that analysis, created a corresponding plan to reduce the Company's impact on the environment and has undertaken a range of activities.

In terms of financial results, gross profit is up by 7%, while operating profit increased by 56.3%. A strong growth in operating profit is due to higher gross profit, lower sales and administrative costs, and projects realized in line with the Investment Promotion Act. Net profit rose by 67.4% to MHRK 113.6. End of year was concluded with a lean balance sheet and an equity ratio of 36.3%. A positive cash flow from operating activities was realized primarily as a result of proactive collection of customer receivables. At the end of 2018, total cash and cash equivalents, including short-term financial assets, amounted to MHRK 236.3. Group's Working capital efficiency, expressed in Working Capital Days (WCD), was 34, however if we exclude services to Ericsson, working capital efficiency was 87. Cash conversion rate was 38.9%.

During Q3, we initiated a new cycle of strategic planning for the period 2019 – 2023. In the upcoming period we expect new business opportunities, as well as challenges. As a response to a demanding market environment, we closely cooperate with customers to fully understand their needs, we adjust our organization and ways of working, and invest in our employees' competencies development and our technology leadership. We remain focused on

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cost and operating efficiency, capital efficiency and strategic risk management. Even though costs related to strategic contracts and 5G field trials will impact profitability short term, they will strengthen our business and market position in the long term.

Towards the end of this year, we will mark the 70th anniversary of Ericsson Nikola Tesla. We believe this confirms that we are a reliable company that has been continuously drawing on its thought leadership and has been achieving highly set goals, which makes us ready for new challenges.

### Financial Highlights for the Group:

- Sales revenue amounted to MHRK 1,558.2 (2017: MHRK 1,481.6), up by 5.2% year-over-year. Of the total sales revenue, domestic market accounts for 23.9%, services to Ericsson account for 61.3% (of which 11.4% relate to Managed Services in Croatia), while other export markets account for 14.8%.
- Sales in the Networks segment amounted to MHRK 939.8 (2017: MHRK 739.3), Digital Services account for MHRK 439.8 (2017: MHRK 559.6), Managed Services amounted to MHRK 177.1 (2017: MHRK 178.9), and the new segment, Emerging Business and Other, amounts to MHRK 1.4 (2017: MHRK 3.8).
- Gross profit was MHRK 161.4 (2017: MHRK 150.9), up by 7% year-over-year as a result of increased sales revenue, operational efficiencies and cost base reduction, and lower negative currency deviations. Gross margin increased slightly to 10.4% (2017: 10.2%).
- Sales and administrative costs were 14.6% lower year-over-year and amounted to MHRK 68 (2017: MHRK 79.6).
- Operating profit increased by 56.3% year-over-year, amounting to MHRK 118.3 (2017: MHRK 75.7), as a result of higher gross profit, lower sales and administrative costs, and projects realized in line with the Investment Promotion Act.
- Gain from financial activities amounted to MHRK 2.3 (2017: loss from financial activities amounted to MHRK -2.6).
- Profit before tax increased by 65.2% year-over-year and amounted to MHRK 120.6 (2017: MHRK 73).
- Net profit was higher by 67.4% year-over-year and amounted to MHRK 113.6 (2017: MHRK 67.9). Return on Sales (ROS) was 7.3% (2017: 4.6%).
- Cash flow from operating activities amounted to MHRK 75.2 (2017: MHRK 108.2) as a result of proactive collection of receivables from customers and projects realized in line with the Investment Promotion Act. The cash conversion rate is 38.9% (2017: 68%). Group's Working Capital Efficiency, expressed in Working Capital Days (WCD) was 34 (2017: WCD was 31), and excluding services to Ericsson, WCD was 87 (2017: 72).
- Total cash and cash equivalents, including short term financial assets, as at December 31, 2018 amounted to MHRK 236.3 (28.1% of the total assets), while at the end 2017, it amounted to MHRK 243.8 (29.7% of the total assets).
- As at December 31, 2018, the Company had a lean balance sheet with total assets of MHRK 840.5, up by 2.3% compared to end 2017. We should highlight that the level of inventory significantly increased due to network modernization projects. Equity ratio amounted to 36.3% (end of 2017: 28.7%).

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- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 973.7 (2017: MHRK 926.1), while procurement of products and services amounted to MHRK 413.7 (2017: MHRK 231.1).
- As at December 31, 2018, balances outstanding with related parties were as follows: receivables amounted to MHRK 113.2 (end 2017: MHRK 105.6), and payables amounted to MHRK 40.4 (end 2017: MHRK 124.4).

### Business situation in major markets

**In the domestic market**, sales revenue amounted to MHRK 372.6 (2017: MHRK 276.6), up by 34.7% year-over-year.

With strategic partner A1 Hrvatska, we focused on the realization of a multi-year frame agreement which encompasses modernization and expansion of radio access network by using the latest products from Ericsson's portfolio. In July A1 demonstrated in Zagreb fully functional 5G technology by achieving data transfer speeds faster than 20Gbit/s in real environment by using Ericsson equipment. At the same time, along with record data transfer speeds, 4 demos were held showing how 5G technology will make the life of citizens easier regarding medicine, traffic, gaming, and video streaming.

Furthermore, the collaboration in the field of core network and transport telecom network continues, which contributes to an increased quality and new services for end users.

In 2018, main activities with the operator Hrvatski Telekom (HT) were related to radio access network modernization. During 2018, the networks in Zagreb, Zagreb County and Istria region were fully modernized and network modernization will continue in 2019. The goal of this project, which includes the modernization of infrastructure, transport capacities and radio equipment, is to replace all existing radio base stations, and make HT ready to offer Gigabit mobile Internet to users and to implement 5G technology as soon as the required radio frequency spectrum is assigned. At the end of 2018, HT's mobile network won the "P3 - Best in Test" certificate for the best mobile network in Croatia. HT had 948 out of 1000 points, which has been the best result achieved in the P3 measurement history in Croatia, listing HT's network among the best worldwide.

With the mobile operator Tele2, we have been working on increasing the voice core network capacity, with an emphasis of increasing the register of 4G users. We have also contracted the expansion of microwave transport network. Furthermore, we have continued to provide support services for voice core network.

In ICT solutions for Industry & Society, activities continue on the implementation and upgrade of the Joint Information System for Land Registry and Cadaster. The project of upgrading the Central Healthcare Information System of the Republic of Croatia continues. With the Ministry of Interior of the Republic of Croatia, an Agreement was signed on further implementation of the State Border Control System towards Bosnia and Herzegovina. Also, an agreement was signed for 112 system maintenance and upgrade in the Republic of Croatia. The IT system for "Price Blocks" was successfully developed and implemented in the existing Real estate IT system of the Ministry of Construction and Physical Planning. We are in the final phase of implementation of the Central Management System for hospitals. The informatization of IT solution for the Agency for Medicinal Products and Medical Devices of Croatia (HALMED) continues.

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**In the export markets (except Ericsson market)** sales revenue decreased by 17.7% year-over-year, amounting to MHRK 229.8 (2017: MHRK 279.2).

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue amounted to MHRK 121.8 (2017: MHRK 136.3), down by 10.6% year-over-year. Currently, the greatest challenges are in the market of Bosnia and Herzegovina due to unfavorable economic and political situation. BH Telecom has awarded a multiyear agreement for radio access network modernization and expansion, as well as LTE introduction to another vendor.

We should highlight the continuation of good cooperation with the operators HT Mostar, Crnogorski Telekom and Ipko on telecommunication networks modernization and maintenance. At the end of 2018, a three-year agreement was signed with Crnogorski Telekom on the expansion of radio access and core network, worth MHRK 50. We have also signed contracts for 112 system upgrade and maintenance in Bosnia & Herzegovina and Montenegro.

In the market of the Commonwealth of Independent States, sales revenue amounted to MHRK 108 (2017: MHRK 142.9), down by 24.4% year-over-year due to ramping down of new network modernization projects. Main activities encompass LTE networks build with the operators beCloud (Belarus) and IDC (Moldova) and mobile network modernization for the operator Ucom (Armenia). Furthermore, activities on a complex project of healthcare system informatization in Kazakhstan in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan continue.

**In the Ericsson market**, sales revenue amounted to MHRK 955.8 (2017: MHRK 925.8), up by 3.2% year-over-year. The contribution of Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to revenue in this market segment amounted to MHRK 178 (2017: MHRK 178.5).

Ericsson Nikola Tesla's R&D Center was awarded an expansion of responsibilities in the development of 5G network systems. Towards the end of 2018, we completed the knowledge and technology transfer project, important for Networks' strategic development plans. In the segment of User Data Management, we have successfully continued the activities on the development of telecommunication nodes. The work on modernizing Equipment Identification Register node was completed, and the work on 5G CUDB nodes started. Furthermore, an important transfer of responsibilities for UDM network integration and verification was finished. For the Development Unit Cloud, we have been working on verification and quality control of HDS product and NFVi solution. Our experts have also been working on virtualization projects for Mobile Switching Centre (MSC), Home Location Register (HLR) and Equipment Identification Register (EIR) for numerous customers. Our R&D Center concluded the year with excellent results.

Ericsson ONE is a central place and a platform for fostering innovation culture and support to implementation and monetization of innovative ideas. Owing to rich experience in innovation, employees' competences, and solutions, Ericsson Nikola Tesla significantly contributes to Ericsson ONE platform. Main areas of activities encompass 5G, analytics and IoT, and the monetization of solutions based on the mentioned technologies.

Experts from Services and Solutions Center for Networks along with providing services for Ericsson Nikola Tesla's customers, worked for global customers in Austria, Switzerland, Germany, Netherlands, the United States, South African Republic, Ghana, Indonesia, Malaysia, South Korea, Bangladesh, etc. These are complex activities in the field of expert analytics, creation of new innovative solutions, optimization and upgrading of the existing networks, and consultancy services. We continued to work on the development and implementation of software tools for mobile networks management and optimization.

Experts from Services and Solutions Center for Digital Services and Operations were engaged in various projects for the customers in Austria, United Kingdom, Germany, Japan, France, the Netherlands, Ireland, Switzerland, Slovakia, Italy, Luxembourg, Spain, Hungary, Slovenia, Serbia, Poland, Russia, Turkey, etc. These activities include

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the most complex projects of introducing 5G technology, operational and business support system, as well as numerous projects of introducing core solutions in cloud.

Our teams from IT&Engineering Services and Industry and Society have been achieving good results on projects of Test environment management, IT Operations management, IoT platform and Connected Urban Traffic.

Ericsson Nikola Tesla Servisi successfully provided services of monitoring, maintenance and build of HT's telecommunication network. In 2018, key projects regarding fixed infrastructure (exceeding plans for the entire year) and mobile infrastructure modernization were realized.

### Other information

Ericsson Nikola Tesla's major shareholders (as at December 31, 2018)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Addiko Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	44,415	3.34
Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	16,810	1.26
PBZ d.d. / The Bank of New York as Custodian	13,752	1.03
Zagrebačka banka d.d. / Unicredit Bank Austria AG – clients account	12,981	0.97
Zagrebačka banka d.d. / State Street and Trust Company, Boston	12,428	0.93
PBZ d.d. / custodian client account	9,734	0.73
OTP banka d.d. /OTP Index fund - open-end alternative investment fund with public offering	8,312	0.62
Addiko Bank d.d. / Raiffeisen voluntary pension fund	7,934	0.60
Other shareholders	428,297	32.17

Share price information in 2018:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (In MHRK)
1,240.00	976.00	1,010.00	1,344.7

**PRESS INFO**  
February 20, 2019



Ericsson Nikola Tesla d.d.  
Krapinska 45  
Zagreb

OIB: 84214771175

Pursuant to the Articles 462 to 468 of the Capital Market Law (Official Gazette 65/18) 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 non-consolidated 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 Jan 1, 2018 to Dec 31, 2018 present a true and fair view of the financial position of the Company and the Group and of the financial performance and 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 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 31 December 2018

	<b>2018</b> HRK '000	<b>2017</b> HRK '000
Sales revenue	1.558.155	1.481.555
Cost of sales	-1.396.729	-1.330.699
<b>Gross profit</b>	<b>161.426</b>	<b>150.857</b>
Selling expenses	-37.502	-45.621
Administrative expenses	-30.473	-33.943
Other operating income	25.375	7.455
Other operating expenses	-534	-3.069
<b>Operating profit</b>	<b>118.292</b>	<b>75.678</b>
Finance expense/income – net	2.340	-2.633
<b>Profit before tax</b>	<b>120.632</b>	<b>73.046</b>
Income tax	-6.988	-5.159
<b>Profit for the year</b>	<b>113.644</b>	<b>67.887</b>
Other comprehensive income	-68	-114
<b>Total comprehensive income for the year</b>	<b>113.576</b>	<b>67.773</b>

Ericsson Nikola Tesla d.d.  
 Consolidated statement of financial position  
 as at 31 December 2018

	2018 HRK '000	2017 HRK '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	114.654	108.712
Intangible assets	5.070	6.160
Loans and receivables	51.657	82.874
Equity securities	0	40
Deferred tax assets	21.358	14.901
<b>Total non-current assets</b>	<u>192.739</u>	<u>212.687</u>
<b>Current assets</b>		
Inventories	110.695	18.872
Trade receivables	157.389	144.445
Contract assets*	3.335	0
Receivables from related parties	113.235	104.483
Other receivables	14.170	90.289
Income tax receivable	472	986
Financial assets at fair value through profit or loss	48.490	84.520
Prepayments and accrued income	12.086	6.457
Cash and cash equivalents	187.888	159.261
<b>Total current assets</b>	<u>647.760</u>	<u>609.313</u>
<b>TOTAL ASSETS</b>	<u>840.499</u>	<u>822.000</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-241	-280
Legal reserves	6.658	6.658
Retained earnings	165.396	96.031
<b>Total equity</b>	<u>304.979</u>	<u>235.574</u>
<b>Non-current liabilities</b>		
Borrowings	5.734	8.381
Employee benefits	8.662	8.576
Other non-current liabilities	6.519	13.104
<b>Total non-current liabilities</b>	<u>20.916</u>	<u>30.061</u>
<b>Current liabilities</b>		
Payables to related parties	33.306	113.078
Borrowings	36	0
Trade and other payables	179.179	220.390
Contract liabilities*	171.375	0
Income tax payable	270	528
Provisions	16.023	26.619
Accrued charges and deferred revenue	114.416	195.750
<b>Total current liabilities</b>	<u>514.604</u>	<u>556.365</u>
<b>Total liabilities</b>	<u>535.520</u>	<u>586.426</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>840.499</u>	<u>822.000</u>

\* Following IFRS 15 application

Ericsson Nikola Tesla d.d.  
 Consolidated statement of cash flows  
 for the period ended 31 December 2018

	2018 HRK '000	2017 HRK '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	120.631	73.046
Adjustments for:		
Depreciation and amortisation	34.872	41.314
Impairment losses and reversals	9.408	10.916
Net increase in provisions	39.111	21.172
Gain on sale of property, plant and equipment	-58	-150
Net loss/(gain) on remeasurement of financial assets	121	644
Amortisation of discount	-2.550	3
Interest income	-1.498	-4.948
Interest expense	19	267
Foreign exchange losses/(gains)	-6.876	16.207
Equity-settled transactions		268
	193.180	158.739
<i>Changes in working capital</i>		
In receivables	85.358	-76.264
In inventories	-91.824	-9.076
In payables	-109.898	55.731
<i>Cash generated from operations</i>	76.817	129.130
Interest paid	-19	-267
Income taxes paid	-1.622	-20.628
<b>Net cash from operating activities</b>	<b>75.176</b>	<b>108.235</b>
<b>Cash flows from investing activities</b>		
Interest received	2.218	2.397
Dividends received	70	77
Disposal of/(investment in) subsidiaries	40	0
Proceeds from sale of property, plant and equipment	143	149
Purchases of property, plant and equipment, and intangible assets	-41.116	-29.405
Deposits given to financial institutions - net	0	-2.200
Purchases of financial assets at fair value through profit and loss	0	-54.008
Proceeds from sale of financial assets at fair value through profit and loss	35.909	31.760
<b>Net cash used in investing activities</b>	<b>-2.735</b>	<b>-51.230</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-43.291	-119.887
<b>Net cash used in financing activities</b>	<b>-43.291</b>	<b>-119.887</b>
Effects of exchange rate changes on cash and cash equivalents	-523	-2.582
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>28.627</b>	<b>-65.464</b>
Cash and cash equivalents at the beginning of the year	159.261	224.725
<b>Cash and cash equivalents at the end of the year</b>	<b>187.888</b>	<b>159.261</b>

**ENCLOSURE 1**

Reporting period:

1.1.2018.

to

31.12.2018

**Quarterly Financial Report TFI-POD**Tax number (MB): 03272699Registration number (MBS): 080002028Personal identification number (OIB): 84214771175Issuer: **ERICSSON NIKOLA TESLA D.D. ZAGREB**Postal code and location: 10000 ZAGREBStreet and number: Krapinska 45E-mail: [etk.company@ericsson.com](mailto:etk.company@ericsson.com)Internet address: [www.ericsson.hr](http://www.ericsson.hr)Code and city / municipality 133 ZAGREBCode and county 21 GRAD ZAGREBNumber of employees: 3.173

(at the end of year)

Consolidated Report YesBusiness activity code: 2630

Entities in consolidation (according to IFRS)

Registered seat:

Tax number (MB):

Libratel d.o.o. Zagreb, Selska 93 01449613ETK BH d.o.o. Sarajevo, Fra Andjela Zvizdovića broj 1 65-01-0996-11Ericsson Nikola Tesla d.d. - Branch office of Kosovo Republika Kosova, Kalabria, Obj 1., Bl 1, Kati 1 Nr.13 70633647Ericsson Nikola Tesla Servisi d.o.o. Zagreb, Krapinska 45 080921748Ericsson Nikola Tesla BY d.o.o. Bjelorusija, Minsk, Ulica Zibickaja 2 192753195Book-keeping office: Contact person Tatjana Ricijaš

(Name and surname of contact person)

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

(authorized representatives)

**Documents to be published:**

1. Consolidated Financial Statements (Balance Sheet, Income statement, Cash Flow Statement, Statement of Changes in Equity)
2. Management Commentary Statement with notes
3. Responsibility of the Management for the preparation of the consolidated financial statements

(seal)

(signature of authorized representative)

**Balance Sheet**  
as at 31 December 2018

**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>212.686.963</b>	<b>192.739.096</b>
I. INTANGIBLE ASSETS (004 do 009)	<b>003</b>	6.159.781	5.069.620
1. Research & Development expenditure	<b>004</b>		
2. Patents, licences, royalties, trade marks, software&similar rights	<b>005</b>	1.986.535	896.374
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>	108.711.755	114.654.491
1. Land	<b>011</b>	15.605.344	15.605.344
2. Property	<b>012</b>	30.071.396	30.529.845
3. Plants and equipment	<b>013</b>	45.630.313	53.544.680
4. Tools, plants&vehicles	<b>014</b>	15.548.803	14.792.945
5. Biological asset	<b>015</b>		
6. Prepayments for tangible assets	<b>016</b>		
7. Assets under construction	<b>017</b>	1.779.909	113.469
8. Other tangible assets	<b>018</b>	75.989	68.207
9. Investments property	<b>019</b>		
III. FINANCIAL ASSETS (021 do 028)	<b>020</b>	27.895.052	28.093.924
1. Investments in subsidiaries	<b>021</b>		0
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>	27.855.052	28.093.924
7. Other non-current financial assets	<b>027</b>	40.000	
8. Investment accounted by equity method	<b>028</b>		
IV. RECEIVABLES (030 do 032)	<b>029</b>	55.018.983	23.563.257
1. Receivables from subsidiaries	<b>030</b>	1.156.317	
2. Receivables from credit sales	<b>031</b>	53.318.299	23.052.791
3. Other receivables	<b>032</b>	544.367	510.466
V. DEFERRED TAX ASSETS	<b>033</b>	14.901.393	21.357.805
<b>C) CURRENT ASSETS (035+043+050+058)</b>	<b>034</b>	<b>602.856.687</b>	<b>635.673.291</b>
I. INVENTORIES (036 do 042)	<b>035</b>	18.871.791	110.695.311
1. Raw materials & consumables	<b>036</b>		0
2. Work in progress	<b>037</b>	18.870.116	110.693.511
3. Products	<b>038</b>		
4. Merchandise	<b>039</b>		
5. Prepayments for inventories	<b>040</b>	1.675	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>	340.203.486	288.600.283
1. Receivables for trade debt of subsidiaries	<b>044</b>	104.483.167	113.235.213
2. Trade receivables	<b>045</b>	144.444.882	160.723.683
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>	75.614.883	7.803.838
6. Other receivables	<b>049</b>	15.660.555	6.837.550
III. FINANCIAL ASSETS (051 do 057)	<b>050</b>	84.520.295	48.489.732
1. Investments in subsidiaries	<b>051</b>		
2. Loans to subsidiaries	<b>052</b>	0	0
3. Participating interests (stakes)	<b>053</b>		
4. Loans to participating interest	<b>054</b>		
5. Investments in securities	<b>055</b>	84.520.295	48.489.732
6. Loans & deposits	<b>056</b>		
7. Other financial assets	<b>057</b>		
IV. CASH AND CASH EQUIVALENTS	<b>058</b>	159.261.116	187.887.965
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	<b>6.456.236</b>	<b>12.086.222</b>
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	<b>821.999.886</b>	<b>840.498.609</b>
<b>F) OFF-BALANCE SHEET ITEMS</b>	<b>061</b>		

<b>EQUITY AND LIABILITIES</b>			
<b>A) EQUITY</b> (063+064+065+071+072+075+078)	<b>062</b>	<b>235.574.056</b>	<b>304.979.024</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>	21.273.156	21.290.256
1. Legal reserves	<b>066</b>	6.658.250	6.658.250
2. Reserves for treasury shares	<b>067</b>	14.895.346	14.872.546
3. Treasury shares and stakes (less)	<b>068</b>	280.440	240.540
4. Statutory reserves	<b>069</b>		
5. Other reserves	<b>070</b>		
IV. REVALUATION RESERVES	<b>071</b>		
<b>V. RETAINED EARNINGS</b> (073-074)	<b>072</b>	13.249.718	36.879.953
1. Retained earnings	<b>073</b>	13.249.718	36.879.953
2. Loss brought forward	<b>074</b>		
<b>VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR</b> (076-077)	<b>075</b>	67.886.182	113.643.815
1. Profit for the financial year	<b>076</b>	67.886.182	113.643.815
2. Loss for the financial year	<b>077</b>		
<b>VII. MINORITY INTEREST</b>	<b>078</b>		
<b>B) PROVISIONS</b> (080 do 082)	<b>079</b>	8.576.219	8.662.224
1. Provisions for redundancy costs	<b>080</b>	8.576.219	8.662.224
2. Provisions for tax obligations	<b>081</b>		
3. Other provisions	<b>082</b>		
<b>C) NON-CURRENT LIABILITIES</b> (084 do 092)	<b>083</b>	<b>21.484.460</b>	<b>12.253.473</b>
1. Amounts payable to related parties	<b>084</b>	6.263.290	3.614.069
2. Liabilities for loans, deposits and other	<b>085</b>	0	0
3. Liabilities towards banks and other financial institutions	<b>086</b>	8.380.524	5.734.005
4. Amounts payable for prepayment	<b>087</b>	0	0
5. Trade payables	<b>088</b>	1.151.642	77.929
6. Amounts payable for securities	<b>089</b>	0	0
7. Liabilities toward participating interests	<b>090</b>	0	0
8. Other non-current liabilities	<b>091</b>	5.689.003	2.827.470
9. Deferred tax	<b>092</b>		
<b>D) CURRENT LIABILITIES</b> (094 do 105)	<b>093</b>	<b>360.614.874</b>	<b>228.543.412</b>
1. Amounts payable to subsidiaries	<b>094</b>	113.078.355	33.305.783
2. Liabilities for loans, deposits and other	<b>095</b>		
3. Liabilities towards banks and other financial institutions	<b>096</b>	5.190	35.913
4. Amounts payable for prepayment	<b>097</b>		
5. Trade payables	<b>098</b>	121.402.412	79.403.534
6. Amounts payable for securities	<b>099</b>		
7. Liabilities toward participating interests	<b>100</b>		
8. Amounts payable to employees	<b>101</b>	105.255.147	92.119.822
9. Liabilities for taxes and contributions	<b>102</b>	20.873.771	23.678.359
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>		0
<b>E) ACCRUED CHARGES AND DEFERRED REVENUE</b>	<b>106</b>	<b>195.750.278</b>	<b>286.060.476</b>
<b>F) TOTAL EQUITY AND LIABILITIES</b> (062+079+083+093+106)	<b>107</b>	<b>821.999.886</b>	<b>840.498.609</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>108</b>		

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

**A) CAPITAL AND RESERVES**

1. Attributable to equity holders of the parent company's capital	<b>109</b>	235.574.056	304.979.024
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 2018 to 31 December 2018

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>1.509.425.019</b>	<b>421.422.856</b>	<b>1.604.121.370</b>	<b>506.528.684</b>
1. Sales revenue	112	1.481.555.318	412.156.865	1.558.154.638	477.612.580
2. Other operating income	113	27.869.701	9.265.991	45.966.732	28.916.104
<b>II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)</b>	<b>114</b>	<b>1.433.746.960</b>	<b>416.175.721</b>	<b>1.485.830.316</b>	<b>470.098.153</b>
1. Changes in inventories of finished products and work in progress	115	-9.082.050	20.775.662	-91.823.395	32.610.446
2. Raw material and consumables used (117 do 119)	116	591.120.691	177.856.570	720.638.090	226.650.677
a) Cost of raw materials & consumables	117	289.357.439	97.932.209	396.062.222	120.641.392
b) Cost of goods sold	118				
c) Other costs	119	301.763.252	79.924.360	324.575.868	106.009.285
3. Staff costs (121 do 123)	120	751.589.696	195.734.575	758.152.010	179.262.684
a) Net salaries	121	417.407.701	116.699.240	444.804.842	112.204.733
b) Employee income tax and contributions	122	231.705.623	52.763.396	217.065.235	46.414.786
c) Employer's contributions	123	102.476.371	26.271.939	96.281.932	20.643.165
4. Depreciation and amortisation expense	124	41.314.755	9.686.535	34.871.593	8.380.334
5. Other costs	125	47.920.440	10.686.925	42.907.641	14.574.501
6. Impairment losses (127+128)	126	10.883.428	1.435.455	9.408.157	7.904.244
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	10.883.428	1.435.455	9.408.157	7.904.244
7. Provisions	129				
8. Other operating expenses	130	0	0	11.676.220	715.266
<b>III. FINANCIAL INCOME (132 do 136)</b>	<b>131</b>	<b>2.742.201</b>	<b>922.717</b>	<b>2.627.231</b>	<b>598.705</b>
1. Interest, foreign exchange gains, dividends and other income from related	132	145.304	8.837	2.109	2.109
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	133	2.596.897	913.880	807.569	596.596
3. Income from associates and ownership interests	134				
4. Unrealized gains	135				
5. Other financial income	136	0	0	1.817.553	0
<b>IV. FINANCIAL EXPENSES (138 do 141)</b>	<b>137</b>	<b>5.374.704</b>	<b>950.118</b>	<b>286.835</b>	<b>498.793</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	4.976.164	773.220	286.835	383.757
3. Unrealized losses	140				
4. Other financial expenses	141	398.540	176.898		115.036
<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>1.512.167.220</b>	<b>422.345.572</b>	<b>1.606.748.601</b>	<b>507.127.389</b>
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	<b>1.439.121.664</b>	<b>417.125.840</b>	<b>1.486.117.151</b>	<b>470.596.945</b>
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	<b>73.045.557</b>	<b>5.219.733</b>	<b>120.631.450</b>	<b>36.530.444</b>
1. Profit before tax (146-147)	149	73.045.557	5.219.733	120.631.450	36.530.444
2. Loss before tax (147-146)	150	0	0		
<b>XII. INCOME TAX EXPENSE</b>	<b>151</b>	<b>5.159.375</b>	<b>-10.788.668</b>	<b>6.987.635</b>	<b>-14.775.775</b>
<b>XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)</b>	<b>152</b>	<b>67.886.182</b>	<b>16.008.401</b>	<b>113.643.815</b>	<b>51.306.219</b>
1. Profit for the period (149-151)	153	67.886.182	16.008.401	113.643.815	51.306.219
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	67.886.182	16.008.401	113.643.815	51.306.219
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>67.886.182</b>	<b>16.008.401</b>	<b>113.643.815</b>	<b>51.306.219</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	-114.399	-75.854	-68.280	2.609
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>-114.399</b>	<b>-75.854</b>	<b>-68.280</b>	<b>2.609</b>
<b>V. TOTAL COMPREHENSIVE INCOME/LOSS FOR THE PERIOD (157+167)</b>	<b>168</b>	<b>67.771.783</b>	<b>15.932.547</b>	<b>113.575.535</b>	<b>51.308.827</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	67.771.783	15.932.547	113.575.535	51.308.827
2. Attributable to non-controlling interests	170				

**CASH FLOW STATEMENT - Indirect method**  
 in the period 01 January 2018 to 31 December 2018

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	<b>001</b>	73.045.557	120.631.450
2. Depreciation and amortisation	<b>002</b>	41.314.755	34.871.593
3. Increase in liabilities	<b>003</b>	55.730.874	
4. Decrease in receivables	<b>004</b>		85.358.186
5. Decrease in inventories	<b>005</b>		
6. Other increase in cash flow	<b>006</b>	23.484.300	36.036.396
<b>I. Total increase in operating cash flow (001 do 006)</b>	<b>007</b>	<b>193.575.485</b>	<b>276.897.626</b>
1. Decrease in liabilities	<b>008</b>		109.898.014
2. Increase in receivables	<b>009</b>	76.264.106	
3. Increase in inventories	<b>010</b>	9.075.996	91.823.520
4. Other decrease in cash flow	<b>011</b>		
<b>II. Total decrease in operating cash flow (008 do 011)</b>	<b>012</b>	<b>85.340.102</b>	<b>201.721.535</b>
<b>A1) NET INCREASE IN OPERATING CASH FLOW (007-012)</b>	<b>013</b>	<b>108.235.383</b>	<b>75.176.091</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	<b>015</b>	148.946	143.168
2. Net disposal of financial assets	<b>016</b>	31.737.357	35.909.073
3. Interest received	<b>017</b>	2.397.141	2.218.163
4. Dividend received	<b>018</b>	77.166	70.243
5. Other cash from investing activities	<b>019</b>	22.259	40.000
<b>III. Total cash flow from investing activities (015 do 019)</b>	<b>020</b>	<b>34.382.870</b>	<b>38.380.647</b>
1. Purchase of property, plant and equipment and intangible assets	<b>021</b>	29.405.221	41.115.880
2. Purchase of financial instruments	<b>022</b>	54.007.700	
3. Other cash flow used in investing activites	<b>023</b>	2.200.000	
<b>IV. Total cash flow from investing activities (021 do 023)</b>	<b>024</b>	<b>85.612.921</b>	<b>41.115.880</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>51.230.051</b>	<b>2.735.233</b>
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>			
1. Proceeds from issuance of financial instruments	<b>027</b>		
2. Proceeds from loans	<b>028</b>		
3. Other cash flow from financial activities	<b>029</b>		
<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	<b>031</b>		
2. Dividend paid	<b>032</b>	119.887.128	43.290.768
3. Repayment of finance lease	<b>033</b>		
4. Repurchase of treasury shares	<b>034</b>		
5. Other cash flow used in financial activities	<b>035</b>	2.581.957	523.242
<b>VI. Total cash flow used in financial activities (031 do 035)</b>	<b>036</b>	<b>122.469.085</b>	<b>43.814.010</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>122.469.085</b>	<b>43.814.010</b>
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	<b>039</b>		28.626.849
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	<b>040</b>	65.463.753	
Cash and cash equivalents at the beginning of the period	<b>041</b>	224.724.869	159.261.116
Increase in cash and cash equivalents	<b>042</b>	0	28.626.849
Decrease in cash and cash equivalents	<b>043</b>	65.463.753	
Cash and cash equivalents at the end of the period	<b>044</b>	159.261.116	187.887.965

**STATEMENT OF CHANGES IN EQUITY**  
 for the period from 1.1.2018 to 31.12.2018

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	21.273.156	21.290.256
4. Retained earnings	004	13.249.718	36.879.953
5. Profit or loss for the period	005	67.886.182	113.643.815
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>235.574.056</b>	<b>304.979.024</b>
11. Foreign exchange differences from investments in foreign operations	011	-114.399	-68.280
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>-114.399</b>	<b>-68.280</b>
17 a. Parent company share in subsidiary	018	-114.399	-68.280
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		Digital Services		Managed Services		Emerging Business and Other		Unallocated		Total	
	31.12.2018. '000 kn	31.12.2017. '000 kn	31.12.2018. '000 kn	31.12.2017. '000 kn	31.12.2018. '000 kn	31.12.2017. '000 kn	31.12.2018. '000 kn	31.12.2017. '000 kn	31.12.2018. '000 kn	31.12.2017. '000 kn	31.12.2018. '000 kn	31.12.2017. '000 kn
Segment sales revenue	939.831	739.306	439.809	559.558	177.087	178.883	1.428	3.809	0	0	1.558.155	1.481.555
Operating profit	108.879	95.214	36.208	19.872	5.090	5.744	238	586	-32.123	-45.737	118.291	75.678

### 2. Transactions with related parties

	31.12.2018. '000 kn	31.12.2017. '000 kn
Total sales	973.699	926.118
Total purchases	413.714	231.119

### 3. Balances with related parties

	31.12.2018. '000 kn	31.12.2017. '000 kn
Receivable	113.235	105.639
Payable	40.407	124.380

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