

# 01 General Report



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## Highlights

- high-performance business
  - new responsibilities in the field of technology development
  - collaboration with academia in science and research, development and education
  - employing young people, predominantly highly educated experts in STEM fields
  - further business transformation
  - leadership
  - a developed company culture
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*"We will do everything to seize our opportunity and do business in a sustainable manner. Certainly, we are also aware of our increased responsibility not only for our own development but also for the development of the ICT industry. Our strategic understanding of the impact technology has on business, people and the environment helps us in doing this."*

Gordana Kovačević, president of Ericsson Nikola Tesla



# Ericsson Nikola Tesla Group

Ericsson Nikola Tesla Group is the leading provider of information and communications products and services in the operator segment, as well as of digital and innovative solutions and services in health care, transport, state administration, utilities, and multimedia communication.

Owing to the activities of the Research and Development Center and centers for customer service delivery, Ericsson Nikola Tesla Group is Croatia's leading exporter of knowledge. As an associated member of Ericsson corporation, Ericsson Nikola Tesla Group operates as part of the Market Area Europe and Latin America.

## Our strategy and customers

Market segments where Ericsson Nikola Tesla Group is present are still strongly growing and witness a rapid technological

evolution. Information and communication solutions are becoming increasingly present in all industries, thus enabling digitalization and their further growth. Moreover, information and communications solutions have become crucial in everyday lives of both individuals and the society at large.

Great breakthroughs in technology development and a quick adoption of technological solutions bring a variable and dynamic market environment with new opportunities. To remain on the market, it is necessary to continuously monitor technology and market trends, as well as to continuously adapt the strategy.

## Our business

### our purpose

Innovating technology for good.

### our mission

We enable the full value of connectivity for communication service providers and drive change through innovative ICT solutions.

### strategy

We create the most intelligent and most efficient networks, deliver competitive solutions and innovate to make our customers successful.

### wanted position in the field of sustainability and CSR

To be a responsible and relevant driver of positive changes in the society.

## external impacts

- technological development
- innovations
- trends and end-user habits
- sustainable development
- geopolitical conditions and the macro environment
- collaboration and standardization
- regulations

## business responsibility area

To develop competitive business solutions and services.

market needs and customers' requests

networks

digital services

solutions for Industry & Society

Managed Services

## support functions' responsibility

To ensure an effective platform for support, encourage synergy, harmonize ways of working and encourage company

## our key values and a foundation for creating a new value for the stakeholders

> 3000 employees

1300 employees working in R&D

900 employees in provision of service

Our strategy is focused on three key segments:

high efficiency	digital experience	new sources of income
<ul style="list-style-type: none"> <li>– virtualization and automation provide a high level of efficiency</li> <li>– effective use of the spectrum (VoLTE, 4G, 5G technology)</li> <li>– improving business processes through informatization and automation</li> </ul>	<ul style="list-style-type: none"> <li>– new approaches create a unique user experience by using artificial intelligence, cloud, automation and analytics</li> <li>– shorter realization time and more flexibility when launching services</li> </ul>	<ul style="list-style-type: none"> <li>– 5G technology enables new services</li> <li>– Internet of Things gives added value to connectivity</li> <li>– digitalization of the entire industry</li> <li>– cloud network</li> </ul>

**key values:**

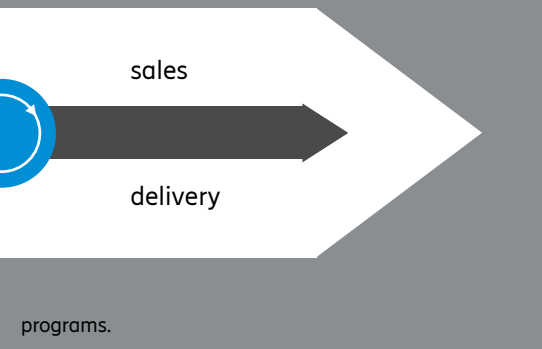
- professionalism
- respect
- perseverance

**long-term financial goals**

- gross margin >12%
- strong cash flow

**market responsibility**

Sales and delivery of solutions for the customers' needs.



numerous customers worldwide

collaboration and cooperation

**key stakeholders and wanted position**

**customers**

to enable the full value of connectivity

**employees**

to attract, retain and develop the best talents

**society**

a responsible and relevant driver of positive changes

**shareholders**

to create new value

**shareholder value in 2017**

**sales revenue MHRK 1,482**

**gross margin 10.2%**

**cash flow from operating act. MHRK 108**

**dividend MHRK 119.9**

**total shareholder return 11.1%**

# Entities of Ericsson Nikola Tesla Group

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## mother company

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### Ericsson Nikola Tesla d.d. /joint-stock company/

<b>Core business</b>	Provider of modern information and communications products, solutions, software and services
<b>Address</b>	Krapinska 45, PO Box 93, HR-10 002 Zagreb Poljička cesta 39, HR-21 000 Split
<b>Telephone</b>	Zagreb / +385 1 36 53 535 Split / +385 21 20 58 00
<b>Fax</b>	Zagreb / +385 1 36 53 156 Split / +385 21 43 58 34
<b>E-mail</b>	etk.company@ericsson.com
<b>Web</b>	www.ericsson.hr/en/
<b>Personal identification number (OIB)</b>	84214771175
<b>Commercial court registration number (MBS)</b>	080002028
<b>Statistical number (MB)</b>	03272699
<b>Share capital</b>	HRK 133,165,000*
<b>Shares</b>	1,331,650 registered shares*
<b>Ownership structure</b>	Ericsson 49.07 percent, other shareholders 50.91 percent, treasury shares 0.02 percent*
<b>Share trading</b>	Ericsson Nikola Tesla shares (ERNT-R-A) are traded in the Regular Market of the Zagreb Stock Exchange (ZSE).
<b>IBAN</b>	RBA HR7624840081100331673 ZABA HR8423600001101235687 PBZ HR2223400091110012058 ERSTE HR8824020061100414168
<b>Management Board / Managing Director</b>	Gordana Kovačević, Msc
<b>Chairperson of the Supervisory Board</b>	Arun Bansal

\* as at December 31, 2017



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**affiliated companies**


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**Ericsson Nikola Tesla Servisi d.o.o.**

<b>Core business</b>	Provider of network infrastructure build and maintenance services
<b>Address</b>	Krapinska 45, HR-10 002 Zagreb
<b>Telephone</b>	+385 1 30 38 503
<b>Fax</b>	+385 1 30 38 601
<b>E-mail</b>	ehr.company@ericsson.com
<b>Web</b>	www.ericsson.hr/en/ericsson-nikola-tesla-servisi-doo
<b>Personal identification number (OIB)</b>	47445593925
<b>Commercial court registration number (MBS)</b>	080921748
<b>Ownership structure</b>	Ericsson Nikola Tesla d.d. 100 percent
<b>IBAN</b>	RBA HR2124840081107008882
<b>Director</b>	Igor Poljanšek
<b>Chairperson of the Supervisory Board</b>	Gordana Kovačević, Msc

**Libratel d.o.o.**

<b>Core business</b>	Provider of telecom services; installation, putting into service and upgrading telecom equipment (core and access network)
<b>Address</b>	Selska 93, HR-10 002 Zagreb
<b>Telephone</b>	+385 1 36 54 035
<b>Fax</b>	+385 1 36 54 038
<b>E-mail</b>	libratel@libratel.hr
<b>Web</b>	www.libratel.hr/eng/
<b>Personal identification number (OIB)</b>	97566215530
<b>Commercial court registration number (MBS)</b>	080300404
<b>Ownership structure</b>	Ericsson Nikola Tesla d.d. 100 percent
<b>IBAN</b>	ZABA HR762360001101211096
<b>Director</b>	Branko Dronjić

**Ericsson Nikola Tesla BH d.o.o.**

<b>Core business</b>	Provider of modern information and communications products, solutions, software and services
<b>Address</b>	Fra Anđela Zvizdovića 1, 71000 Sarajevo, Bosnia and Herzegovina
<b>Telephone</b>	+387 33 252 260
<b>Fax</b>	+387 33 209 419
<b>Web</b>	www.ericsson.hr/en/ericsson-nikola-tesla-bh-en
<b>Unique Identification Number (JIB)</b>	4201717070003
<b>Tax number (VAT id)</b>	201717070003
<b>Registration number</b>	65-01-0996-11
<b>Ownership structure</b>	Ericsson Nikola Tesla d.d. 100 percent
<b>IBAN</b>	UniCredit Bank BA393386904896538387 Raiffeisen Bank BA391611000002324857
<b>Director</b>	Adnan Halimić
<b>Chairperson of the Supervisory Board</b>	Gordana Kovačević, Msc

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

<b>Address</b>	Vicianum Arbëria 3 Veranda C2.7 LI.II Lok.5, Pristina, Republic of Kosovo
<b>Telephone</b>	+381 38 749 080
<b>Tax number (VAT id)</b>	600411235
<b>Registration number</b>	70633647
<b>Ownership structure</b>	Ericsson Nikola Tesla d.d. 100 percent
<b>Director</b>	Besar Spahija

**Ericsson Nikola Tesla BY d.o.o.**

<b>Address</b>	Zybitskaya St. 2-5, 17, 220030 Minsk, Republic of Belarus
<b>Registration number</b>	192753195
<b>Ownership structure</b>	Ericsson Nikola Tesla d.d. 100 percent
<b>Director</b>	Mario Lovreković

# Annual Report on Group performance



**Gordana Kovačević**  
President of Ericsson Nikola Tesla d.d.

We are living in time of continuous and fast transformations. In 2017, digital transformation was a hot topic and will continue to be important in the years to come. Business and public sector, as well as citizens, are becoming more aware that we need to change patterns, tools and ways of working if we wish to catch up with the most developed societies and in that process ICT plays a key role. In the next couple of years, intelligent digital networks will connect billions of various devices worldwide, thus significantly impacting the habits, needs and the behavior of people in their business and private lives. We are talking about Industry 4.0, based on the upcoming implementation of the fifth generation of mobile technology (5G), Internet of Things (IoT), and the analysis of the large amount of data (Big Data).

As a company, we are committed to capturing business opportunities and sustainability of our business performance. We are also aware of our increased responsibility, not only for our own business development, but for the impact on the society and the development of ICT industry as well. Our strategic understanding of the impact that technology has on business, people and the environment allows us to create solutions that improve business performance, increase quality of life, provide the tools and raise awareness of the need to be more responsible towards the environment. The key to our success is the synergy of knowledge, innovativeness and striving for continuous progress combined with the trust of all stakeholders, our customers, partners, employees, shareholders and the society. We are proud of our long-term cooperation and strategic projects with the leading operators in Croatia and other markets. Our solutions in Industry & Society segment,

such as digitization of healthcare, public administration, and smart cities contribute to the benefit of individuals and the society as a whole.

## Business situation in major markets

In 2017, we continued to work on the implementation of key projects, leaning on our technology leadership, employees' knowledge, and partnership with customers. We have made significant investments in new business opportunities to secure business sustainability in target areas and, at the same time, we have been implementing cost efficiency measures at all organizational levels. The year 2017 was also marked by increased investments in preparation for 5G mobile communication systems, in competence development of our experts and in testing systems. The share of export in the Group's total sales revenue is around 70%, which makes us one of the largest Croatian ICT exporters, especially when it comes to export of knowledge.

In the domestic market, we record an increase in sales revenue. Operators are increasingly focusing on end-user demands, namely a faster mobile Internet access "anytime, anywhere, any device". In line with that, capital investments are focused on network infrastructure, capacity building and increase of speed in both fixed and mobile networks, creation of prerequisites for the introduction of 5G networks, service quality and digital transformation. Vipnet selected our company for further development of their radio access network, thus allowing us to maintain the sole vendor position in this business segment. We extended cooperation with Hrvatski Telekom in Managed Services and are currently working on several strategic projects. I would like to highlight excellent results in the Industry & Society segment in the local market, where we contracted important projects during 2017, some of which were fully implemented. These projects are primarily related to digitization of healthcare, Joint Information System of Land Registry and Cadaster, and the building of the border surveillance system for the Republic of Croatia.

We continued successful cooperation with operators in neighboring countries, which resulted in signing of several contracts in 2017. Nevertheless, sales revenue decreased year-over-year due to postponement of some projects. In CIS market, sales revenues are significantly lower year-over-year, primarily due to the ramp-down of network modernization projects and unfavorable currency effects.

Services to Ericsson record a growth due to new responsibilities and competencies of our experts in R&D, as well as in the Solutions and Services Expert Centers. Ericsson Corporation recognized the quality, knowledge and innovativeness of our experts in various areas, from research and development to digital services and operations, convergent network solutions, professional services and managed services, all of which led to awarding us with an extension of responsibilities. Consequently, in 2017 we continued to hire experts, mainly in research and development, to match our extended

responsibilities in the mobile networks segment. At the end of 2017, our R&D Center had 1,267 employees, thus being the biggest concentration of R&D experts in Croatia, while Ericsson Nikola Tesla Group had a total of 3,060 employees. Our daughter company, Ericsson Nikola Tesla Servisi d.o.o., continued to provide high quality services of monitoring, maintenance, and build of telecom network to Hrvatski Telekom. During the year, key projects in build of mobile broadband network were realized, as well as projects in optical networks design and build. Furthermore, the growth trend in the segment of providing services to other operators in Europe continued.

Our innovation capacity is our main advantage and we further strengthen it through various projects. Among other, our focus is on the technology incubator Ericsson Garage Croatia, which serves as a place for development and testing of new technologies and solutions. The innovations which are being developed within Ericsson Garage Croatia are the result of cooperation with scientific and research institutions, customers and partners. I would also like to mention Ericsson Nikola Tesla Summer Camp, which represents a synergy of business and science. In the past seventeen years, in cooperation with the Faculty of Electrical Engineering and Computing (Zagreb), the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (Split), as well as many other scientific institutions from Croatia and abroad, we hosted more than 800 top students, mostly from STEM fields, who created prototypes, analysis and solutions related to current ICT trends. These activities reinforce Ericsson Nikola Tesla's important role in Ericsson's innovations, and at the same time encourage young people to focus their professional development on the ICT industry.

Given the demanding market environment, business risks that marked previous years are still present. Those risks include:

- Impacts of the challenging economic environment and political uncertainties on demand and prices of our products and services
- Reduction and slowdown in operators' capital investments, as well as postponement 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 should our customers face adverse 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 highly qualified / top performing employees to stay competitive.

## Key performance indicators

In 2017, Ericsson Nikola Tesla Group sales revenue amounted to MHRK 1,481.6, down by 6.9% year-over-year. Gross margin declined to 10.2% (2016: 11.9%). Namely, due to the complexities of a large strategic project in CIS market, provisions and project adjustments were made, which greatly impacted profitability. The perceptual return on sales is higher when compared to the previous year, if currency effects and provisions are excluded.

The operating profit amounted to MHRK 75.7 while net profit amounted to MHRK 67.9. A solid cash flow from operating activities was achieved, amounting to MHRK 108.2. Total cash and cash equivalents, including short term financial assets, at the end of the year amounted to MHRK 243.8. Working capital efficiency, expressed in Working Capital Days (WCD), was 31. Cash conversion was at 68%.

There were no tax incentives for R&D in 2017, however, we hope that in 2018, after the State Aid Act for R&D Projects comes into force, we will be able to use these incentives.

## Strategic direction

We are approaching the new business cycle aware of the complexity and the dynamics of ICT industry trends.

The strategy of Ericsson Nikola Tesla Group in 2018 is focused on market share strengthening, gaining new responsibilities, and development and expansion of solutions, products and high value services portfolio. In order to meet our strategic targets, we need technology leadership, development of new business models, new knowledge and further development of our innovative organizational culture combined with a strong focus on cost and operational efficiencies and strategic risks management.

Therefore, by implementing strategic initiatives/transformation programs, we continue to strengthen our position in strategic areas: 4G/5G, OSS/BSS and Digital Transformation, Managed Services, and IoT, by using the latest technology and business models and concepts, such as Cloud solutions, Network Functions Virtualization (NFV), Software-Defined Networking (SDN), X as a service model (XaaS), etc. In Ericsson internal market, our aim is to maintain the existing responsibilities and expand our activities in new areas, while maintaining a high quality of delivered services. The strong focus remains on cost and operating efficiency, as well as strategic risk management.

Our long-term strategy remains focused on the mentioned strategic initiatives with the aim to achieve excellence and support our customers on their transformation journeys.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2017 Annual Report, consisting of the General Report, the Non-Financial Report and Consolidated and Non-consolidated Financial Statements as at December 31, 2017.



# 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 information and communications solutions related to health care, national security and public safety, state administration, transport, utilities, and multimedia communication. Through innovations 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 in collaboration with the customers create added value.

The company's main activities encompass the following:

- research and development
- creation and implementation of e2e communication solutions in the operator segment 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 communications systems and technologies

- operates in the area of advanced technologies and plays an active role in e-projects
- is among leading exporters in the country, 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 those of 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.

The company's activities are the following:

- consultancy services, including design, geodetic activities, monitoring and resolving property-legal affairs
- building and maintaining the telecommunication network
- controlling and operating the telecommunication network
- mounting telecommunication equipment; telecommunication system power and cooling.

With regard to the services portfolio and the experience in managing 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 user demands.

## Ericsson Nikola Tesla BH d.o.o.

The company operates on the market of Bosnia and Herzegovina 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.

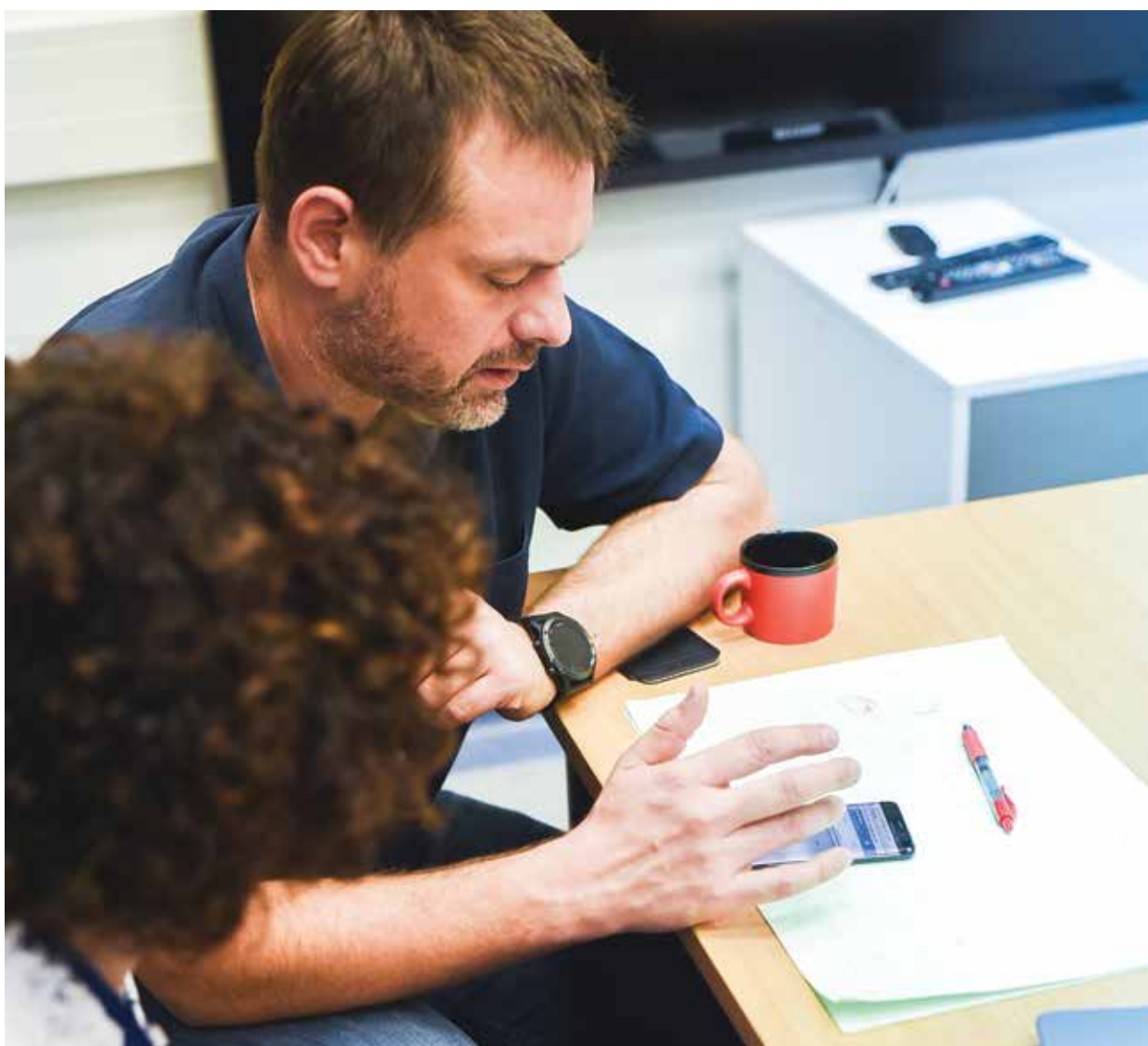
The company operates on the Belarusian market and delivers products and services offered by Ericsson Nikola Tesla Group.



# Products and services

Ericsson Nikola Tesla Group provides its customers and partners with an entire 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 the networked society by delivering solutions for selected Industry & Society segments as well as IoT solutions
- virtualization of telecommunication solutions and transformation of companies' business in the cloud environment
- automation of business processes and IS/IT services ranging from design, implementation and integration to maintenance.



# Sales by markets

In total sales revenue, domestic market accounted for 18.7%, services to Ericsson accounted for 62.5% (out of which Managed Services in Croatia account for 12.1%), while other export markets accounted for 18.8%.

**In the domestic market**, sales revenue amounted to MHRK 276.6 (2016: MHRK 268.8), an increase by 3% YoY.

With strategic partner Vipnet, a long-term frame agreement was signed, which encompasses modernization and expansion of this operator’s radio access network by using state-of-the-art technologies from Ericsson’s extensive portfolio. This partnership will enable the transformation of 4G network towards LTE Advanced Pro and 5G networks based on advanced radio functionalities. The contracted works will enable a further increase of transfer speeds and an improved user experience for Vipnet users.

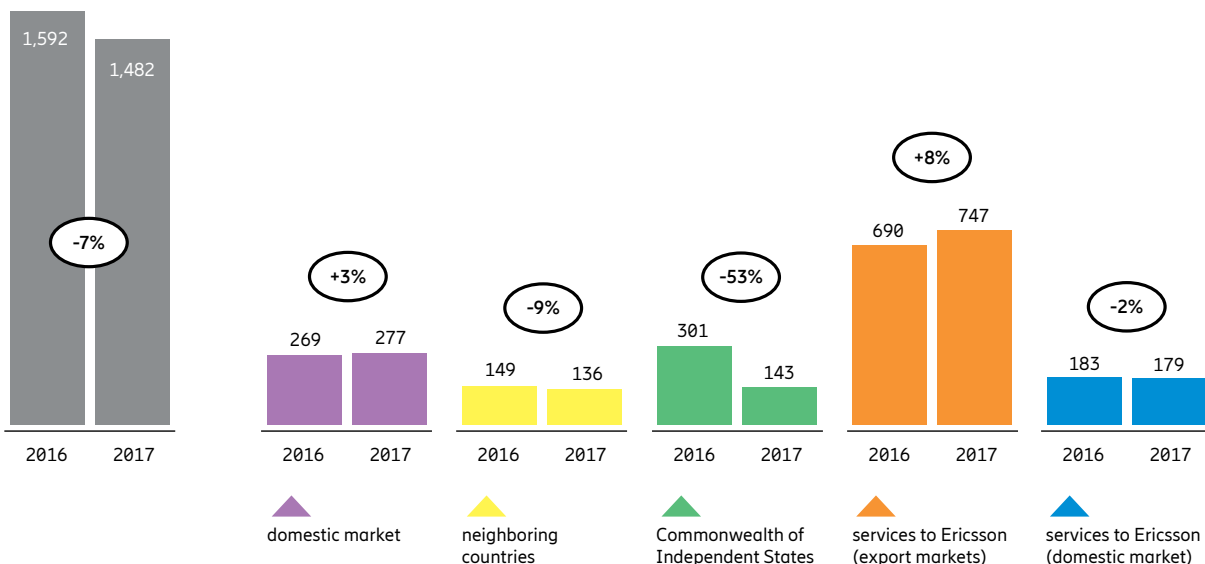
Business cooperation with Hrvatski Telekom was continued in the segment of fixed telecom network modernization by signing a contract for an IMS core system upgrade to the latest technology. Furthermore, the solutions for the modernization of access, core and transport IP network of HT Group were delivered.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

With the mobile operator Tele2, the activities in the field of core and transport network upgrade are ongoing. During Q4, we increased the core network capacities and delivered

the equipment for the expansion of microwave transport network. Furthermore, we have continued to provide support services for core network.

In the field of ICT solutions for Industry & Society, numerous activities were continued in the area of national security, digitization of state administration business processes and eHealth. In 2017, we realized contracts worth more than MHRK 80 for the implementation of Schengen state border control system, equipping 13 locations on the border with a state-of-the-art sensor equipment and connecting them into a joint “green border” control system. Our flagship in the ICT solutions for Industry & Society segment, Joint Information System for Land Registry and Cadaster (JIS), was enriched with new functionalities. We have been continuously working on building services towards all other state bodies in order to connect JIS, as one of the basic registers, to their systems. In the field of eHealth, we have implemented the first phase of monitoring the approval of extremely expensive drugs. We are also working on the implementation of Hospital Information Systems within several medical institutions. Furthermore, we cooperate with the pharmaceutical industry, where, quality patient support program has been enabled by using our solutions.

Sales revenue (in MHRK; YoY)



**In export markets (except Ericsson market),** sales revenue amounted to MHRK 279.2 (2016: MHRK 450.4), down by 38% YoY.

In the markets in Southeast Europe (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenue amounted to MHRK 136.3 (2016: MHRK 149.3), down by 9% YoY. Slow economic development and regulatory environment impacted the level and dynamics of operators' investments.

With HT Mostar, contracts were signed for the extension and modernization of the system for mobile network monitoring, as well as the extension and modernization of radio access network. Furthermore, with BH Telecom a contract was signed for the modernization and extension of operating support system and radio access network expansion. Modernization and upgrade of the 112 system for the Ministry of Security of Bosnia and Herzegovina was successfully finished. We continued to collaborate with Ipko (Kosovo) in the segment of mobile network maintenance, modernization and expansion. Virtual Evolved Packet Core solution and the User Data Consolidation in a Box solution, which ensures the flexibility and the speed necessary for efficient introduction of new services, were implemented and put into operation in Crnogorski Telekom's network. In 2017, Crnogorski Telekom's mobile network was awarded the P3 certificate for the best mobile network in Montenegro for the third consecutive time.

In the CIS market, sales revenue amounted to MHRK 142.9 (2016: MHRK 301.1), down by 53% YoY, as a result of fewer network modernization projects and negative currency deviations. Over the year, we were focused on the implementation of previously contracted projects and continued with marketing and sales activities with the aim of acquiring new customers.

**In Ericsson market,** sales revenue amounted to MHRK 925.8 (2016: MHRK 872.4), up by 6% YoY.

Ericsson Nikola Tesla's R&D Center is significantly expanding its activities regarding the development of 4G and 5G network systems (Radio Development). In line with the above mentioned, we are hiring and educating new experts. The activities within Mobile Core, Unified Data Management and Cloud development units are ongoing as planned. Research projects related to the virtualization and big data analysis continued. A strong focus is placed on the development of network functions virtualization, with the aim of enabling new solutions on the cloud platform. Over the year, our R&D Center received acknowledgment on several occasions for excellent performance from Ericsson colleagues, who also highlighted the possibility of extending current activities and responsibilities.

Ericsson Garage Croatia technology incubator is focused on the monetization of innovative suggestions and the creation of advanced solutions in the field of analytics, IoT, Virtual Reality/Augmented Reality, machine learning, etc.

The experts from the Services and Solutions Centre for Networks & Media worked on projects for numerous customers

worldwide, such as: A1 Austria, Alfa Lebanon, Bouygues Telekom France, China Unicom China, Deutsche Telekom Germany, MTN Rwanda, O2 United Kingdom, Orange France, Orange Togo, Polkomtel Poland, Robi Bangladesh, Slovak Telekom Slovakia, Smartone Hong Kong, Swisscom Switzerland, Three United Kingdom, T-Mobile US and Vodafone in Germany, the Netherlands, Portugal, and the United Kingdom. These are complex activities in the field of expert analysis, creating new innovative solutions, optimizing and upgrading the existing networks, and consulting. We continued to work on the development and implementation of software tools for mobile networks management and optimization, such as: Smart Laptop, Smart Rollout Support, Rehomng Automation Management Tool and Ericsson Network Engineer.

Experts from Digital Services and Solutions Center were engaged in various demanding projects for the customers, such as: AsiaCell Iraq, British Telecom United Kingdom, Deutsche Telekom Germany, DIGI Hungary, DoCoMo Japan, GO Malta, Motorola United Kingdom, Mobistar Belgium, Orange Belgium, O2 Ireland, Panasonic United Kingdom, Post Luxembourg, Slovak Telekom Slovakia, Swisscom Switzerland, A1 Slovenia, A1 Telekom Austria Group (TAG), T-Mobile US, Telenor Scandinavia, T-Mobile Czech Republic, Telefonica in the United Kingdom, Germany, Colombia, Tele2 Sweden, Telenet Belgium, Telekom Slovenije Slovenia, Tango Luxembourg, Telecom Italy Mobile, Telekom Egypt, Vodafone Ireland, Veon Russia, Vivacom Bulgaria, Vodafone Czech Republic, Wind3 Italy and Wind Greece. These activities include design, network applications, cloud infrastructure and digital business systems.

The contribution of Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to the revenue in this market segment amounts to MHRK 178.5 (2016: MHRK 182.7). The contract for Managed Services with Hrvatski Telekom, a key customer, was extended and the scope of work was expanded to cover geodetic and documentation services.

We would like to highlight the following key goals and results:

- achievement of all planned operating goals - successful provisioning of monitoring, maintenance and build of telecommunication network services to Hrvatski Telekom and other telecommunication companies in Europe
- in addition to the realization of business activities in the segment of design and build and the achievement of a high level of successful corrective maintenance, a preventive maintenance plan was also realized, with the aim of increasing the satisfaction and loyalty of Hrvatski Telekom's telecommunication services users
- achievement of a very demanding goal of building optical networks, particularly FTTH (Fiber to the Home).

Ericsson Nikola Tesla Servisi successfully participated in the implementation of Ericsson's projects outside Croatia, where the high performances and quality of the employees were recognized.

# Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are in line with long-term strategic goals of business development.

They are based on applied research for the development of new products, research of new processes and technologies, as well as the application of new functionalities for the needs of the 4th Industrial Revolution.

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 Development Units (DU): Core systems and Radio systems, as well as Ericsson Nikola Tesla's development unit for the networked society solutions. 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 European Union. At the beginning of 2017, the final presentation and evaluation was held at the European Commission for previously finished projects:

- Cloud Scale which aimed to ensure scalability and flexibility of applied systems on the IT cloud platform

A special recognition of the quality of implemented projects was obtained by publishing the results of a European Commission study on 25 most influential ICT projects in the European Union. The study has analyzed the impact various EU-funded research and development projects related to active and healthy ageing have on the society. As much as three projects in which our company participated were listed among 25 most influential projects over the last 11 years, and these are the already mentioned Carewell and eWALL projects, as well as the recently implemented UNIVERSAAL project, which supports the open platform for the so-called Ambient Assisted Living.



- S-CASE which enabled a fast development of prototypes of new cloud services through a transformation of requests into a prototype of cloud service
- eWall which has developed an electronic wall that helps senior and infirm people to gain greater independence and a better quality of life in their own homes
- Carewell which has developed services for assisting the elderly to monitor their health by using mobile technology.

All these projects got excellent marks for the achieved results. During the year, activities in the URBAN INNO project from the H2020-REGPOT program were undertaken, with the aim of improving the creation of innovation systems across the European Union.

The company continued its quality research collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb. A prominent position is given to the project of researching into the communication between different devices in the overall machine communication. The research of the system for the optimization of transmission of radio signal has been continued. The collaboration also analyzed the possibility to use machine learning in detecting traffic characteristics and quality of service in case of encrypted Youtube video transmission. With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, a project was carried out regarding the benchmarking of databases used for big data in the area of telecommunication nodes. In collaboration with the Faculty of Engineering, University of Rijeka, the work on EVOSOFT project funded by the Croatian Science Foundation was continued. Its aim is to improve the development of software for large systems that undergo an evolutionary development - predicting the quality of development based on the errors reported so far in the developed system.

The research team addressed the domain of big data analysis, and during the year continued a number of projects in that area. Activities continued in the field of analysis and creation of systems for automated recognition of events that may cause irregularities in the operation of telecommunication networks by monitoring a great amount of collected parameters on the network equipment status. Moreover, with the use of big data analytics, it is attempted to automate and improve the process of testing electronic boards in factories.

Collaboration with educational institutions was continued through the joint organization of the 17th Ericsson Nikola Tesla Summer Camp, in which 72 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 (FER), Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split (FESB), Faculty of Engineering, University of Rijeka (RITEH), Faculty of Electrical Engineering, Computer Science and Information Technology, Josip Juraj Strossmayer, University of Osijek (FERIT), Faculty of Electrical Engineering, University of Sarajevo (ETFSA),

School of Medicine, University of Zagreb (MEF), Center for Croatian Studies, University of Zagreb (HS), Faculty of Geodesy, University of Zagreb (GEOF), Faculty of Science, University of Zagreb (PMFZG), Faculty of Science, University of Split (PMFST), Zagreb University of Applied Sciences (TVZ) and the Faculty of Organization and Informatics, University of Zagreb (FOI).

During the year, together with our partners, we continued the preparation of materials necessary to launch the Smart Cities Competence Center, financed by EU Structural Funds 2014-2020, where our company is the holder of the technical part of CEKOM's application, and the second round of competition was successfully finished. In the framework of Structural Funds, all the materials were prepared, and a project was won for financing the Scientific Center of Excellence for Data Science and Cooperative Systems, whose member is our company.

Ericsson Garage Croatia has successfully implemented three projects and by preparing one project expanded its activities to Split as well. Smart Habits project is related to the application of analytics in the fields of taking care of the elderly and has soon attracted the interest in the local market and a wider interest in Ericsson corporation. The project has successfully finished its incubation in the Garage and was one of the projects presented at the Mobile Word Congress 2018 in Barcelona. Furthermore, the project was presented at the Nobel Prize Dialogue event in South Korea and has attracted the interest of experts from Vodafone Group. The second project was to solve the issues of communication network security. However, due to a slightly less expressed interest by the customers, following the incubation it was temporarily suspended. The third project is related to finding the optimal algorithms for predicting and planning activities based on the data concerning the users' movement. A new project in the Garage in Split will concern the finding of analytics tools for the connection of various types of data for better predictions and a better creation of artificial intelligence in the field of agriculture.

### During Summer Camp the students' activities were aimed at:

- studying selected topics that are important to Ericsson Nikola Tesla
- working on applications and demos for the customers
- internal tools designated for future requirements
- activities related to the proposed solutions and ideas, obtained through the innovation process.

# Important events

2017

## January-March

- Crnogorski Telekom in collaboration with Ericsson Nikola Tesla rolled out the new 3CA (LTE Advanced) 4G technology. At four locations in Montenegro, with the help of the said technology and based on three different frequency bands (800, 1800 and 2600 MHz), currently the fastest speeds of data transfer in Montenegrin mobile networks have been achieved.
- During his official visit to Sweden, Deputy Prime Minister and Minister of Foreign and European Affairs Davor Ivo Stier visited Ericsson Headquarters.
- The 35th anniversary of Ericsson Nikola Tesla in Split was marked. With a reputable R&D center and teams holding global responsibilities in important areas, Ericsson Nikola Tesla in Split is a full member of Ericsson community, which has earned its status through the quality work and dedication of its employees.
- Ericsson Nikola Tesla Group 2016 business results, as well as 2017 outlook, were presented to the public at a press conference.
- Ericsson Nikola Tesla delegation, headed by the president of the company, together with numerous customers visited Ericsson's exhibition stand at the Mobile World Congress 2017.
- President of the Republic of Croatia Kolinda Grabar-Kitarović and her associates visited Ericsson Nikola Tesla. The guests were presented the Company's activities while highlighting research, development, and innovations.
- During her official visit to the Kingdom of Sweden, the president of the Republic of Croatia Kolinda Grabar-Kitarović visited Ericsson. Accompanied by high-level officials, she got acquainted with the latest technological developments presented in Ericsson Studio.



- After over two years from the beginning of operations related to the contract for the provision of Managed Services to Hrvatski Telekom, an expansion of collaboration was contracted in the form of geodetic services, and an extension of the contract by 2020.

## April-June

- Ericsson Nikola Tesla and HT Mostar signed new contracts. The subject of the contracts is the expansion and

modernization of the mobile network monitoring system, as well as the continuation of the contract for the provision of services of maintaining Ericsson's equipment in HT Mostar's network. The implementation of the contract will enable a faster and more quality control of the mobile network elements, as well as creating new business opportunities.

- Ericsson Nikola Tesla experts took part in the 20th International Economy Fair – Mostar 2017. The prize-awarding committee decided that our company stood out owing to the quality of its presentations and numerous business activities at the fair. Among 800 exhibitors from approximately thirty countries, the company was elected among the top ten and, finally, won a recognition for the most successful appearance.



- Ericsson Nikola Tesla is the first company in Croatia to be awarded the European "cycle-friendly" certificate, whereby it joined the new initiative by socially responsible companies in Europe, sharing a common goal of reducing greenhouse gas emissions while making a positive impact on the health of their employees.
- Ericsson Nikola Tesla and BH Telecom signed new contracts. These contracts concern the modernization of a part of the core network related to fixed telephony, as well as of radio access network.
- Taste of Barcelona (ToB) event was held at company premises in Zagreb, with the aim of showing the operators the possibilities new technologies have for digital transformation through selected presentations from Mobile World Congress 2017.
- Among over 100 exhibitors from 17 countries, who presented themselves at the largest Belarusian International Forum on Telecommunications, Information and Banking Technologies "TIBO-2017", attractive presentation by beCloud operator and Ericsson Nikola Tesla was well-received. The experts jointly presented an innovative ICT solution for transport, based on a new communication standard, developed especially for the implementation in IoT solutions, in cases when a very big number of devices operate with an exchange of a small scope of data.
- Ericsson Nikola Tesla and BH Telecom signed a contract for the upgrade and expansion of Operations Support System (OSS) related to this operator's fixed network.
- Numerous experts from Ericsson Nikola Tesla successfully participated at MIPRO, the biggest scientific and expert

gathering on ICT, electronics and microelectronics in this part of Europe.

- Ericsson Nikola Tesla Joint-Stock Company held its Annual General Meeting, at which all the proposed decisions were adopted.
- Ericsson Nikola Tesla and HT Mostar contracted the expansion and modernization of radio access network for this operator from Bosnia and Herzegovina. The implementation of the contract will enable the provision of a better quality of service for the end users and at the same time will make prerequisites for a faster and more efficient implementation of the LTE technology.

### July-September

- Within the "Healthy Life" project by the Croatian Institute of Public Health, which is co-financed by the European Social Fund, Operational Programme Efficient Human Resources 2014-2020, a team of experts from the Croatian Institute of Public Health evaluated the company's work environment.
- At the most successful Hackathon yet held, over 50 of our experts from the segment of Industry & Society, developed 14 prototypes in the domain of health care, e-business with a focus on land registry and cadaster, and IoT technology.
- Ericsson Nikola Tesla and HT Mostar signed a contract for the modernization and software upgrade of radio access network of this operator from Bosnia and Herzegovina.
- Vipnet chose Ericsson Nikola Tesla to further develop its radio access network. The long-term frame agreement encompasses modernization and expansion of radio access network by using state-of-the-art technologies from Ericsson's extensive portfolio.
- Experts from our company successfully participated in the work of the 25th International Conference on Software, Telecommunications and Computer Networks SoftCOM 2017.
- 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 the Interior of the Republic of Croatia to continue the upgrade of the state border control system.
- The closing of the 17th Ericsson Nikola Tesla Summer Camp was ceremonially marked. Along with students and

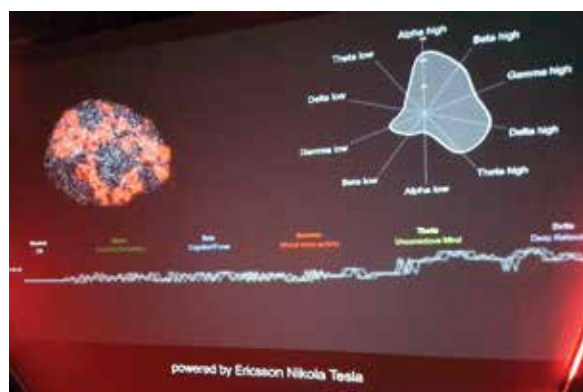


their mentors, many representatives of the academia were present at the official closing, headed by Prof. Blaženka Divjak, PhD, Croatian Minister of Science and Education.

- Following a successfully implemented pilot project, Ericsson Nikola Tesla, as the consortium leader, together with Profico company will deliver an ICT solution for smart parking to Split Parking utility company.

### October-December

- Within the Diversity Charter Croatia project, the ceremony of signing the Charter was held. The project was joined by Ericsson Nikola Tesla with the president of the company Gordana Kovačević, MSc, as one of the project Ambassadors. Diversity Charter Croatia is a part of a wider platform initiated by the European Commission in 2010, with the aim to promote and encourage the implementation of diversity principles, non-discrimination and human rights protection.
- Following a six-month pilot project carried out by the City of Rijeka in partnership with Ericsson Nikola Tesla, Hrvatski Telekom, Smart RI, Autotrolej and Rijeka promet, two smart bus stops were put at the citizens' disposal, offering a great number of functionalities for a more efficient and pleasant experience of using public transport.
- Ericsson Nikola Tesla has been listed as one of top ten Croatian companies by the visibility and affirmation of corporate social responsibility and sustainability in modern digital media.
- Experts from Ericsson Nikola Tesla actively participated in the preparation and holding of the most complex multimedia exhibition held in Croatia yet - Nikola Tesla "Mind from the future".



- With the aim of a greater recognition of women leaders and successful entrepreneurs in Croatia, *Lider* business weekly in cooperation with Bisnode has been carrying out an evaluation of their achievements and qualities for twelve years. President of Ericsson Nikola Tesla Gordana Kovačević, MSc, has won the title of the most powerful woman in Croatian business for the third year in a row.
- In the "Metropolis" club, Ericsson Nikola Tesla Group held a Christmas Party for its customers and business partners.



# Membership in associations

Ericsson Nikola Tesla Group is recognized in the wider community for its advanced business practice and is often an initiator of positive changes in the economy and society. Therefore, the Group and its experts are welcome members of various professional associations, organizations, scientific institutions' bodies, etc., as their knowledge, experience, innovativeness and responsibility represent a valuable contribution to society's progress.

The Group is a regular member of the following organizations:

- Croatian Chamber of Economy
- Croatian International Chamber of Commerce
- Croatian Employers' Association
- Croatian Managers' and Entrepreneurs' Association (CROMA)
- Croatian Exporters
- *Lider's* Club of Exporters
- National Digital Economy Council
- Croatian Competitiveness Cluster
- Croatian Business Council for Sustainable Development
- Croatian Standards Institute
- IEEE Institute (Institute of Electrical and Electronics Engineers)
- Croatian Society for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
- Croatian Chamber of Electrical Engineers
- Croatian Information Technology Association
- World PMI Association
- Agile Croatia
- PMI Croatia
- AMAC - Alumni FER
- Croatian Chamber of Chartered Geodetic Engineers
- Croatian Chamber of Civil Engineers
- Croatian Society for Medical Informatics

- Croatian Java User Association
- Croatian Association of Purchasing
- Croatian Institute for Occupational Safety Improvement
- Croatian Public Relations Association
- Croatian Journalists' Association
- Association of Corporate Lawyers
- National Foundation for the Support of Student Living Standard
- and many other.

## Initiatives

Ericsson Nikola Tesla participates in the following important social initiatives and platforms:

- Diversity Charter
- Committee for the Implementation of the Strategy of Education, Science and Technology of the Ministry of Science and Education
- Committee for the coordination of activities of the "Unity through Knowledge Fund" within the framework of the Croatian Fund for Science, under the auspices of the Ministry of Science, Education and Sport
- UNICEF's Think Tank on children's rights and CSR.



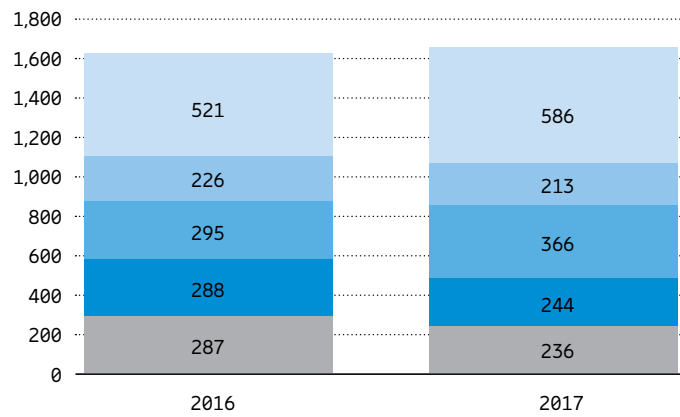
# 2017 financial highlights

	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2017	2016	2015	2017	2016	2015
<b>Income statement and cash flow items (in HRK million)</b>						
Sales revenue	1,482	1,592	1,364	1,465	1,576	1,329
Selling and administration expenses	-80	-78	-82	-78	-76	-80
Operating profit	76	114	91	71	112	88
Profit for the year	68	111	91	64	110	90
Operating cash flow	108	187	243	103	181	220
<b>Year-end position (in HRK million)</b>						
Total assets	822	808	724	793	772	691
Cash, cash equivalents and liquid financial assets	244	288	287	230	276	272
Capital employed	266	329	329	244	303	309
Equity	236	287	308	223	278	300
<b>Per share indicators</b>						
Earnings per share (EPS) in HRK	51	83	69	48	83	67
Dividends per share	32.5 <sup>1)</sup>	90	100	32.5 <sup>1)</sup>	90	100
Number of shares outstanding, average (in millions)	1,330	1,329	1,329	1,330	1,329	1,329
<b>Other information (in HRK million)</b>						
Additions to property, plant and equipment	26	33	53	26	25	45
Depreciation of property, plant and equipment	40	48	51	36	44	49
<b>Alternative performance measures (APMs)</b>						
Gross margin	10.2%	11.9%	13.0%	9.9%	11.8%	12.9%
Operating margin	5.1%	7.2%	6.7%	4.8%	7.1%	6.6%
EBITDA margin	7.9%	10.2%	10.5%	7.3%	9.9%	10.4%
Cash conversion	68.2%	96.7%	152.8%	69.4%	100.0%	149.3%
Return on equity (ROE)	26.0%	37.2%	28.3%	25.5%	37.9%	28.5%
Return on capital employed (ROCE)	22.9%	33.7%	26.8%	23.4%	35.8%	27.7%
Return on sales (ROS)	4.6%	7.0%	6.7%	4.4%	7.0%	6.7%
Equity ratio	28.7%	35.5%	42.5%	28.2%	36.0%	43.5%
Capital turnover	5.0	4.8	4.0	5.4	5.2	4.1
Current ratio	1.1	1.2	1.4	1.1	1.2	1.4
P/E ratio	23.6	14.0	15.2	24.9	14.0	15.5

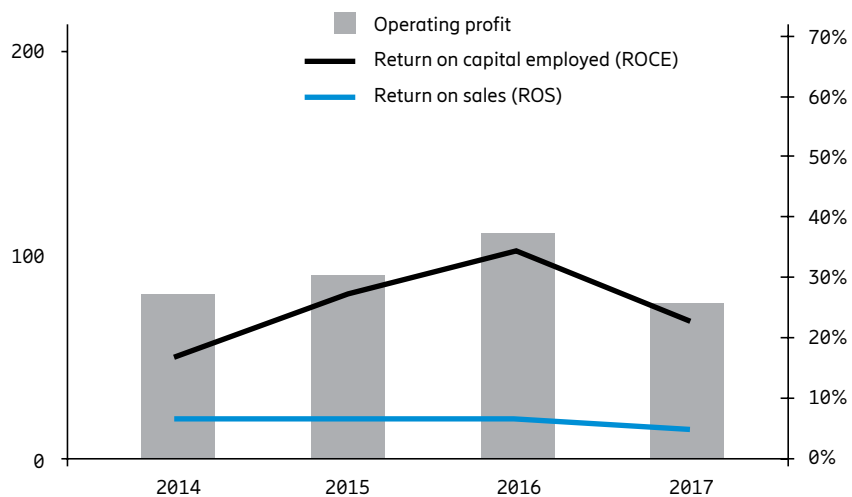
<sup>1)</sup> For 2017, as proposed by the Management Board and the Supervisory Board

**Balance sheet structure (in MHRK)**

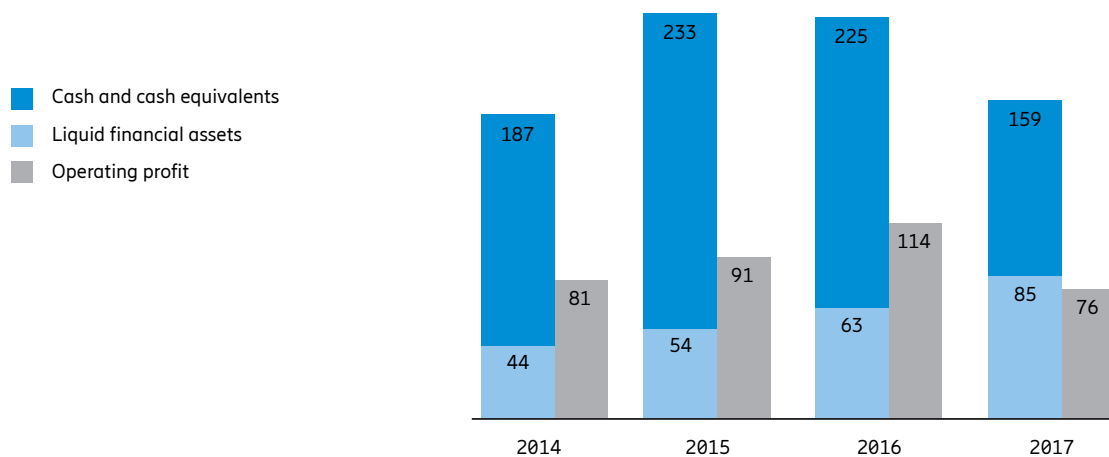
- Equity
- Cash, cash equivalents and liquid financial assets
- Other current assets
- Non-current assets
- Liabilities



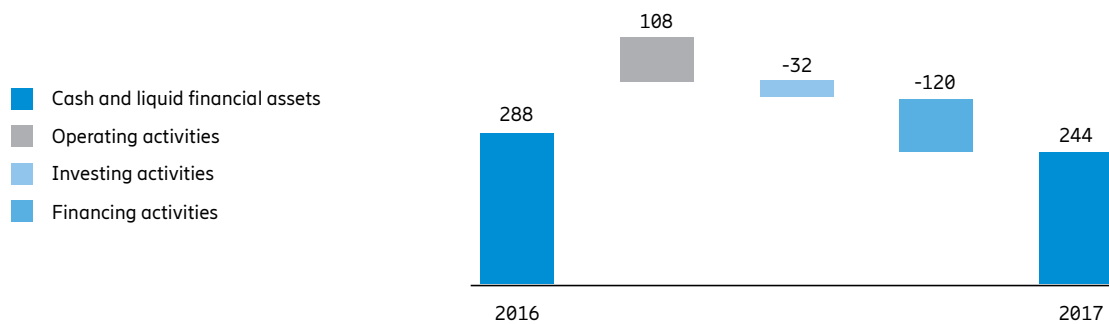
**Operating profit (in MHRK), ROCE and ROS (in percentages)**



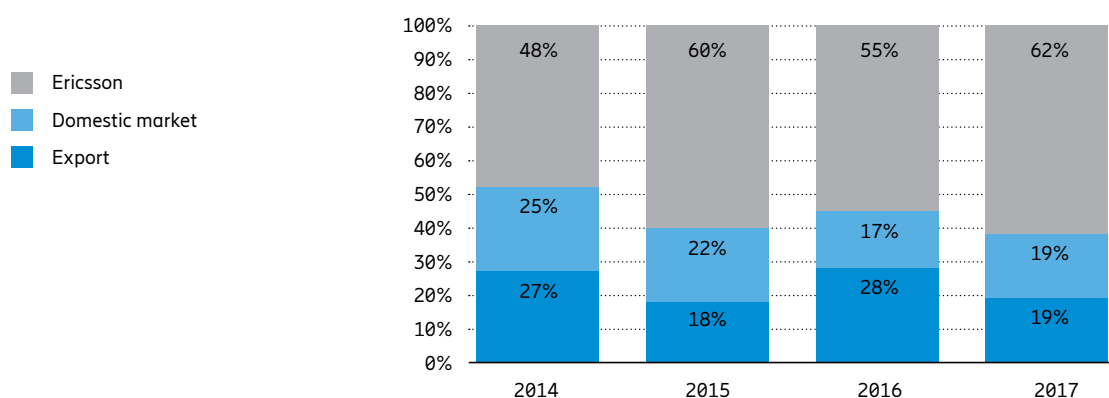
**Development of liquid assets and operating profit  
(in MHRK)**



**Change in liquid assets (in MHRK)**



**Sales revenue by market (in percentages)**



# Financial performance in 2017



**Luciano Barreto Ferreira**  
Finance Director

The year 2017 was a year of many challenges but also many achievements. Our strong focus on cost and operational efficiency, capital efficiency and risk management have further strengthened the already solid financial foundation of the Company. The Company ended the year with solid net profit, healthy working capital level, lean balance sheet and strong cash position despite facing many challenges in those areas.

Export markets showed somewhat lower sales volumes for 2017 affected primarily by the ramping down of modernization projects, unfavorable currency development and difficulties in the political and economic situation generating delays in investments. This has negatively impacted the overall Company sales for 2017. Opposed to the sales decline in export markets, the Ericsson internal market once again brought a reliable growth and stability to the financial performance. The increasing investments in digital transformation projects in Croatia have also enabled growth in the domestic market.

Our focus on operational efficiency has enabled further cost reduction and even better resource utilization generating improvements in the usage of our working capital as well as potentiated margin improvement shaping long-term benefits for the Company in future business. Contrary to these positive effects, there were two main challenges creating a negative impact on the margin of export markets - the unfavorable overall currency development as well as risk provisions in a strategic digital transformation project.

Risk management continued as a top priority and an integral part of our organization's decision-making process. Our governance model enables a fast identification and evaluation of risks in a way that dedicated resources can monitor and mitigate impact of risks in an effective manner.

Substantial positive cash flow generated within the operating activities allowed the Company to maintain a solid cash position. Our strong focus on cash collection and lean use of working capital have enabled higher operating cash flow than net earnings. This has once again demonstrated that the Company is well positioned to execute its strategy and continue to deliver high return to its shareholders.

The year ended with a lean balance sheet at the level of the previous year and without material external debt financing. As expected, the effects of adoption of new International Financial Reporting Standards (IFRS) in 2018 will have no material effect on the Company's retained earnings and net result compared to previous years.

With enthusiasm and absolute certainty of our capabilities, we are facing the challenges of 2018.

# Information for shareholders

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

## Share trading and price trend

In 2017, the total turnover of Ericsson Nikola Tesla share amounted to MHRK 55.1 (2016: MHRK 53.2). During 2017, share's market capitalization increased by 3.4 percent to MHRK 1,603.3 (2016: MHRK 1,550.0). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked tenth on the Zagreb Stock Exchange, with MHRK 816.2, representing 2.5 percent of the total free float market capitalization. At the end of 2017, Ericsson Nikola Tesla share weight in CROBEX Index was 7.59 percent.

The beginning of 2017 started optimistic at the Zagreb Stock Exchange, recording an increase of all key trade

indicators. The rest of the year was marked by uncertainty regarding the development of the situation with the shares of companies that comprise Agrokor Group. Turnover within the orderbook was 37.3 percent higher year-over-year, however, due to a decreased volume of block trades, the total share turnover records an increase by 2.9 percent year-over-year. The indices showed mixed performance: CROBEX and CROBEX10 were corrected by approximately 7 percent, while CROBEXnutris suffered a loss of significant 45.1 percent. At the same time, CROBEXtransport recorded an increase of 18.9 percent. ERNT-R-A share price increased by 3.4 percent in 2017.

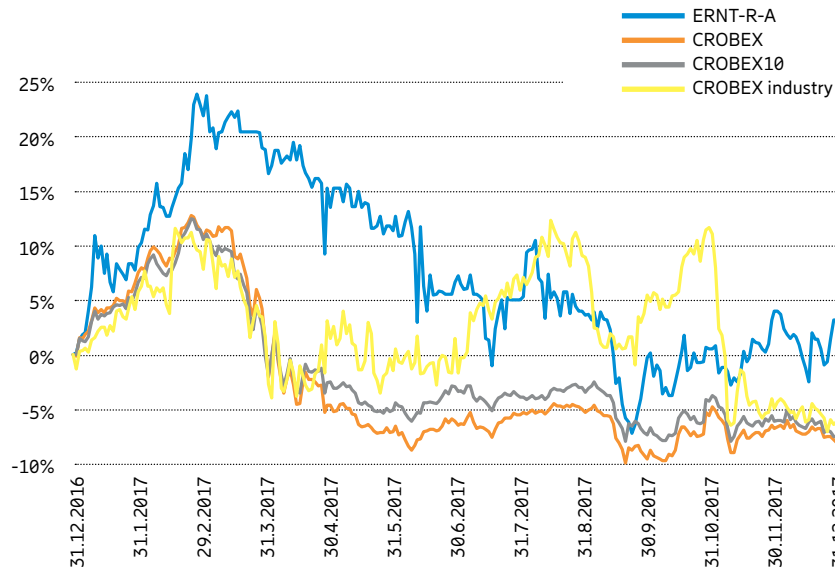
## Average ERNT-R-A share price trend 2013-2017 (in HRK)



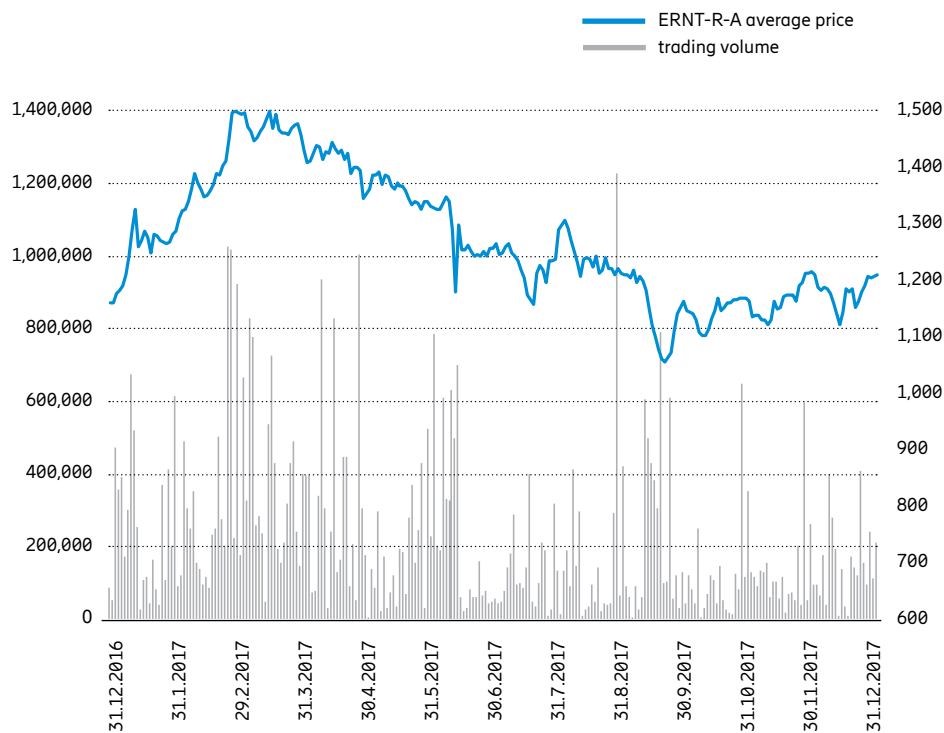
Share Price and Turnover	2013	2014	2015	2016	2017
Highest (HRK)	1,584	1,659	1,390	1,177.99	1,444.00
Lowest (HRK)	1,234	1,250	930	940	1,066.51
Last - end of year (HRK)	1,470	1,299	1,045	1,164	1,203.99
Turnover (in MHRK)	121.5	174.2	79.4	53.2	55.1
Trade volume	82,575	116,379	68,888	49,628	43,312
Dividend per share (HRK)					
- regular	20	20	20	20	32.5*
- extraordinary	300	70	80	70	-

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

**ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indices in 2017**



**ERNT-R-A share turnover and average price trend in 2017 (in HRK)**



## Share capital

As at 31 December 2017, Ericsson Nikola Tesla joint-stock company 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 2017 was 246, representing 0.018 percent of the share capital. At the end of 2017, the shares were owned by 6,904 shareholders.

### Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2017

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	20,744	1.56%
Zagrebačka banka d.d. / Unicredit Bank Austria - clients account	16,700	1.25%
PBZ d.d. / The Bank of New York as custodian	16,601	1.25%
Zagrebačka banka d.d. / State Street and Trust company, Boston	13,935	1.05%
PBZ d.d. / custodian client account	9,069	0.68%
OTP Banka d.d. / INS683	8,099	0.61%
Addiko Bank d.d. / Raiffeisen voluntary pension fund	7,934	0.60%
Other shareholders	419,691	31.50%