



Performance in 2016

Products and **Annual Report on Services** Group performance

2016

Annual Report

Ericsson Nikola Tesla Group

General Report

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■ ANNUAL REPORT ON GROUP PERFORMANCE



Photo: Mara Bratoš

Dear readers,

Information Communication Technology (ICT) continues to contribute to transformation processes in our society more strongly and rapidly than ever. The digital economy, digital society and digital transformation have become common topics for discussion. Digitalization has become the synonym for development, and the Networked Society's potential lies in transformation, primarily through mobility. In its business strategy, Ericsson recognized not only the importance of technological development, but also the need to use it to benefit society at large.

Digital transformation is gaining speed

The digital infrastructure of modern society implies constant investment in research and development, fast implementation of the fifth generation of mobile networks (5G), connecting everything that benefits from being connected (Internet of things - IoT), and using a large number of data present in digital space (Big Data). The above mentioned infrastructure is the technological foundation required, but it is not the only prerequisite for the Networked Society we are building. More precisely, it is important to combine technology leadership with motivated and creative experts who responsibly contribute to mutual goals.

Ericsson Nikola Tesla Group takes an active part in the technological development and is a relevant partner in the digital transformation of society through innovative ICT products, solutions and services. We apply the highest global standards in our day to day operations, as well as the principles of corporate governance and responsibility. Our sustainable development is based on sound relations, trust and collaboration among all our stakeholders (customers/ partners, employees, society and shareholders).

Business situation in major markets

In 2016 Ericsson Nikola Tesla Group continued its series of successful business years. Sales revenue increased by 16.7% year-on-year, due to strong revenue growth in CIS market and continued revenue growth in Ericsson market.

2016 will be particularly remembered by our signing of important contracts in export markets with three new customers: beCloud in Belarus, Ucom in Armenia, and the Ministry of Healthcare in Kazakhstan. All three are demanding projects in the areas of LTE technology and healthcare digitalization. We also continued our collaboration with the operator IDC (Moldova) by signing a contract for LTE network build.

The quality and added value that we deliver have been recognized by the Ericsson corporation and customers worldwide as demonstrated by newly gained responsibilities in the global organization for our Research and Development Center and the Global and Regional Expert Centers for solutions and services. In line with that, we added 318 experts during 2016. We remain the largest R&D center in Croatia, currently employing over 1200 employees, while Ericsson Nikola Tesla Group has almost 3000 employees. We retained the position as the largest ICT exporter and are surely the largest exporter of knowledge in Croatia.

In the markets of Southeastern Europe, we recorded a decrease in sales revenue, due to negative economic trends and political turmoil slowing down operators' investment dynamics. The main challenges we face in the domestic market are consolidation and centralization of procurement by global customers/operators, postponed strategic investments and growing competition.

I am pleased that we have kept our strong position and our customers' trust in Croatia and the region during 2016, primarily by continuing quality collaboration with our traditional partners, such as Vipnet, Hrvatski Telekom (HT), HT Mostar, BH Telecom, Crnogorski Telekom and Ipko.

Furthermore, I would like to highlight the growth in the business segment ICT Solutions for Industry & Society in the domestic market. Among key projects in this area, we should mention the continuing activities with the Ministry of Healthcare of the Republic of Croatia on implementing new functionalities, such as eHealth Record and the Patients' Portal. We are proud of the Joint Information System of Land Registry and Cadaster project, which was fully implemented at the end of 2016, connecting all land-registry and cadaster offices in Croatia into a single information system. A strategically important project in the public safety area was among the last projects that we signed for at the close of 2016. The project concerned the building of the state border control system of the Republic of Croatia and was completed in record time in mid-January 2017.

Our subsidiary, Ericsson Nikola Tesla Servisi d.o.o., records solid business results. In the past two years, the company went through demanding transformation processes, whilst implementing complex projects in network build and maintenance for Hrvatski Telekom.

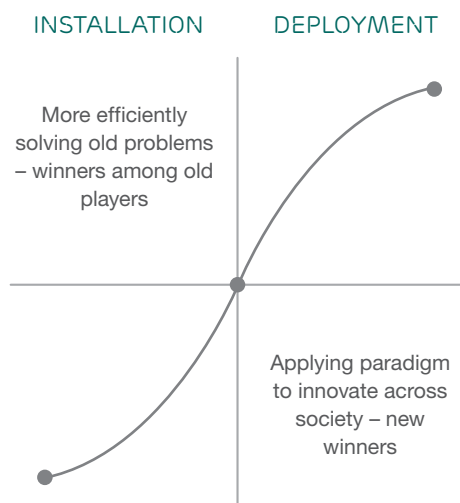
Risk Management is one of our key priorities, and we consider it an important element of stability of our operations. In order to mitigate business, market and

financial risks in the export business, we have successfully expanded cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and commercial banks. In this way, we meet our customers' needs for financing and, at the same time, significantly reduce long-term receivables.

Taking into consideration the above mentioned, we estimate that the Group's main business risks are:

- Impacts of the challenging economic environment and political uncertainty on demand and prices of our products and services
- Reduction and slowdown in operators' capital investments, as well as postponing of strategic investments in the public and private sector
- Industry convergence and consolidation among suppliers of equipment and services
- Increased competition and new IT companies entering telecommunication market
- Business mix impact on gross margin
- Increased credit and commercial risk exposure in case of deterioration of our customers' financial conditions
- Increased demand for customer financing
- Negative foreign exchange impact on business results given the greater part of our revenue is generated in EUR and USD
- Retaining of highly qualified/top performing employees in order to stay competitive.

Networked society - we have passed the inflection point



By year 2021:

- 8 billion mobile broadband subscriptions
- >90% of the population covered by mobile broadband
- 4x LTE subscription growth (4.1 billion)
- 10x mobile data traffic driven by video



Already today over 50% of consumers watch streamed on-demand video content every day

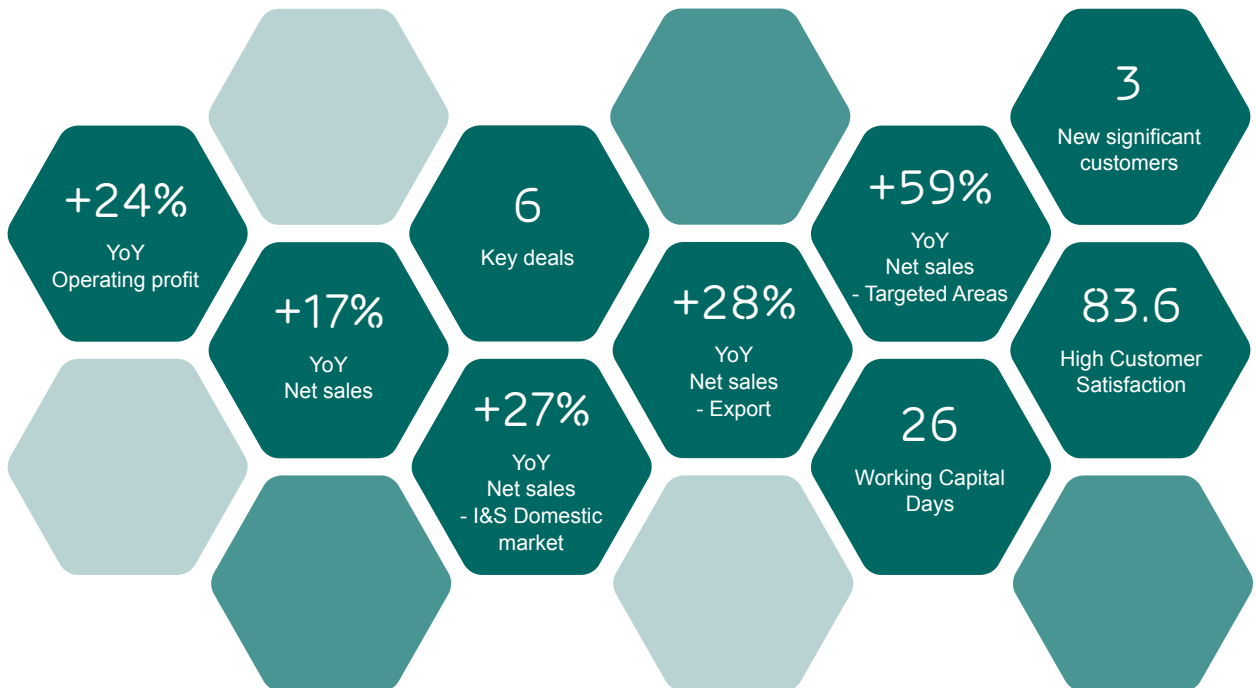
Key performance indicators

Ericsson Nikola Tesla Group business results are as follows (the information in brackets refers to 2015):

- Sales revenue is MHRK 1,591.6 (MHRK 1,364.3), an increase by 16.7% YoY
- Gross profit amounts to MHRK 189.8 (MHRK 177.2), an increase by 7.1% YoY. Gross margin records a slight decrease to 11.9% (13%).
- Sales and administrative costs decreased by 5.5% to MHRK 77.7 (MHRK 82.2).
- Operating profit increased by 24.3% to MHRK 113.6 (MHRK 91.4).
- Net profit increased by 21.2% YoY to MHRK 110.7 (MHRK 91.3).
- Return on Sales (ROS) is 7% (6.7%).
- Cash flow from operating activities is MHRK 187 (MHRK 243.1).

Strong business results were achieved in 2016 primarily due to professionalism and knowledge of our leaders and experts, which is increasingly being recognized as our competitive advantage. A high level of satisfaction among our largest customers/partners was confirmed yet again by our annual survey.

Key performance indicators



Our key priorities



All other key performance indicators grouped in four Scorecard perspectives (Customer, Employee, Society and Shareholder) were excellent.

By opening of the innovation incubator “Ericsson Garage Croatia”, we became one of several global sites for agile and fast innovations oriented towards the needs of both existing and new customers.

Strategic direction

All business entities, irrespective of industry they belong to, use ICT as their basic infrastructure. Our customers in Croatia, the region, as well as the global ones, are embarking on digital transformation projects. In the operator segment, these are primarily telecom network virtualization projects and implementation of Cloud solutions. In these projects a special focus is placed on Operations Support Systems (OSS) and Business Support Systems (BSS) transformation, which results in organizational efficiency, as well as in new market and end user approaches.

In the course of 2016, we have started a new strategic planning cycle for the period up to 2019, based on facts that describe the current status in all business and technology segments and on analysis of future trends in the ICT market. Our aim is to strengthen business performance in strategic segments through transformation programs (4G/5G, Managed Services, OSS and BSS, Cloud solutions, Industry & Society) and the Ericsson’s internal market. Risk management,

effective cost management and efficiency have important roles in our strategy.

Significant transformation is taking place throughout the Ericsson corporation, our company included. I believe that the results we achieved in 2016, as well as our ongoing strategic transformation initiatives, represent a strong and vital foundation for the Company’s future development.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2016 Annual Report, consisting of the General Report, the Social Report and Consolidated Financial Statements as at December 31, 2016.

Gordana Kovačević
President
Ericsson Nikola Tesla d.d.

■ BUSINESS RESPONSIBILITIES AND ACTIVITIES

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla is the leading provider of communication products and services in the operator segment, as well as a provider of innovative ICT solutions related to health care, transport, state administration, utilities, and multimedia communication. Through innovation and leadership, the Company reflects on and encourages business opportunities and profitable sales growth. By combining technology leadership, excellence in services, regional presence and e2e abilities, the employees, together with customers, create added value.

The Company's key activities encompass the following:

- Research and development
- Implementation of e2e communication solutions and ICT solutions for Industry & Society
- Local, regional, and global delivery of services
- Marketing and sales network.

Ericsson Nikola Tesla:

- Creates innovative ICT solutions that improve people's lives, creating a new value for business and society
- Encourages the prosperity of its environment by ensuring access to modern information and communication systems and technologies
- Operates in the area of advanced technologies and plays an active role in e-projects
- Is among leading exporters in Croatia and number one when it comes to exporting knowledge
- Provides a modern test environment with a range of innovative solutions that enable the testing of operators' networks and internal Ericsson's users in a cost-effective and operatively efficient way.



Ericsson Nikola Tesla Servisi d.o.o.

Ericsson Nikola Tesla Servisi's core business is providing services related to telecommunication network infrastructure build and maintenance.

Company's activities:

- Consulting services, including designing, geodetic activities, control and resolving property-legal affairs
- Building and maintaining the telecommunication network
- Controlling and operating the network
- Mounting telecommunication equipment; telecommunication system power and cooling.

With regard to the services portfolio and the experience in the management of telecommunication projects, the company can offer the service on a turnkey basis, which accounts for a high quality of the service and makes the company flexible in adjusting to all the requirements by the users.

Ericsson Nikola Tesla BH d.o.o.

The company operates on the Bosnian and Herzegovinian market and delivers products and services offered by Ericsson Nikola Tesla Group.

Libratel d.o.o.

Libratel's core business is providing telecom services; installation, putting into service, and telecom equipment upgrade (core and access network).

Ericsson Nikola Tesla d.d. - Branch Office Kosovo

The company operates on the market of Kosovo and delivers products and services offered by Ericsson Nikola Tesla Group.

Ericsson Nikola Tesla BY d.o.o.

The company operates on the Belarusian market and delivers products and services offered by Ericsson Nikola Tesla Group.

PRODUCTS AND SERVICES

Ericsson Nikola Tesla Group provides its customers and partners with a complete Ericsson portfolio of communication products, solutions and services, as well as products, solutions and services of selected providers in the following segments:

- High-performance networks (including IP networks)
- Services focused on network evolution and efficient management
- Solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- Strong support to Ericsson's vision of the Networked Society by delivering solutions for selected Industry & Society segments and IoT solutions
- Virtualization of telecommunication solutions and transformation of companies' business in Cloud environment
- Automation of business processes and IS/IT services ranging from design, implementation and integration to maintenance.



SERVE THE NEXT WAVE

>50% of world population still lack Internet access

CONNECT 2020 AGENDA
700 MILLION new users by 2020

CONNECT THE UNCONNECTED



PERFORMANCE

DELIVER OUTSTANDING USER EXPERIENCE

20X USER EXPERIENCE

SPEED MAKES THE DIFFERENCE IN USER EXPERIENCE

4G 1.3 s
3G 1.8 s
GSM 42 s



INNOVATION

PLACE INVESTMENTS WHERE IT MAKES THE MOST DIFFERENCE

QUICKLY IDENTIFY SITES WITH MOST MBB DEVICES, USING ERICSSON TOOLS



2X ACCELERATED ROI



EFFICIENCY

BUILD COST EFFICIENT MBB COVERAGE

A NEW SUITE OF HIGHLY EFFICIENT SOLUTIONS

40% TCO SAVINGS



UNLEASH THE NEXT BILLION

SALES AND MARKETING

Ericsson Nikola Tesla Group realized sales revenue amounting to MHRK 1,591.6, representing an increase by 16.7% YoY. In total sales revenue, domestic market accounted for 16.9%, services to Ericsson accounted for 54.8% (11.5% accounted for managed services in Croatia), while other export markets accounted for 28.3%.

Domestic market

In the domestic market, sales revenue amounted to MHRK 268.8 (2015: MHRK 293.5), a decrease by 8.4% YoY.

Cooperation with our strategic partner Vipnet was continued, modernizing the radio access network and transport telecom network, and increasing the capacity of 3G and 4G technologies. During Q1, Radio Dot System was implemented in Vipnet’s commercial network. This increased service quality and end-user experience to a level which is considered to be one of the best in the world. The testing of new functionalities in various segments of core and access network is ongoing. These functionalities contribute to an increased quality and new services for end users.

Business cooperation with the operator Hrvatski Telekom (HT) was extended in the segment of telecom fixed network modernization, by delivering solutions for IP access and transport network. Activities regarding telecommunication infrastructure build and maintenance have been intensified. Preparation activities, with the aim to identify and realize future projects of HT Group have been completed (HT, Iskon, Optima).

With the mobile operator Tele2 we worked on software support improvements, core network modernization

and transport network upgrade in the segment of microwave and fiber optic. Furthermore, we provided support services, as well as maintenance of the entire telecom network. Selection of another vendor for Tele2 telecom network modernization resulted in decreased business volume compared to the previous year.

As regards the ICT solutions for Industry & Society, numerous activities continue in health care digitalization, and joint information system for land registry and cadaster. In Q4, a strategically important contract regarding the delivery of the state border control system was signed with the Ministry of Interior of the Republic of Croatia.

Export markets

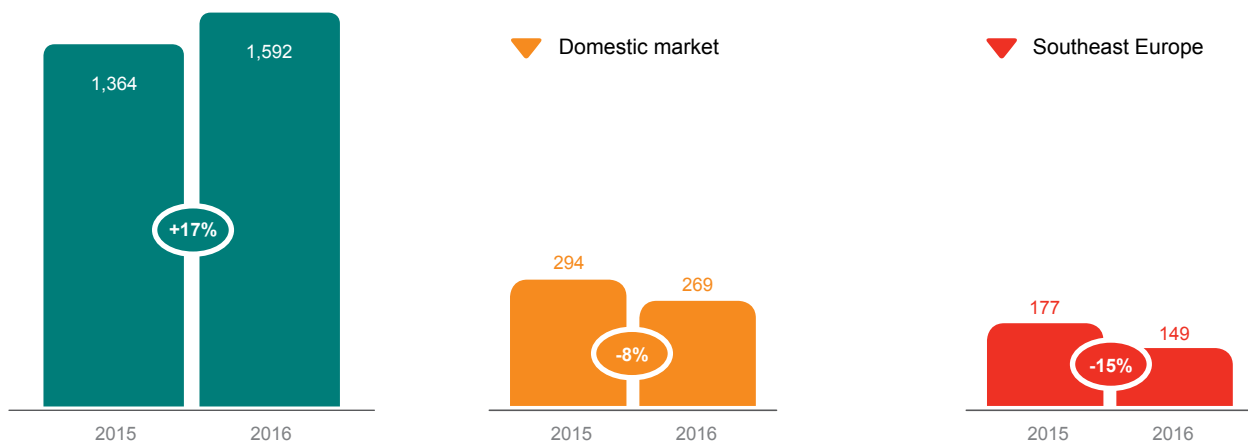
In the export markets (except Ericsson market), sales revenue amounted to MHRK 450.4 (2015: MHRK 249.4), representing 80.6% increase YoY.

In the markets of Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue amounted to MHRK 149.3 (2015: MHRK 176.7); 15.5% decrease YoY. Slow economic development and political uncertainty affected the dynamics and the volume of operators’ investments.

In Bosnia and Herzegovina, we continued providing maintenance of BH Telecom mobile and fixed network. With the operator HT Mostar, we worked on fixed and mobile network modernization, focusing on broadband Internet access. In Q4, further extension of 3G network was agreed with HT Mostar, which will enable better coverage and network capacity.

In Montenegro, a frame agreement was signed with

Ericsson Nikola Tesla Group – sales revenue (in MHRK; YoY)



Crnogorski Telekom regarding a new investment cycle in the area of radio access network and mobile core network until the end of 2018. Within the agreement, state-of-the-art technology LTE Advanced 3CA (Three-Carrier Aggregation) was put into operation at the end of 2016.

In Kosovo, with the operator IPKO, we continued the collaboration on radio access and microwave network modernization and extension, focusing on extending the mobile broadband Internet access, based on LTE technology. We have also signed an agreement regarding this operator's core network modernization, thus realizing prerequisites to introduce new services based on IP technology.

In CIS market, sales revenue increased by 314.7% YoY, amounting to MHRK 301.1 (2015: MHRK 72.6). Our investments in new solutions development, as well as strong marketing and sales activities resulted in several significant contracts in the operator and eHealth segment.

In Moldova, a contract on LTE network build was signed with the operator IDC. Following the successful implementation of packet core network, the activities on LTE network build are ongoing, including related services and necessary software upgrades. This project represents a swap of the existing LTE commercial network of another vendor with Ericsson network, including new functionalities.

In cooperation with Belarusian company beCloud, LTE technology was put into operation in all regional centers of the Republic of Belarus. The plan is to cover all densely-populated cities with LTE by the end of 2017. In the capital city of Armenia, Yerevan, in cooperation with the operator Ucom, an advanced LTE network based on Ericsson multi-standard radio

equipment and Antenna Integrated Radio (AIR) system was put into operation.

The implementation of strategically important contract on the Republic of Kazakhstan health care system digitalization is ongoing. This contract will enable the Ministry of Healthcare of the Republic of Kazakhstan, and related health care institutions, to introduce international standards and support key reforms in health care segment. The contract encompasses the build of national Electronic Health Record system, as well as the Business Intelligence System.

Services to Ericsson

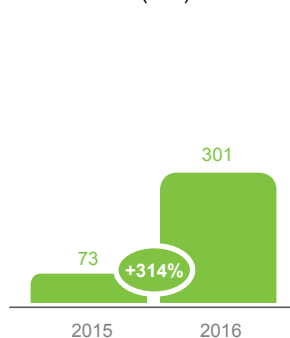
In Ericsson market, sales revenue amounted to MHRK 872.4 (2015: MHRK 821.4), representing 6.2% increase YoY.

In Ericsson Nikola Tesla Research & Development Center (R&D) the activities related to application and platform software development for radio systems within the Radio Development Unit have been extended. Accordingly, hiring and education of new experts is ongoing. Activities within the development units Mobile Core, User Data Management and Cloud are ongoing as planned.

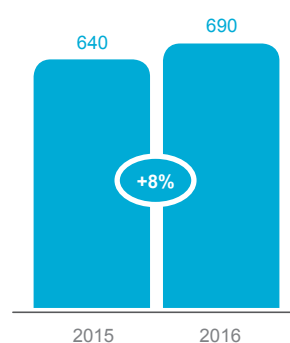
Research projects related to virtualization and Big Data processing continue. A significant focus is placed on developing network functions virtualization, with the aim of enabling new solutions on Cloud platform. Ericsson Nikola Tesla's new innovation cycle was supported.

At the end of 2016, Ericsson Garage Croatia was officially opened, acting as an incubator for

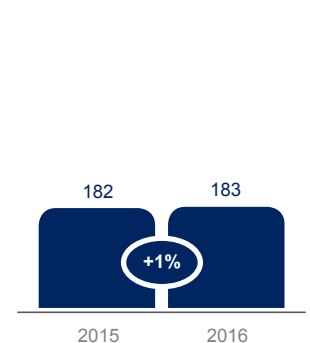
Commonwealth of Independent States (CIS)



Services to Ericsson (export markets)



Services to Ericsson (domestic market)



innovations in the areas related to our current research and sales segments. It was designed to respond to a wide range of projects - from spontaneous ideas to big concepts.

Service and Solutions Delivery Center experts have been engaged in numerous projects for the customers worldwide, such as: BASE Belgium, China Telecom China, China Unicom China, DIGI Hungary, Deutsche Telekom Group Germany, Irancell Iran, KPN the Netherlands, MTN Iran, POST Luxembourg, Robi Bangladesh, Swisscom Switzerland, Tango Luxembourg, Telefonica Germany, Telekom Austria Group Austria, Telekom Slovenije Slovenia, Turk Telekom Turkey, Vodafone Netherlands, Vodafone United Kingdom, and Vimpelcom Russia. These are complex expert activities in the area of defining and creating new solutions, analyzing existing networks and providing consulting support in optimization and upgrade of tools and functionalities in convergent communication networks.

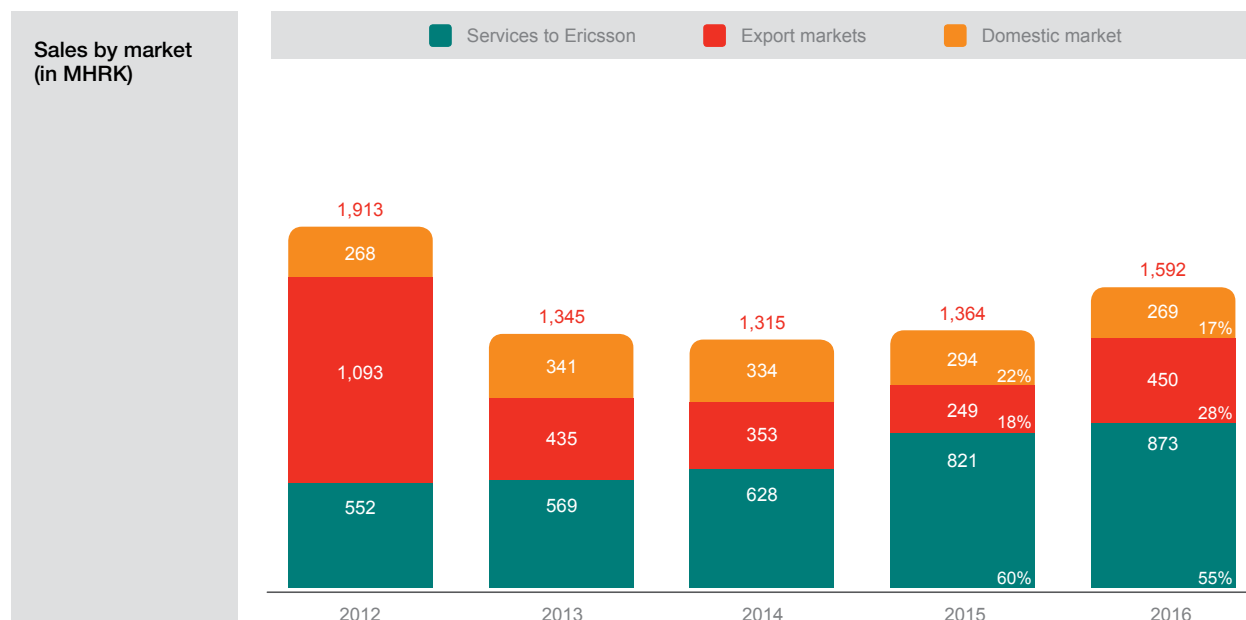
Furthermore, we are positioned as the leading center in the Region Western and Central Europe for all services and solutions in the Cloud domain.

There was intensive work 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, Radio Network Proposal Tool, Ericsson Network Engineer, and Extended Support Request.

The contribution of Ericsson Nikola Tesla Servi to revenue in this market segment amounts to MHRK 182.7 (2015: MHRK 181.8). We would like to highlight some of the key goals and business results towards Hrvatski Telekom:

- fulfilling the goal of designing and building optical networks (Fibre to the Home and Fibre to the Cabinet), as well as completing preparation for project continuation in 2017;
- successful realization of project regarding the extension of mobile broadband Internet access capacity and coverage;
- additional engagement on the program of faster realization of customer service request (the so-called small projects), with the aim to additionally reduce the total number of open requests, and improve satisfaction of Hrvatski Telekom end users;
- providing a higher level of service quality of management, monitoring and maintenance of Hrvatski Telekom fixed and mobile network, in line with the results of the network key performance indicators.

Activities continue towards other customers in Europe in the area of radio access network modernization, and design and fiber optic network build.



■ SCIENTIFIC AND RESEARCH ACTIVITIES

Scientific and research activities at our Company are in line with long-term strategic goals of business development. They are based on the development of new products and research of new processes and technologies, as well as the development of new functionalities for the needs of the Networked Society.

The main driving force of scientific and research activities is the Research and Development Center, with its research and innovation unit and its development activities for the major Ericsson Design Units: Core systems and Radio systems, as well as Ericsson Nikola Tesla's unit for the solutions for the Networked Society. The Center collaborates with other business units in the Company, R&D centers in the corporation, and universities in Croatia and abroad.

A very important part of research activities is related to the participation in projects funded by the EU. In 2016, the Company finished a three-year project named CloudScale, whose aim was to ensure scalability and flexibility of applied systems on the IT cloud platform. Moreover, at the end of the year, several projects were finished: S-CASE projects, which will enable a fast development of prototypes of new services in cloud through a fast transformation of requests into a prototype of cloud service, and eWall project, which aims to develop an electronic wall that will help senior and infirm people to gain greater independence and a better quality of life in their own homes. eWall project presents the continuation of the Company's initiatives in the development and implementation of new, innovative services intended to improve everyday human life in Ambient Assisted Living (AAL) environment. During the year, activities in the URBAN INNO project from the H2020 program were initiated, with the aim of improving the creation of innovation systems in the regions of the EU.

The Company continued its successful collaboration with the Faculty of Electrical Engineering and Computing in the field of research. A prominent position was given to the research project regarding M2M communication project, as this is a rather promising business area. The research of systems for emulation/simulation of network topologies in testing domains and particularly of artificially generated traffic load. A part of the obtained results has already been implemented in virtual network test equipment that is used not only in our Company but also across entire Ericsson. Joint efforts have been put into the analysis of the connection between telecommunication operators' data and the information on users, which can be obtained from social media.

The research team has actualized the issue of large amounts of data, and during the year, initiated a number of projects in that area. The aim of the first project was to analyze and establish an analytic module at the IoT platform, which is developed at our Company. Activities in the field of analysis and creation of systems for automated recognition of events that may cause irregularities in the operation of telecommunication networks were continued, by monitoring a great amount of collected parameters on the condition of the network equipment. Moreover, with the help of analyzing large available data, the aim is to automate and improve the process of testing electronic boards in factories.

Collaboration with educational institutions was continued through the joint organization of the 16th Ericsson Nikola Tesla Summer Camp, in which 62 students and 50 mentors from Croatia and abroad participated. This student activity

was organized in collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb; Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split; Faculty of Engineering, University of Rijeka; Faculty of Electrical Engineering, Josip Juraj Strossmayer, University of Osijek; Faculty of Electrical Engineering, University of Sarajevo; Faculty of Economics and Business, University of Zagreb; Faculty of Agriculture, University of Zagreb; School of Medicine, University of Zagreb; Center for Croatian Studies, University of Zagreb; Faculty of Geodesy, University of Zagreb; Faculty of Science, University of Zagreb; Faculty of Science, University of Split; Zagreb University of Applied Sciences; and Rochester Institute of Technology.

The students' activities were aimed at:

- Studying selected problems that are crucial to our Company
- Working on applications and demos for the customers
- Internal tools designated for future requirements
- Extended activities related to the proposed solutions and ideas, obtained through the innovation process

At the beginning of the year, two EU co-financed projects within the Operational Program "Regional Competitiveness" for the period 2007-2013 in the scope of RC.2.2.08. tender "Capacity-building in research, development and innovation" were finished. They lasted for 16 months and were worth nearly MHRK 11. The participants of the project showed that effective collaboration between scientific and research community and business can produce creative and useful results, the value of which is acknowledged abroad as well. Project holder of the "Integrated hardware-software system for environmental parameters monitoring in micro locations" (IPPSO) project is the Institute for Medical Research and Occupational Health, and project holder of the "Information and communications technology for generic and energy-efficient communication solutions with application in e-/m-health" (ICTGEN) project is the Faculty of Electrical Engineering and Computing. Our Company was the industry partner in both projects. During the year, together with our partners, we prepared materials necessary to launch the Smart Cities Competence Center in Rijeka, financed by EU Structural Funds 2014-2020, where our Company is the holder of the technical part of CEKOM's application, and the first circle of competition was successfully finished.

At the end of 2016, the Company opened the doors of Ericsson Garage Croatia, becoming a member of the company comprising carefully selected Ericsson's local companies that joined the project. The concept of Ericsson Garage is aimed at creating new values and making a qualitative step forward in creating innovative solutions. Our Company was recognized for its longtime work on innovations, as well as Summer Workshops for students, where prerequisites for the Garage's project were created. Through the concept of the Garage as a kind of corporate incubator, first projects were already initiated, with the aim to create a basic version of the products. The Garage is open to external partners as well; together with our Company, they could develop new concepts and new innovative solutions. The first projects at Ericsson Garage Croatia concern the application of analytics in the field of taking care of the elderly and the security of communication networks.

■ THE BENEFITS OF THE NETWORKED SOCIETY: THE FUTURE HAS ALREADY BEGUN!

Together with employees, customers and shareholders, the society in which we operate is one of four key stakeholders of Ericsson Nikola Tesla Group. Therefore, the development and implementation of ICT solutions that bring positive social changes, growth and progress, and along with a highly competitive market, are one of the main objectives of our corporate social responsibility. The Company and corporation experts show, and on a daily basis prove, how key aspects of our lives, such as location, environment, safety, employment and personalization can be significantly altered on the basis of strong networks and innovative IT solutions. Therefore, 5G, Cloud, and Internet of Things (IoT) represent hot topics in the area of comprehensive digital transformation, and creating a truly new connectivity between people and objects brings revolution to industry and society, with unprecedented agility and efficiency. Although yet neither fully defined nor standardized, these emerging technologies and benefits arising from them, are changing our lives and already today have an unstoppable impact on the creation of our future.

5G technology

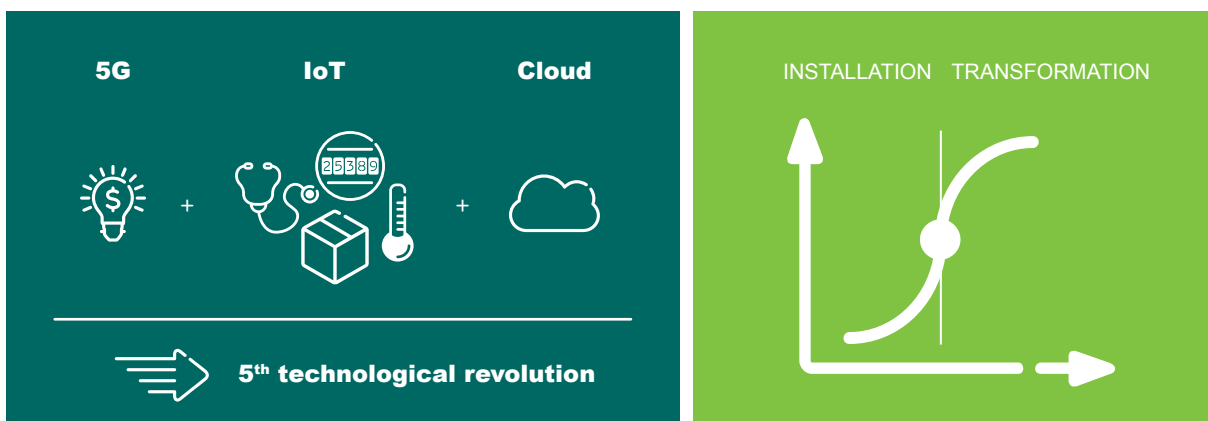
In 2016, Ericsson presented new opportunities in 5G which the operators will soon introduce, including a larger bandwidth, less delay, higher density, less energy requirements, a significantly increased safety, network slicing, where specific use cases demand a special part of network and wireless support to Massive IoT technologies. Ericsson Mobility Report 2016 brings current data related to evolution towards the Networked Society. The Report forecasts that IoT devices will surpass the number of mobile phones,

and become the largest category of networked devices already in 2018. Therefore, by the end of 2021, there could be approximately 16 billion IoT devices, and the total number of connected devices will be 28 billion.

Last year also brought a turning point in LTE networks in operation, so this technology currently supports the download speed of up to 1 Gbps. The number of smartphone users is growing. It is estimated that in 2021, 90 percent of global mobile data traffic will be realized by using as much as 6.3 billion smartphones. Western Europe will drive growth in IoT devices numbers, and in 2021 it is expected that the number of devices will increase four times compared to 2015. This growth will be primarily based on regulators' requirements, for example in the segment of smart metering, as well as on growing demand in connected cars, and on the EU directive related to eCall, which should come into force in 2018. From 2020, the commercial application of 5G networks should provide additional possibilities, crucial for IoT, and enable connecting an exponentially larger number of devices than at present moment. Communications are moving fast towards data demanding applications, such as virtual and augmented reality. Therefore, the operators that want to drive the Networked Society, already nowadays plan 5G networks that are ready for new communication capabilities.

Ericsson was the first on the market to offer new solutions for a smooth transfer from current networks to the new generation of networks, and Ericsson 5G New Radio (5G NR) is based on a new flexible radio platform that not only supports LTE technology, but is also ready for future 5G NR standards. 5G NR technology uses large antenna systems, and high performance is achieved by using shared cloud in

Inflection point



radio access network, which brings the necessary intelligence and scalability to this new radio technology. With previously introduced 5G plug-ins, Ericsson is the first provider of all components for 5G access networks as well as products designed for 5G NR technology, which at the same time support the LTE standard.

Ericsson global report “Opportunities in 5G: The View from Eight Industries” reveals the anticipated impact of this next-generation mobile technology on specific industries. The research reveals which use will dominate in individual economy sectors, and which business reasons will be the main motivators for using 5G technology. Looking ahead, almost 94 percent of respondents perceive the next-generation mobile networks as important to the strategic development of their business, and the majority of respondents plan to make significant changes in their business in order to use the advantages offered by 5G technology. Technologies like Internet of Things become integral parts of economy and lifestyle, and 5G will accelerate this transformation and create new ways of using, new revenue streams, and new business models for both industries and consumers.

Various sectors and industries recognize the value of 5G that will enable the implementation of new health care services and products for improving life quality, while improving safety and enabling priority communication during emergencies. In addition, connected cars will rely on high performance and secure networks. Energy sector and utilities will be able to offer new services such as remote monitoring and numerous other advanced services.

Smart cities

Nowadays, the transformation of modern-day cities into smart cities worldwide, and in Croatia as well, alongside with modern technologies also finds its origins in data, since the cities’ development cannot be planned without analyzing the existing situation and introducing indicators, whose follow-up will enable us to consider the achieved progress. Seeing as the introducing smart solutions is costly, it is important to monetize the existing data, thus enabling the implementation of new entrepreneur initiatives. It is particularly important to raise administration’s awareness in this process, since the administration, by opening its data, would enable a greater transparency and create the necessary prerequisites for implementing new business ideas and opportunities. Numerous studies have shown, and examples have proven, the positive effects data opening has for local and national economy. Therefore, turning cities into “smart” ones greatly depends on removing unnecessary legislative obstacles, as well as on educating all levels of local and state administration.

Ericsson Nikola Tesla actively took part in the URBAN INNO project (Utilizing innovation potential of urban ecosystems) launched in mid-2016. The project includes 12 project partners from eight European countries, with the common goal of maximizing innovative potential of urban ecosystems in Central Europe. Within the next three years, URBAN INNO should encourage better connectivity of innovation actors in urban ecosystems, initiate founding of clusters in partner regions, and finally, by developing new methods and tools, enable creating a new generation of qualified and motivated end users who boldly use new services and technologies for improving the quality of their own lives, and thus for the progress of society at large.

e-Health: In Croatia and abroad

New Ericsson’s Sustainability and Corporate Responsibility Report 2016, entitled Technology for Good™ already traditionally brings not only corporation’s ambitions, but also achievements in the segment of sustainability and corporate social responsibility, highlighting the example of Ericsson Nikola Tesla’s contribution to the implementation of Croatian eHealth system.

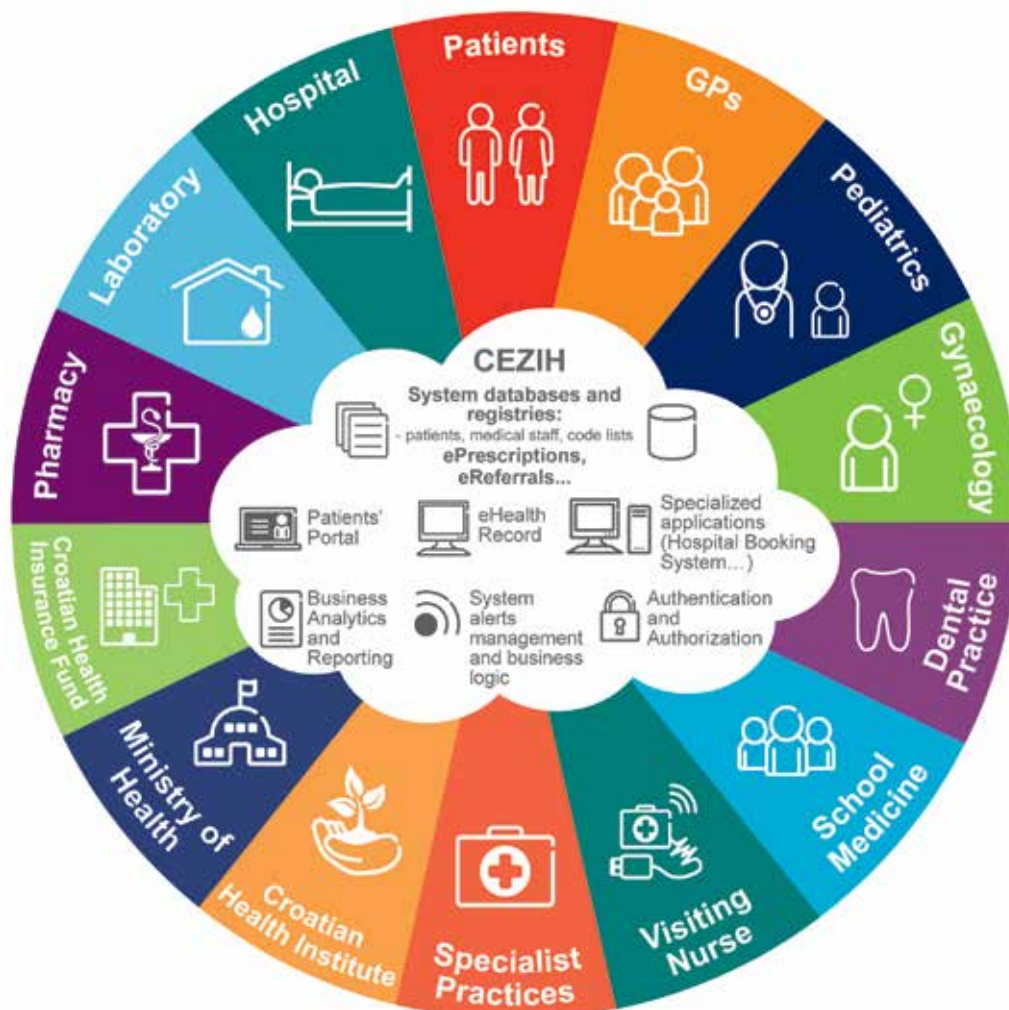
In line with our customers’ priorities, who, just like Ericsson, consider sustainability to be a part of strategy and a business priority, the Report especially focuses



on energy efficiency, health and safety, and responsible business. The annual progress, presented by the report, is structured in line with the United Nation 17 Sustainable Development Goals. The third goal, regarding good health and well-being is especially significant for our company, as Ericsson Nikola Tesla has a role in building the Central Health Care Information System of the Republic of Croatia (CEZIH), by which we are recognized in Europe and worldwide.

This means that, as regards Croatia, the country that was most successful in implementing ePrescription along with other four European countries, the future is indeed already here; however, it is still full of challenges. With the aging population and cost increase related to new forms of medical treatment and prevention, health care across the world faces numerous challenges, and especially the significant economic ones. The sustainability of the European Union's entire health care system requires a new approach to the organization as well as introducing

digitalization in all the segments of all the health care processes. According to the European Commission Report on Health Care and Long-Term Care Systems and Fiscal Sustainability, in 2015, health care costs accounted for 8.7 percent of European Union's GDP, and they could increase by another 45 percent by 2060. The key solution to decrease costs in health care is faster digitalization of all the processes, which will enable a significantly better data analysis, more precise and secure diagnostics, development of personalized health care for each patient, and, finally, a better quality of life. Electronic Health Record plays an important role here, as its introduction is a prerequisite for a better use of data in health care. It is expected that Electronic Health Record, once it comes into optimal implementation, would contain patient's entire medical history, diagnosis, treatment plans, information on vaccines and allergies, X-ray images, lab and other results; and based on such information, authorized doctors will be able to make decisions on further treatment faster, easier,



and with more quality, even when it comes to patients who cannot be reached. On the other hand, by using the new Health Portal for patients, available via e-Citizens website, patients in Croatia can already more actively participate in the health care system. Health Portal, in a user-friendly way encompasses medical and administrative data in a digital form, and actively includes the patients themselves, allowing them to see prescribed and issued medications, medical findings and discharge letters from the hospital and institutions of specialized conciliar health care, and they can also independently manage access rights, and see who and when accessed their Electronic Health Record.

All the data, accessible through the mentioned portal are actually unified and structured personal data on patient's health, which have already been collected through various applications such as ePrescription or eReferral, and stored in the existing Central Health Care Information System of the Republic of Croatia (CEZIH). Maximum security and traceability are guaranteed by a number of latest security measures, including encrypted data traffic, application of National Identification and Authentication System, as well as smart identification card for authorized health care providers.

It is expected that the implementation of the Health Portal for patients will facilitate the administration performed by health care professionals, enable a more effective time management, and finally contribute to minimizing the number of people in waiting rooms, while providing a higher standard of health care service quality to patients, as well as a better control over the interaction with the health care system.

One of the advantages of the Networked Society is related to the fact that its benefits are not limited by location. Although we are far from the mentioned goal, the benefits of our solution for e-Health are no longer limited to Croatia. We will deliver an advanced software solution and services related to the national health care system informatization to the Republic of Kazakhstan, world's ninth largest country with a population of 17 million. The implementation includes the analysis, designing, adjustment to local requirements and installation, while support services have been contracted for the first three years of system operation. This contract will enable the Ministry of Healthcare of the Republic of Kazakhstan and related health care institutions to introduce international standards and support key reforms in health care segment. The Platform has the ability to integrate the existing systems and enable the integration of future systems, based on international standards; the national system of Electronic Health Record, as well as the Business Intelligence system are an integral part of this contract. Introducing a connected health care IT system on a national level enables an improved efficiency and quality management of health care system, thus resulting in

reliable and timely access to medical information. With this contract, the company additionally confirms its leadership in complex ICT solutions in health care business segment, as well as its strategic role in this area.

Health care digitalization is an extremely demanding transformation process; therefore, we are proud of successful completion of the project in Armenia, the "Integrated Health Information System of Armenia". For the first time in health care segment, the company went through the entire World Bank project cycle and gained new, rare and valuable experience. Considering that Armenian health care information system also encompasses institutions of secondary/tertiary health care protection, today we have an important global reference in building a hospital information system on a national level, in the Cloud.

Transport

5G will be the technology that will lead to transformation in all industry branches, and automotive industry and transport sector will surely be among the first ones. Therefore, Ericsson solution includes all traffic elements, and enables connectivity in moving on roads and rails, including drivers and passengers. The portfolio contains highly scalable



communications, monitoring based on data for safe and efficient road and rail traffic management, and seamless transactions between service providers. LTE radio access technology and compact core network enable rail applications to have superior performances and service quality management, including passenger connectivity, train telemetry, and video surveillance in the vehicle. Mobile tickets and Mobility-as-a-Service solution, as well as remote control of rail infrastructure based on IoT and products for optic transport network, are also a part of Ericsson's offer.

The solutions for rail traffic have been implemented in cooperation with the global giant Bombardier on simulated speeds at up to 200 km/h, in order to verify the ability of LTE networks to support communications-based train control and multi service solutions. LTE networks were tested against Bombardier's requirements for latency, packet loss and the ability to prioritize safety-critical applications. The ultimate goal is to further develop solutions that ensure enhanced rail safety through communications-based train control and video surveillance, offering at the same time an enhanced entertainment for passengers through services such as voice, additional information, advertising and Wi-Fi.

Public Safety

The safety of the state border is one of the highest ranked goals of every country. Therefore, today, more than ever, we are aware of the advantages that connectivity and networking have in the segment of public safety. Ericsson Nikola Tesla, as the consortium leader, delivered the system for "green" border control in Vukovar-Srijem and Split-Dalmatia counties to the Ministry of Interior of the Republic of Croatia in record time. Situation monitoring on every border and border surrounding area on both sides of the border in all types of weather conditions is secured by combining several detection systems. Thus a part of preconditions was fulfilled for entrance in the countries of Schengen Area, which will in the future enable our citizens a smooth and easier border crossing. This project represents another confirmation of the Company's expert competences in the segment of strategic importance for the Republic of Croatia, contributing at the same time to the benefits of our citizens.

Solutions in Industry&Society segment

Networking potential is particularly big and important in the Industry&Society segment, and one of the best examples is the Joint Information System of Land Registry and Cadaster (JIS) that provides a much better, faster and easier insight into data of land registry and

cadaster to the citizens, and enables them a one stop shop where they can easily obtain the list of all their properties anywhere in Croatia.

Currently, the Joint Information System of Land Registry and Cadaster is in full-scale operation across Croatia, in all 107 land registry offices, 112 cadaster offices and in the Zagreb's City Office for Cadaster and Geodetic activities. Today, in the age of e-Services, the process of verifying and gathering documentation really no longer demands standing in lines, unnecessary traveling, as well as related costs. When you need it, simply with only a few mouse clicks and a few kuna fee, which can also be paid via Internet, you can get a valid legal excerpt from Land Registry and the Books of Deposited Contract for every location in Croatia. This increases the level of legal certainty, and the delivery of all information between cadaster and land registry departments is no longer performed in paper version, but electronically, thus significantly saving time and finances.

Seeing as agriculture is one of the industry sectors which has not yet entered into the full swing of business digital transformation, our solutions provide a great potential in the segment of e-agriculture and e-environment, aimed at boosting this sector's productivity and profitability and consolidating all environment-related available data, their processing and dissemination to all stakeholders. Micro location agrometeorological data are being collected and analyzed through various specific services, thus enabling users to make quality and timely decisions in the agricultural process much easier.

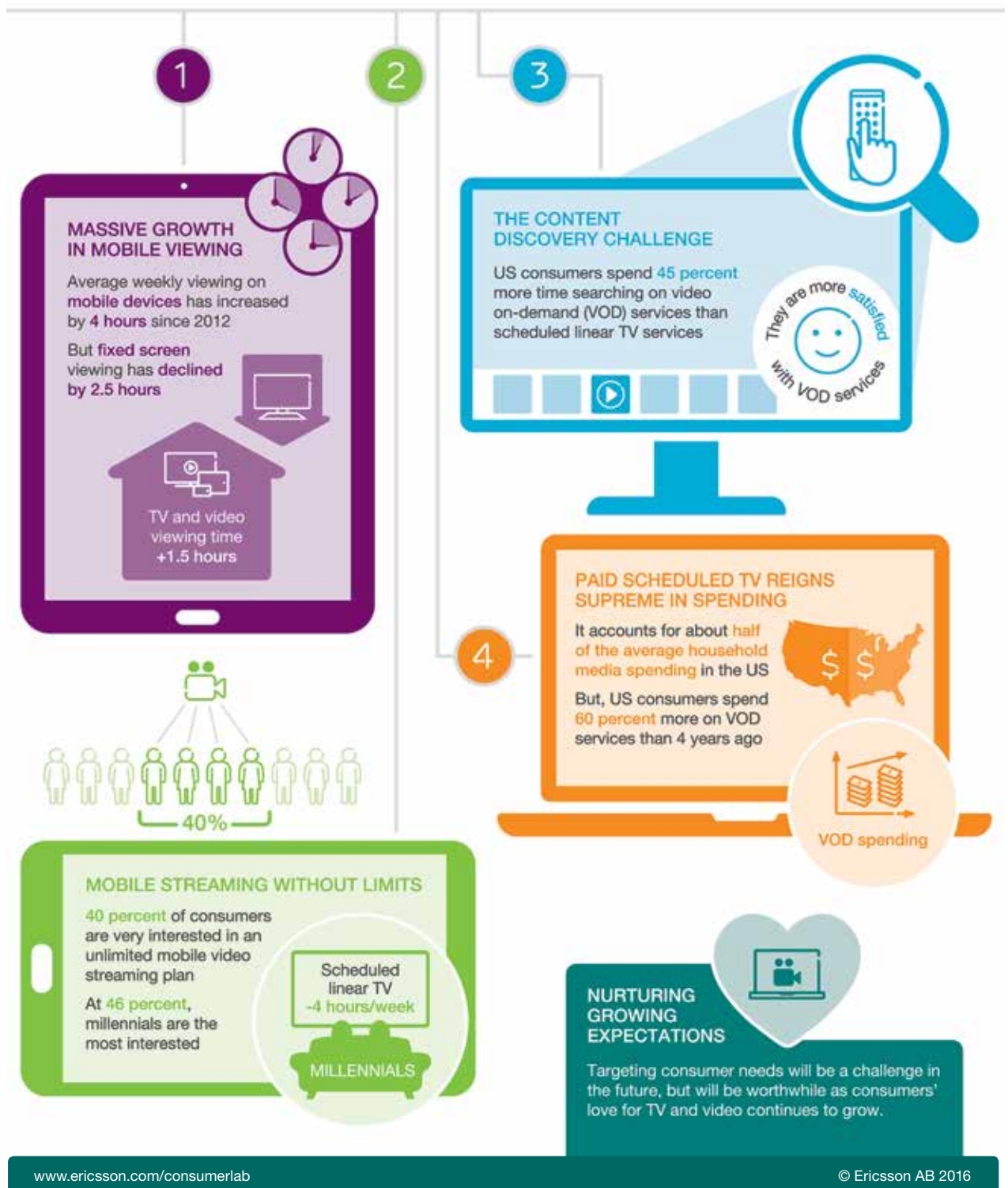
An innovative market communication digital platform brings significant added value in the segment of solutions intended (also) for tourism, already as early as during the process of choosing a destination, planning the trip and staying at the destination, with a focus on the so-called "new media", i.e. the Internet and mobile devices as channels with an extremely rapid user increase. The vision of this digital tourism platform is to create unforgettable experience that the users will share with their friends via Internet, thus attracting new guests, but also wishing themselves to re-visit the same destination.

Media

Creative use of multimedia content already provides many new possibilities in almost all activities, from the already mentioned tourism and trade, to culture and education. Technology changes the way we learn and acquire experience, and in the area of media industry, 5G will bring a truly new, comprehensive experience. Greater capacities brought to us by 5G networks will enable, for instance, using ultra HD 4K TV and virtual reality on mobile devices.

THE EVOLVING ROLE OF TV AND MEDIA

Consumers' relationship with how they view content is changing. Ericsson ConsumerLab's TV and Media 2016 report analyzes insights from 24 countries to understand shifting habits.



Ericsson is one of the global leaders in TV and media products and services, operating in this segment for more than 20 years, with significant references in planning and delivering TV and media business transformation. By cooperating with customers worldwide, Ericsson's design, technology and managed services help in achieving flawless, intuitive personal experience of TV users which differ from other offers. Ericsson TV and media portfolio encompasses media enrichment, processing, publishing and delivery. Therefore, Ericsson distributes more than 4 million hours of program in more than 60 languages for more than 500 TV channels each year. People from every continent daily watch TV programs, which were prepared, managed and broadcast by Ericsson's experts from Europe, Middle East, Asia-Pacific region, and the US. However, along with the cooperation with BBC Creative, the BBC's creative agency, and Fox Innovation Lab, i.e. 21st Century Fox, the cooperation between Ericsson and the leading Chinese video streaming service and the most important telecom operator - China Unicom - is particularly important for our company. In this project, it was precisely Ericsson Nikola Tesla's experts who played the key role and thus confirmed the value of the company's team, which is unique in the world by its competences.

Consumer Trends 2017

Alongside with technology advancement, consumers' expectations and desires are an important driving force of the Networked Society development. Therefore, during October 2016, Ericsson ConsumerLab conducted an online consumer trends survey among advanced Internet users in 14 large cities across the world. The results were grouped into ten subjects and published in the 6th edition of its annual report. Although the research encompasses only 27 million citizens, their profile of early adopters makes them important for understanding the research of future trends globally.

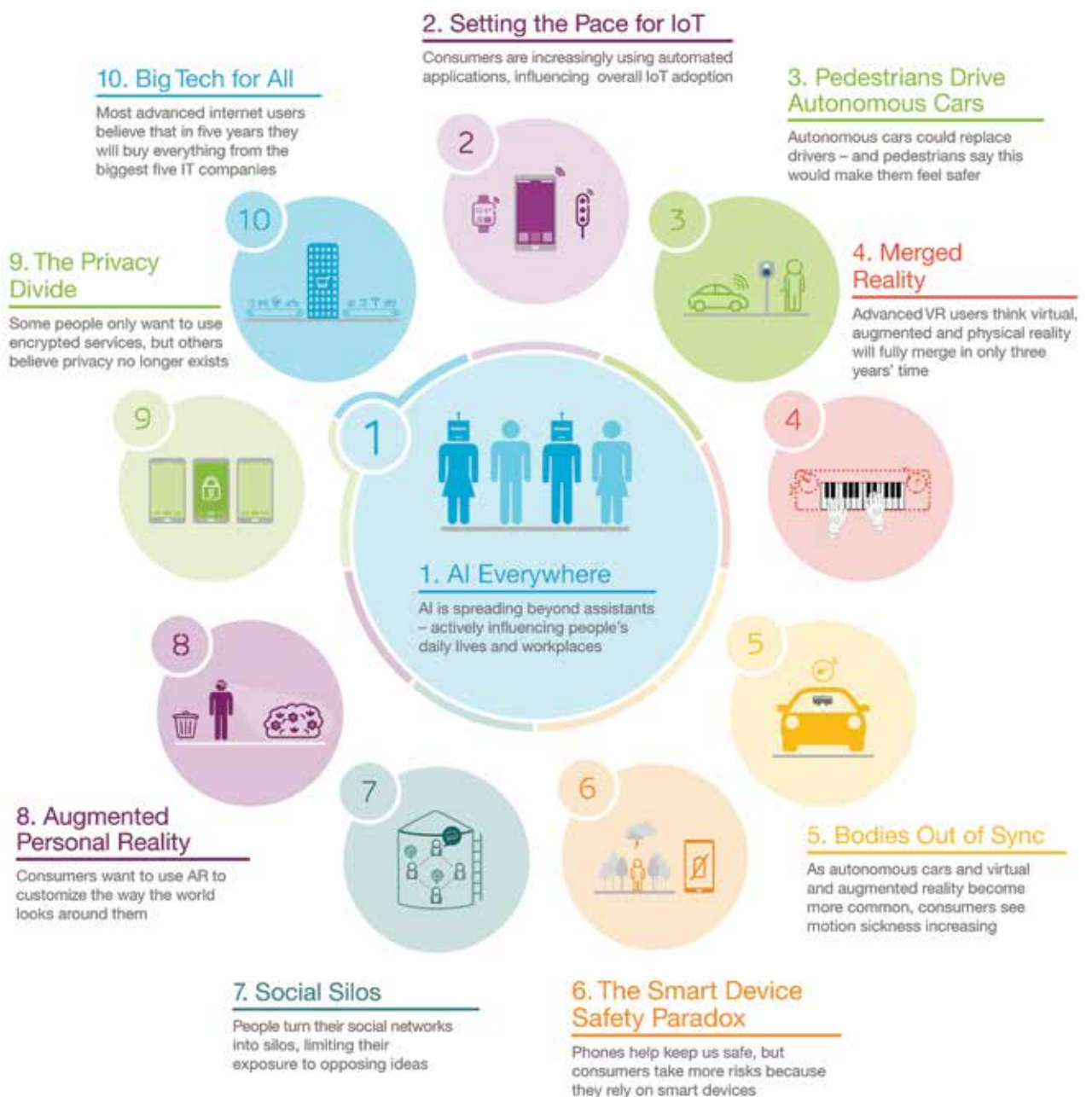
Judging by the respondents' answers, artificial intelligence has a more important role than it used to have, both at home and at work. Moreover, 35 percent of advanced Internet users want an AI advisor at work, and one in four respondents would like to have "artificial intelligence" as a manager. At the same time, almost half of respondents are concerned that AI robots will soon make a lot of people lose their jobs. Up to 40 percent of respondents believe that smartphones will learn their habits and automatically perform their tasks for them, and every fourth user of virtual reality believes that already in three years, it will be impossible to differentiate it from reality. In addition, half of them are already interested in gloves or shoes which enable interaction with virtual objects;

therefore, we can expect that what we now call reality, will soon become largely subjected to personal interpretation. More than half of the respondents would like to use augmented reality glasses to light up dark surroundings, as well as to point to danger, and more than one in three would also like to edit out disturbing elements around them. It is important to highlight a trend according to which, already nowadays one third of respondents willingly turn their social networks into the main source of news, and more than 25 percent consider their contacts' opinions are more important than what politicians say. Despite some, almost unanimous thoughts, people are divided about privacy issues. Therefore, two out of five advanced Internet users want to use only encrypted services, while almost half of them want to have just a relatively good privacy while using any service. However, it is interesting that more than one third of all respondents already believe that privacy no longer exists. You can find more detailed results of this research in the attached infographic.

However, one of the most important research results shows how most of respondents want the future to remain completely mobile, which implies that also from the end users, i.e. consumers' point of view, the time is coming for 5G networks. Here it was also shown on the individual level, as in many other cases of introducing new ICT solutions, that technology is a challenge, but never really a problem. And for us, who provide such advanced technology, the imperative in solving the problems that the future brings is research, development and implementation of the corresponding solutions - as early as today.



HOT CONSUMER TRENDS 2017



EVENTS IN 2016

JANUARY-MARCH

- Ericsson Nikola Tesla Group 2015 business results, as well as 2016 outlook, were presented to the public at a press conference.
- At the Mobile World Congress 2016 in Barcelona, our experts contributed to technical solutions presented by Ericsson. These are: Hyperscale Datacenter System (HDS) 8000, an application for payment via mobile bracelet, Enterprise Cloud system and other solutions.
- We marked a successful completion of two EU co-financed projects within the Operational Program "Regional Competitiveness" for the period 2007-2013 in the scope of RC.2.2.08. tender "Capacity-building in research, development and innovation". The Institute for Medical Research and Occupational Health is the holder of the project titled "Integrated hardware-software system for environmental parameters monitoring in microlocations" (IPPSO), and the Faculty of Electrical Engineering and Computing (FER) is the holder of the project "Information and communication technology for generic and energy-efficient communication solutions with application in e-/m-health" (ICTGEN). Ericsson Nikola Tesla was the industry partner in both projects.
- With the Interdnestercom (IDC) operator from Tiraspol (Moldova) a contract was signed, encompassing the build of 4G/LTE network with accompanying services and necessary software upgrades.
- Ericsson Nikola Tesla and the Armenian operator Ucom signed a frame agreement regarding the LTE network build at the national level, including the capital city of Yerevan.
- Ericsson's Hyperscale Datacenter System (HDS) 8000 was presented at the WorldHosting Days conference, held in Rust (Germany), and Ericsson Nikola Tesla experts participated in presenting this solution as well.

APRIL-JUNE

- Ericsson Nikola Tesla and Vipnet jointly implemented the first Radio Dot system in Croatia.
- Hospital information system deliveries were contracted for the needs of Clinical Hospital Center Split, Hospital for Infectious Diseases "Dr. Fran Mihaljević" in Zagreb, and Specialized Hospital for Medical Rehabilitation "Biokovka" in Makarska.
- An agreement was signed with Crnogorski Telekom on collaboration in the new investment cycle until the end of 2018 in the area of radio access network and mobile core network.
- The Ministry of Healthcare of the Republic of Kazakhstan signed a contract with Ericsson Nikola Tesla on health care system informatization, including analysis, design, adapting to local requirements, and services.
- Ericsson Nikola Tesla Joint Stock Company held its Annual General Meeting, at which all the proposed decisions were adopted.
- Numerous Ericsson Nikola Tesla experts participated at MIPRO, the biggest scientific and expert gathering on ICT, electronics and microelectronics in this part of Europe.



JULY-SEPTEMBER

- The informatization of Croatian health care system continued by commissioning the Electronic Health Record and Patient's Portal, available via e-Citizens system. These important steps on the way to the further informatization of health care system will enable a higher standard of health care services, better control and conducting business more rationally, i.e. the sustainability of health care system.
- Ericsson Nikola Tesla experts participated at Berlin InnoTrans 2016, a fair of transport technology, and showed how mobile broadband Internet access, IP and IoT technologies enable the digitalization of the railway sector.
- A contract was signed with the operator HT Mostar (Bosnia and Herzegovina) on upgrading the core part of fixed network. Such upgrading will enable a fast development of attractive fixed and mobile multimedia services in this operator's network.
- Ericsson Nikola Tesla put into operation LTE network for the operator Ucom in Armenia. Putting the network into operation based on Ericsson's multi-standard radio equipment and the best-in-class Antenna Integrated Radio (AIR) system, is the response to a rapidly growing data traffic in Armenia, and will provide the citizens of Armenia a higher quality, higher speeds and more advanced applications.
- The closing of Ericsson Nikola Tesla Summer Camp was marked with day-long activities. The program consisted of poster and demo sessions and the official closing of Summer Camp. Along with students and their mentors, the closing ceremony was attended by many representatives of the faculties. Students and mentors from our R&D center in Split watched the ceremony via video link.

OCTOBER-DECEMBER

- Ericsson Nikola Tesla held its Innovation Day under the motto "Diversity Inspires". Once again, the event showed that Ericsson Nikola Tesla and Ericsson Nikola Tesla Servisi's employees have diverse interests and engage in different activities, all with a good sense of social responsibility and solidarity towards their fellow citizens who are in need. Thirteen items were classified into four topical units: IoT, e-Health portfolio, solutions in telecom segment, and Big data. In the accompanying charity event/giveaway, the employees visited the topical units, collected stamps and filled out necessary forms, and for each filled out form, the company donated to the soup kitchen in our neighborhood resources that will cover one-week's meals for one homeless person.
- LTE network and related services for the operator beCloud (Belarus) were delivered.
- Leading telecommunication service providers, members of ETIS association, visited Ericsson Nikola Tesla as part of their annual conference.
- In Bosnia and Herzegovina, 3G radio access network expansion was contracted for the operator HT Mostar.
- Ericsson Nikola Tesla, as the leader of a consortium comprising Ericsson Nikola Tesla, Tehnomobil Securitas and Dat-Con, signed an agreement with the Ministry of Interior of the Republic of Croatia to deliver state border control system.
- Ericsson Garage Croatia was opened.
- In the "Metropolis" club, Ericsson Nikola Tesla Group held its Christmas Party for customers and business partners.



■ PERFORMANCE IN 2016

In terms of the financial performance, 2016 was one of the strongest years since the financial crisis considering all financial parameters, including top and bottom line growth, working capital efficiency, cash flow and return on capital employed. We continue to deliver on our financial strategy defined at the end of 2014 and resting on five pillars: 1) profitable growth, 2) cost efficiency, 3) working capital efficiency & cash flow optimization, 4) strategic financing (own and customer) and 5) tighter risk management.

During 2016 we increased sales revenue by 16.7 percent year-over-year on the back of strong revenue growth in export markets and continued growth in Ericsson markets. Despite continued pressure on gross margin due to business mix changes, price pressure and challenging projects in export markets, operating profit increased by 24.3 percent year-over-year. Our continuous focus on cost control and Operational Excellence has yielded results, e.g. SG&A costs decreased by 5.5 percent year-over-year.

During 2016 a solid cash flow of MHRK 187 was generated from operating activities, which allowed the total cash funds, including short-term financial assets, to remain on the same level as the previous year, amounting to MHRK 287.7. The working capital efficiency, measured by the performance indicator Working Capital Days (WCD) further improved to 26 days. The cash conversion rate ended up at 97 percent. Our commitment to the third pillar in our strategy with strong focus on cash collection and lean use of working capital has truly paid off by generating higher cash flow from operating activities than our net earnings. Our high cash conversion has allowed Ericsson Nikola Tesla to fully fund our operations, dividend amounting to 90 HRK/share and investments in growing topline in new markets from own sources.

Our foray into export markets has been secured in close cooperation between sales and finance, where we have been able to expand topline with new customers. We have been able to offer customers attractive financing through our banking partners without burdening our own balance sheet through various financing structures from traditional Buyer's Credit to innovative non-recourse Supplier's Credit. Ericsson Nikola Tesla has managed to deliver attractive financing solutions to customers in Armenia, Cuba and Belarus. This achievement on our fourth pillar has led to export growth of close to MHRK 200 and to a large extent cash collected already in 2016.



Risk management is the fifth pillar of our financial strategy and includes mitigation of all possible business, financial and operational risks through strict risk management policies and ways of working. We have successfully expanded cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and commercial partner banks to mitigate political, commercial and financial risks in our export markets.

In 2016, the hard work on cash collection, arranging of long-term off-balance sheet financing, zero tolerance to overdue AR, lean inventory handling and WCD reduction have resulted in preserving a strong balance sheet and ability to finance growth, investment and dividend with operating cash flow.

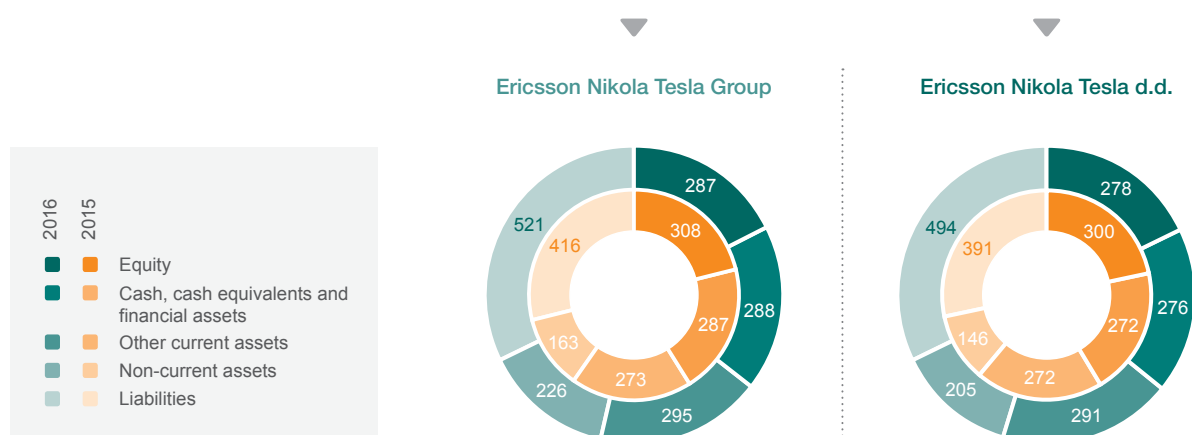
A handwritten signature in blue ink, appearing to read 'Patrik Wahlgren'.

Patrik Wahlgren
Finance Director
Ericsson Nikola Tesla d.d.

2016 FINANCIAL HIGHLIGHTS

in MHRK, except per share amounts	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2016	2015	2014	2016	2015	2014
Profitability:						
Sales revenue	1,592	1,364	1,315	1,576	1,329	1,279
Gross margin	11.9%	13.0%	13.7%	11.8%	12.9%	13.3%
Operating profit	114	91	81	112	88	75
Operating margin	7%	7%	6%	7%	7%	6%
Profit for the year	111	91	87	110	90	83
Earning per share (EPS) in HRK	83	69	66	82	67	62
Financial position and cash flow:						
Total assets	808	724	700	772	691	678
Cash, cash equivalents and financial assets	288	287	231	276	272	226
Capital employed	329	329	350	303	309	339
Equity	287	308	335	278	300	330
Operating cash flow	187	243	176	181	220	179
Ratios:						
Return on equity (ROE)	37.3%	28.3%	17.3%	37.9%	28.5%	16.6%
Return on capital employed (ROCE)	33.7%	26.8%	17.0%	35.8%	27.7%	16.3%
Return on sales (ROS)	7.0%	6.7%	6.6%	7.0%	6.7%	6.5%
Equity ratio	35.5%	42.5%	48.0%	36.0%	43.5%	48.6%
Capital turnover	4.8	4.0	2.6	5.2	4.1	2.5
Current ratio	1.2	1.4	1.5	1.2	1.4	1.6
P/E ratio	15.7	15.2	19.7	15.8	15.5	20.8

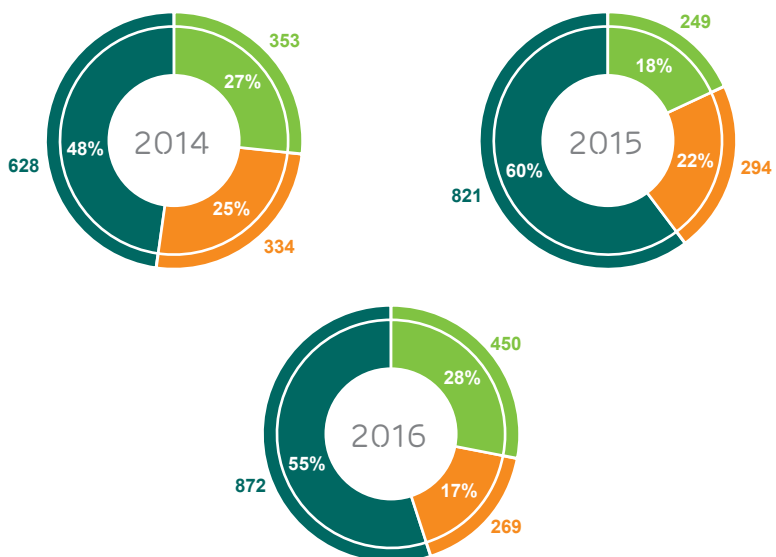
Balance sheet structure (in MHRK)



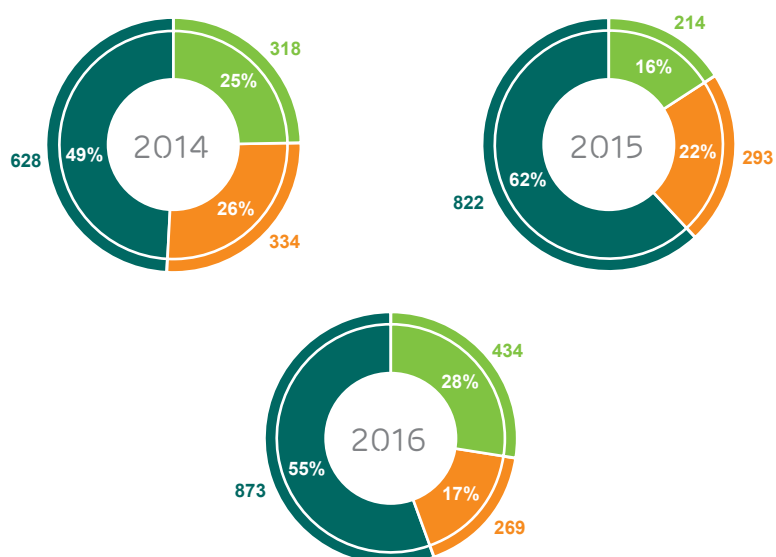
Sales revenue by cornerstones (in MHRK and percentage)

Export Domestic market Ericsson

▼ Ericsson Nikola Tesla Group



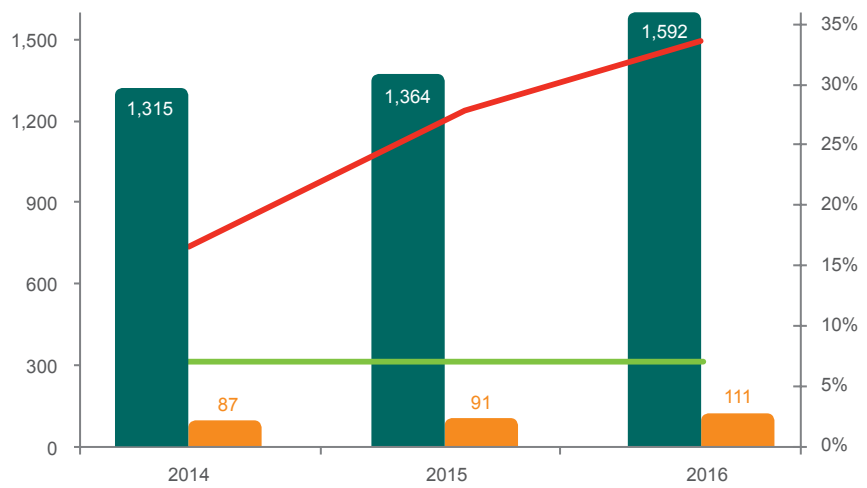
▼ Ericsson Nikola Tesla d.d.



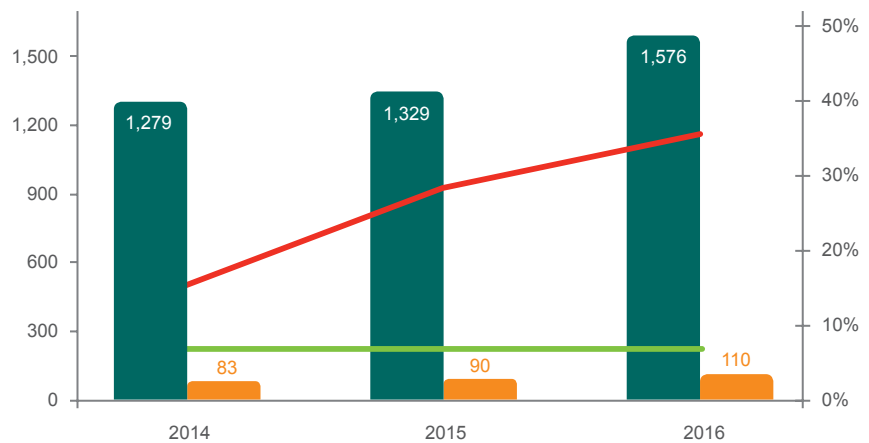
Profit for the year (in MHRK), sales revenue (in MHRK), ROS and ROCE

■ Profit for the year — Return on sales (ROS)
■ Sales revenue — Return on capital employed (ROCE)

▼ Ericsson Nikola Tesla Group



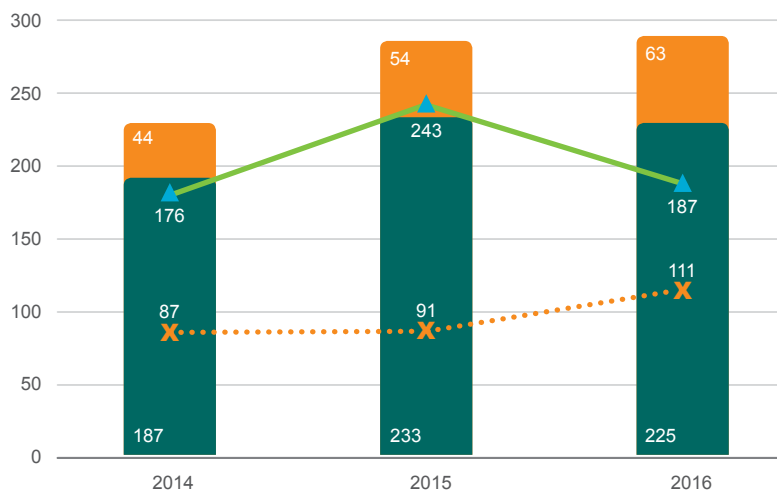
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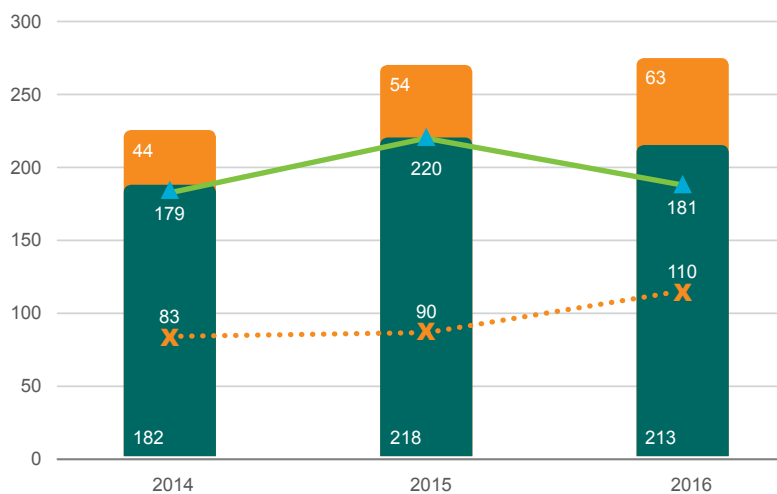
Operating cash flow, profit for the year and development of liquid financial funds (in MHRK)

- Cash and cash equivalents
- ▲ Operating cash flow
- Temporary investments
- Profit for the year

▼ Ericsson Nikola Tesla Group



▼ Ericsson Nikola Tesla d.d.



■ INFORMATION FOR SHAREHOLDERS

Shares of Ericsson Nikola Tesla d.d. are traded in the Regular Market of the Zagreb Stock Exchange under the ticker ERNT-R-A.

Share trading and price trend

Ericsson Nikola Tesla share is the seventh most liquid share on the Zagreb Stock Exchange, accounting for 2.8 percent in the Zagreb Stock Exchange equity share turnover. In 2016, the total share turnover amounted to MHRK 53.2 (2015: MHRK 79.4).

During 2016, share's market capitalization increased by 11.4 percent to MHRK 1,550.0 (2015: MHRK 1,391.6). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked tenth on the Zagreb Stock Exchange, with MHRK 787.7, representing 2.2 percent of the total free float market capitalization. At the end of 2016, Ericsson Nikola Tesla share weight in CROBEX Index was 6.26 percent.

The Zagreb Stock Exchange and the business daily "Poslovni dnevnik" awarded Ericsson Nikola Tesla as one of Best Investor Relations Award in Croatia in 2016.

In addition to the positive global economic spillover, the growth of Croatian share market was initiated by domestic economy recovery, as well as the record tourist season. In 2016, CROBEX value increased by 18 percent, representing the best results since 2009.

By observing the price range during 2016, it can be concluded that Ericsson Nikola Tesla share mostly followed share indices CROBEX and CROBEX10 trend; however, did not have an equally strong reaction. Following dividend announcement, share trading reflected in a significant jump in share value during March. On ex-dividend date, the share's value was corrected.

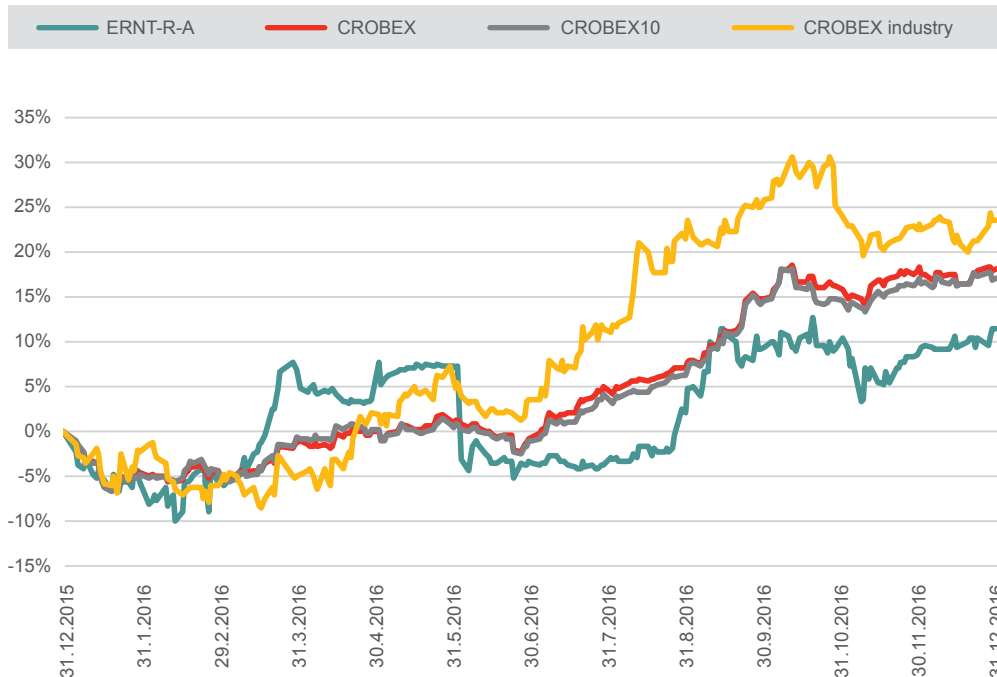
Share Price and Turnover	2012	2013	2014	2015	2016
Highest (HRK)	1,386	1,584	1,659	1,390	1,178
Lowest (HRK)	870	1,234	1,250	930	940
Last - end of year (HRK)	1,385	1,470	1,299	1,045	1,164
Turnover (in MHRK)	118.4	121.5	174.2	79.4	53.2
Trade volume	100,337	82,575	116,379	68,888	49,628
Dividend per share (HRK)					
- regular	20	20	20	20	20*
- extraordinary	150	300	70	80	70*

* Proposed dividend amount, submitted to Ericsson Nikola Tesla Annual General Meeting

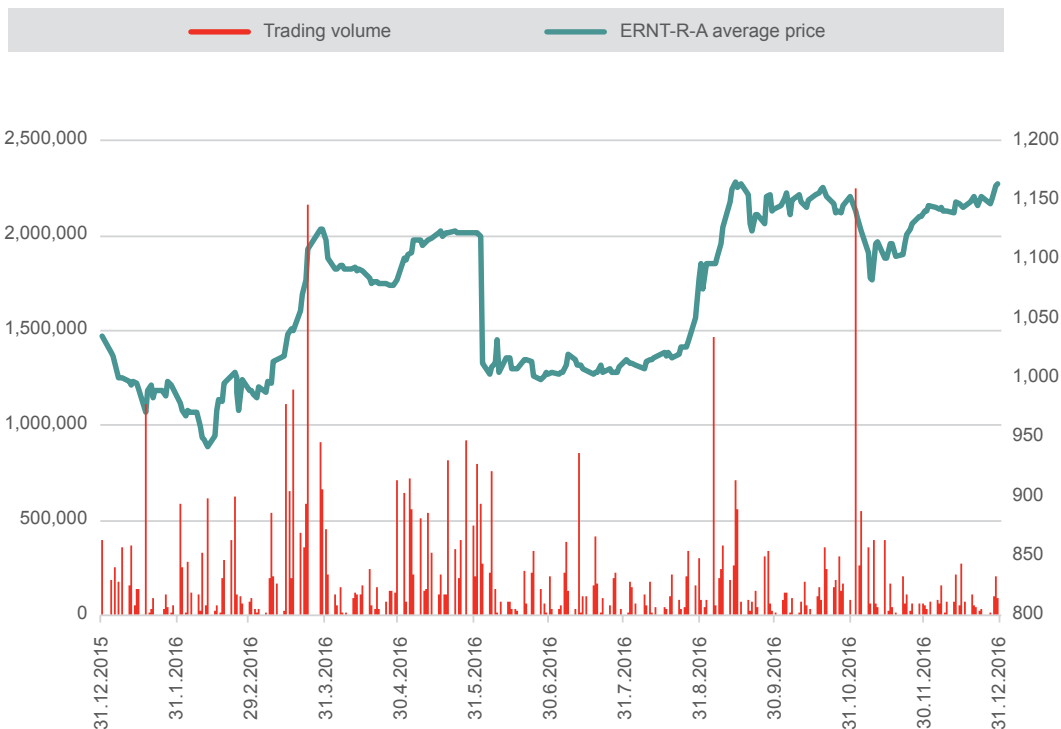
Average
ERNT-R-A share
price trend
2012 - 2016
(in HRK)



ERNT-R-A share price trend as compared to Zagreb Stock Exchange share indices in 2016



ERNT-R-A share turnover and average price trend in 2016 (in HRK)



Share capital

As at 31 December 2016, the joint stock company Ericsson Nikola Tesla had share capital amounting to HRK 133,165,000 distributed in 1,331,650 ordinary registered Class A shares. Each share carries one vote at the Annual General Meeting. The total number of treasury shares at the end of 2016 was 1,495, representing 0.11 percent of the share capital. The shares were owned by 6,911 shareholders.

Annual General Meeting

The Annual General Meeting of the joint stock company Ericsson Nikola Tesla was held on 31 May 2016. The amount of HRK 89,430,800.00 of the share capital was represented, which accounts for 67.32 percent of the total Company's share capital.

Besides the Company management and shareholders' representatives, the AGM was attended by the members of Ericsson Nikola Tesla Supervisory Board: Roland Nordgren, the Chairman of the Supervisory Board, and members: Ignac Lovrek, Vidar Mohammar, Dubravko Radošević, and Zvonimir Jelić. The major shareholder, LM Ericsson, was represented by Tomas Malm. The Annual General Meeting was presided by the Chairperson, Snježana Bahtijari, appointed by the Supervisory Board.

At the Annual General Meeting, the decision was passed that the Company shareholders shall be paid a regular dividend amounting to HRK 20 per share, and an

extraordinary dividend, amounting to HRK 80 per share, i.e. a total of HRK 100 per share from retained earnings realized in 2014, other reserves (except reserves allocated for treasury shares) and part of net earnings realized in the financial year 2015. The dividend payment was effected on June 17, 2016 to Ericsson Nikola Tesla shareholders who had the Company shares registered on their securities account in the Central Depository & Clearing Company on June 6, 2016.

A decision was adopted to allocate Company's net income for the financial year 2015, amounting to HRK 89,640,412.24, for dividend payment in the amount lacking after the use of unallocated retained earnings, and that the rest is allocated into retained earnings.

Supervisory Board report on performed supervision in 2015 was adopted.

Ericsson Nikola Tesla Managing Director, Gordana Kovačević, as well as the Chairman and the members of the Supervisory Board were discharged from liability for exercising their duties in the year 2015.

The AGM decided to make amendments to the Statute, as proposed in the Agenda.

Klas Roland Nordgren, the Chairman of the Supervisory Board was re-elected for another term.

Furthermore, it was decided that PricewaterhouseCoopers d.o.o. is reappointed as the Auditor for the Company's business performance in 2016.

Ericsson Nikola Tesla major shareholders as at 31 December 2016

Shareholders	Number of shares	Share capital percentage
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Addiko Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28%
Societe Generale-Splitska banka d.d. / Erste Plavi mandatory pension fund, B category	41,890	3.15%
Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	22,627	1.70%
PBZ d.d. / The Bank of New York as custodian	18,569	1.39%
Zagrebačka banka d.d./ Unicredit Bank Austria - clients account	17,230	1.29%
Zagrebačka banka d.d./ State Street and Trust company, Boston	13,935	1.05%
Addiko Bank d.d. / Raiffeisen voluntary pension fund	7,934	0.60%
PBZ d.d. / custodian client account	7,376	0.55%
PBZ d.d. / State Street client account	6,256	0.47%
Other shareholders	418,846	31.45%