
ANNUAL REPORT ON GROUP PERFORMANCE

Dear readers,

We live in an exciting time of fast development of Networked Society, in which ICT has a key role in transformation processes. In the Networked Society, industries and individuals have the opportunity to give their full creative contribution. Through networking, due to fast flow of information and knowledge, innovation potentials are increased to great extensions. Ericsson actively encourages and gives its contribution to the realization of Networked Society vision, through its Networked Society strategy.

PARTNER FOR DIGITAL TRANSFORMATION OF SOCIETY

The technological foundations of the future Networked Society include the fifth generation of mobile networks (5G), connecting anything that benefits from being connected (Internet of things - IoT) and cloud computing as virtual space for sharing ICT resources. Through technological leadership, innovative company culture and social responsibility, our long term goal is to enable further development of the society of equal individuals and preserve environment.

Ericsson Nikola Tesla Group actively contributes to global technological development and represents a relevant partner in the digital transformation of society through innovative ICT products, solutions and services. We base our sustainable development on collaboration and trust with all stakeholders (customers/partners, employees, society and shareholders). In our processes and activities, we apply the highest global standards of work and business, as well as principles of corporate governance.

The energy and the effort invested in creating innovation climate and encouraging innovations in Ericsson Nikola Tesla is reflected through the development of new products and solutions in line with the Network Society Strategy and numerous awards to individuals and teams. At the Ericsson Global Network Design and Optimization forum, as the best innovation, the idea SNACK (Social Network Application Coverage Kit) was awarded. SNACK addresses the problem of optimizing the telecom network settings, bearing in mind the end use experience. The solution for Automated Aerial Radio frequency measurement by using drone for radio access network measurement and optimization was also awarded.

BUSINESS SITUATION IN MAJOR MARKETS

In 2015 Ericsson Nikola Tesla Group continued to show stable business results. During the year we continued to work on a number of strategic projects and initiatives relying on

technology leadership, knowledge of our employees and partnerships with customers. A significant increase in revenue was recorded in Ericsson market, due to new responsibilities within global corporation in our research and development center, global and regional services centers, and customer solutions centers as well as increased volume in managed services. This neutralized the revenue decrease in other markets. We have maintained the position as the Croatia's leading ICT exporter and the leading exporter of knowledge. In 2015 we continued hiring and employed a total of 434 experts in Ericsson Nikola Tesla Group. The number of employees working in research and development surpassed 1,000 and at the end of 2015 Ericsson Nikola Tesla Group had a total of 2,789 employees.

In other markets, sales revenue decreased as some projects and contracts have been postponed. The factors that slowed down certain processes are slow economic development and, in some markets, political uncertainty. An additional challenge for our business performance is strong competition and global customers/operators centralized procurement & consolidation.

On the other hand, new business opportunities are created through the convergence of operators and industry, and their transformation through mobility, broadband and cloud. Our markets recognize an increasing importance and role ICT has on transformation processes in business and society. Our significant advantage is a strong position and customers' trust we enjoy in local and export markets, thus empowering us to be the leading ICT transformation partner to our customers.

Summarizing mentioned above, Ericsson Nikola Tesla Group main operational risks are:

- impact of negative economic trends and political uncertainty on demand and prices of our products and services
- reduction and a slow-down in capital investments of operators and the delays in strategic investments in the public and private sectors
- dependence on telecommunication market trends (the number of users, the use of new services)
- industry consolidation
- strong competition and the entry of new IT companies in the telecommunications market
- negative impact of exchange rate fluctuations on business results, given that most of our revenue is in euro and US dollars.

KEY PERFORMANCE INDICATORS

Almost all key performance indicators in 2015 showed a positive trend. Sales revenue increased by 3.8% year-over-year and amounts to MHRK 1,364.3. Operating profit increased

by 12.2% year-over-year, while net profit increased by 4.6%. Gross margin is slightly lower year-over-year, as a result of change in business mix and a continuous price pressure. Our continuous focus on cost efficiency has brought solid cost savings. A strong cash flow from operating activities, allowed build-up of the total cash balances, including short term financial assets to MHRK 287.1.

In 2015, the annual Employee Engagement Survey (Dialog) confirmed the Company's motivating culture and strong employee engagement. Furthermore, the annual Customer Satisfaction Survey confirmed a high level of satisfaction among our key customers/partners.

OUR STRATEGIC INITIATIVES

In line with our strategy, we have worked on various projects and initiatives focused on business development in all markets and profitability improvement through cost efficiency and business excellence.

Through the initiative that focuses on business growth in the domestic and export markets (without the internal Ericsson market), we focused on key deals, strategic areas and competence development.

During the year, we realized several key deals. In mobile network segment, these are business deals/contracts with Vipnet and Kosovo operator IPKO, which allowed us to keep strong vendor position for these operators. In ICT solutions for Industry and Society segment, I would like to highlight contracts regarding the upgrade and expansion of Joint Information System of Land Registry and Cadaster, and maintenance and upgrade of the Republic of Croatia Central Healthcare Information System (CEZIH). For the Ministry of the Interior of the Republic of Croatia for Operational and Communication Center we implemented the solution for assistance in emergency situations. In CIS market, new business opportunities emerged in operators' segment and in eHealth segment, with two new customers in Armenia and Kazakhstan.

An initiative focused on business growth in internal Ericsson market resulted in increase in business volume and new responsibilities. We took over the responsibility and also became the largest development center for the CUDB (Centralized User Data Base) node design. Our experts had an important role in developing one of the most significant Ericsson projects in 2015, HDS 8000 (Hyperscale Datacenter System) and became the Ericsson competence hub for this solution. Radio Development Unit gained responsibility for LTE development. In Services organizations, new global responsibilities were obtained for RAN, OSS and Cloud as well as global responsibilities for GRAN (GSM radio access network) network design & optimization and BSP (Blade Server Platform) customer support.

As regards the projects co-financed by the European Union, during 2015 we completed one project and have been working on implementation of five projects. All projects are in line with our strategy related to development of new products and technologies with the aim of approaching the market needs.

2016 STRATEGIC FOCUS

Our Networked Society strategy remains unchanged. We want to be the leading ICT transformation partner for our customers, recognised as a company that attracts, develops and retains talented employees, leads and drives positive changes in the society and creates value for shareholders. Our aim is to strengthen the position / sales in core business (Radio, Core and Transmission, Telecom Services) and establish leadership in targeted growth areas (IP Networks, Cloud, TV and Media, OSS and BSS, and selected areas in Industry and Society segment - health, public safety, transport, state-owned companies).

We continued partnership with universities and research institutions by implementing joint projects. During the last 15 years, more than 600 students from universities in the country and abroad participated in the Ericsson Nikola Tesla Summer Camp, working on more than 400 innovative projects. In this way, we will continue to find top talents and strengthen our position in the demanding global market.

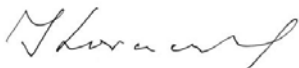
Considering the business results, in combination with our ongoing strategic initiatives, we are well positioned to create future value for our customers/partners, shareholders, employees and society.

The long-term fundamentals in the industry remain attractive and we are ready for another challenging year with full focus on transformation, performance and value generation.

All other data, which are required to be an integral part of the annual company report, pursuant to Article 250a of the Companies Act, can be found in the enclosed 2015 Annual Report, comprising of the General Report, Social Report and Consolidated Financial Statements as at December 31, 2015.

Gordana Kovačević

President



Ericsson Nikola Tesla d.d.