



ERICSSON NIKOLA TESLA d.d.
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SECURITY: ERNT (ISIN: HRERNTRA0000)
LEI: 5299001W91BFWSUOVD63
HOME MEMBER STATE: Republic of Croatia
REGULATED MARKET SEGMENT: Regular market of the Zagreb Stock Exchange

Ericsson Nikola Tesla Group

Zagreb, October 25, 2023

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for the first nine months of 2023

Highlights:

- Sales revenue: EUR **205.9** million
- Gross margin: **14%**
- Operating profit: EUR **24.7** million
- Profit before tax: EUR **25.0** million
- Net profit: EUR **20.5** million
- Cash flow from operating activities: EUR **-2.4** million

Gordana Kovačević, President of Ericsson Nikola Tesla, commented:

“In the first nine months of 2023, Ericsson Nikola Tesla Group achieved solid business results, which showed our resilience and strength to respond to challenges and new business opportunities in a quality manner. Sales revenue recorded a slight increase year-over-year to EUR 205.9 million owing to continuous growth of services to Ericsson, which offset lower revenue in the domestic and other export markets.

Compared to the first nine months of the previous year, the gross margin increased to 14.0%, primarily as a result of the sales mix and focus on operational and cost efficiency. Operating profit increased by 81.7% to EUR 24.7 million, while net profit increased by 94.6% to EUR 20.5 million. A negative cash flow from operating activities is due to payment dynamics of customers and the delay in the final realization of certain projects. We expect to achieve a positive cash flow from operating activities until the end of the financial year. Q3 was concluded with a solid balance sheet, with an equity ratio of 38.7%. Cash and cash equivalents, including the short-term financial assets, amounted to EUR 59.5 million (32.5% of the total assets) at the end of Q3.

As regards services to Ericsson, we are proud that at the regular half-year R&D Management Business Review meeting, a high-quality level of our R&D Center was confirmed once again in all categories and all business segments. Efficient delivery of high-quality software and speed deliveries of key features that ensure Ericsson's technology leadership were especially highlighted. We have also positioned ourselves in new, strategically important areas such as Cloud RAN, which provides an opportunity to further work on the latest technologies in telco industry. Furthermore, our experts in other expert centers achieve notable results in the implementation of global projects, such as a successful project of testing applications' functionalities in Ericsson 5G core network on the distributed Google Cloud platform.

In the domestic market, after a period of increased investments in network infrastructure, conditioned by the growth in demand for telecommunication services and the allocation of 5G spectrum, the operators are focusing on 5G network monetization and are slowing down capital investments. Our company, as the leading local and regional provider of telecommunication solutions and services, has continued to provide quality support to our partners, operators Hrvatski Telekom and A1 Hrvatska, in the further modernization of telecom networks with an emphasis on the implementation of 5G. Furthermore, we are focused on the implementation of the existing contractual obligations with Hrvatski Telekom in the field of managed services and providing support in the transfer of the technological unit for the construction and maintenance of the HT's network from Ericsson Nikola Tesla Servisi to Hrvatski Telekom, as of January 01, 2024.

In export markets, we have continued a quality cooperation with the operators HT Mostar, Crnogorski Telekom, IPKO Kosovo, Telekom Kosova and Ucom Armenia, focusing on timely delivery of the contracted activities and new business opportunities. I would like to highlight the finalization of the first phase of the modernization of radio and transmission part of Telekom Kosova's network, as well as the first phase of 5G base stations implementation in the network of operator IPKO, which will enable our long-term partner IPKO to provide its users with the first 5G signal in all major cities in Kosovo.

We are pleased that this year once again our partners in the domestic and export markets have won the awards for the best results for their mobile networks' performance, which confirms the quality of the solutions and services we deliver.

In the Digital Society segment, we have signed new contracts with the State Geodetic Administration of the Republic of Croatia, Ministry of Health, Ministry of the Interior, and CARNET. Furthermore, we have marked the finalization of two important projects: e-Culture (digitalization of cultural heritage) and WaterQ (a solution for digital transformation of water quality monitoring). In the national security segment, we have continued the cooperation with the Ministry of the Interior of Montenegro by signing a contract on the maintenance of 112 Center.

At the conference of the Croatian Chamber of Economy (HGK) "Support sustainability", our company received an award in the ESG rating category for the best example of a sustainable business model. This recognition additionally confirms that our system of responsible business management, which is based on ethics and integrity in all activities and towards all our stakeholders, was recognized as an example of good practice. Moreover, according to data from the annual financial statements, evaluated by the analytical company Dun & Bradstreet Hrvatska, we are the leading Croatian software company according to many parameters (revenue, export, newly created value, number of employees, net profit and EBITDA).

Due to the great interest of our customers and partners, beginning of October, we organized Technology Days for the second time this year. In addition to Ericsson's latest radio products, we presented numerous innovative solutions with a focus on 5G monetization (network slicing, open network interfaces), the possibilities of 5G private networks (solutions for energy and digital twins and remote 5G control of robots), infrastructure for critical communications and ICT solutions of Ericsson Nikola Tesla related to sustainability (green solutions for industry, cities, water quality monitoring, ESG reporting module).

The use of modern ICT solutions enables various industries, as well as government institutions, to efficiently transform their processes and significantly strengthen their business. Therefore, investments in digital transformation are necessary, and in that segment we see an opportunity for further growth of our business. We

were among the first to recognize the importance of digitalization, and in cooperation with partners we have been implementing the most demanding strategic projects for a sustainable, digital and green Croatia, as evidenced by our numerous references.

In Q3, we have continued to invest in key competencies, development of solutions, products and services in strategic areas, and digital transformation of Ericsson Nikola Tesla Group. Considering the current market environment, until the year end we remain focused on profitability, cost and operational efficiency, cash flow from operating activities and responsible risk management. Furthermore, we are focused on strategic planning for the period until 2026, analyzing in detail the situation in our markets, trends in ICT industry and our customers' needs. Our goal is to strengthen the leading position in mobile networks, to grow in the Digital Society segment, and to keep and continuously improve the position in the segment of services and Research and Development. We have great intellectual capacity and innovation potential in many technology areas, which makes us a reliable partner to our customers in the development and implementation of the latest ICT solutions.“

Financial highlights for the Group:

- Sales revenue amounted to EUR 205.9 million (first nine months 2022: EUR 205.2 million), up by 0.4% year-over-year. In total sales revenue, domestic market accounted for 39.1%, services to Ericsson accounted for 50.8%, while other export markets accounted for 10.1%.
- Sales in the Networks segment amounted to EUR 104.0 million (first nine months 2022: EUR 98.9 million), Digital Services segment amounted to EUR 53.9 million (first nine months 2022: EUR 55.9 million), Managed Services segment amounted to EUR 47.6 million (first nine months 2022: EUR 50.0 million), and the segment Other amounted to EUR 0.4 million (first nine months 2022: EUR 0.4 million).
- Gross profit was EUR 28.8 million (first nine months 2022: EUR 18.4 million), up by 56.3% year-over-year primarily as the result of sales mix and focus on operational and cost efficiency. Moreover, it should be noted that the gross profit in the previous year was affected by one-off costs of contract termination due to geopolitical challenges and sanctions. Gross margin increased to 14.0% (first nine months 2022: 9.0%).
- Selling and administrative expenses remain unchanged year-over-year, amounting to EUR 8.59 million (first nine months 2022: EUR 8.57 million). The share of selling and administrative expenses in sales revenue is at the same level year-over-year, amounting to 4.2% (first nine months 2022: 4.2%).
- Operating profit amounted to EUR 24.7 million, up by 81.7% year-over-year (first nine months 2022: EUR 13.6 million) as a result of significantly higher gross profit and the collection of compensation under the insurance policy against political risks.
- Profit from financial activities is EUR 0.3 million (first nine months 2022: EUR 0.7 million).
- Profit before tax increased by 75.0% year-over-year, amounting to EUR 25.0 million (first nine months 2022: EUR 14.3 million).
- Net profit amounted to EUR 20.5 million (first nine months 2022: EUR 10.5 million), up by 94.6% year-over-year. ROS amounted to 9.9% (first nine months 2022: 5.1%).
- Cash flow from operating activities amounted to EUR -2.4 million (first nine months 2022: EUR 8.6 million) due to the customers' payment dynamics and the delay in the final implementation of certain projects. We expect that cash flow from operating activities will be positive until the year end.

- Working Capital Efficiency, expressed in WCD, was 27 days (first nine months 2022: 12 days), and excluding services to Ericsson, WCD was 49 days (first nine months 2022: 31 days). The current number of WCD is affected by the demanding projects in terms of work and capital engagement in the domestic and export markets, as well as customers' payment dynamics.
- Cash and cash equivalents, including the short-term financial assets, as at September 30, 2023, amounted to EUR 59.5 million (32.5% of the total assets), while at the end of 2022, they amounted to EUR 74.0 million (44.4% of the total assets). The amount of cash and cash equivalents compared to end of 2022 is impacted by negative cash flow from operating activities and dividend payment.
- The Group has a solid balance sheet with the total assets of EUR 182.8 million as at September 30, 2023, up by 9.7% compared to the end of 2022, as a result of inventory (work-in progress) increase due to the contract execution dynamics, increase in customer receivables and increase in the value of assets due to additional office rent, while cash and cash equivalents decreased. Equity ratio was 38.7% (end of 2022: 34.7%).
- With related parties, the transactions were as follows: sales of products and services amounted to EUR 104.2 million (first nine months 2022: EUR 98.3 million), while the procurement of products and services amounted to EUR 28.7 million (first nine months 2022: EUR 23.1 million).
- As at September 30, 2023, the balances outstanding with related parties were as follows: receivables amounted to EUR 27.9 million (end of 2022: EUR 17.9 million), and payables to EUR 11.0 million (end of 2022: EUR 7.0 million).

Business situation in major markets

In the domestic market sales revenue amounted to EUR 80.5 million (first nine months 2022: EUR 85.0 million), down by 5.3% year-over year, due to operators' lower capital investments in the network infrastructure.

With Hrvatski Telekom, we continued the activities on the modernization and expansion of mobile network as well as build of mobile broadband access network in areas without broadband infrastructure and without sufficient market interest for investments. Moreover, as we have previously communicated, as of January 01, 2024, the technology unit for construction and maintenance of HT network will transfer from Ericsson Nikola Tesla Servisi d.o.o. to Hrvatski Telekom. Until the year end, we are focused on the quality realization of the existing contractual obligations in the field of managed services and providing support in the transfer of this technology unit to Hrvatski Telekom. The challenges we have been facing with in the realization of these projects might have an impact on the business results in Q4.

With A1 Hrvatska, in Q3 we continued the activities on the expansion of coverage and capacity of radio 5G network. Moreover, we continued the cooperation on the modernization and build of convergent core network and modernization of microwave transmission systems.

In the Digital Society segment, a contract was signed with the State Geodetic Administration for support services for the digital geodetic study at the One-Stop-Shop, a unique service point for accessing land register and cadastre data. Moreover, the Contract on the upgrade and maintenance of the Infrastructure Cadastre System was signed. With the Ministry of Health, the service of corrective maintenance of the Central Healthcare Information System of the Republic of Croatia (CEZIH) was contracted for the period of 12 months. In cooperation with the Ministry of the Interior, the maintenance of the monitoring system of the state border of the Republic of Croatia (Green Borders) continues. The contract signed with CARNET includes the application of digital technology in teaching as part of the eSchools project.

The multi-year project "e-Culture - Digitization of Cultural Heritage" was successfully completed, in the implementation of which our company participated as a technological partner. Ericsson Nikola Tesla's experts have developed a complex ICT system of permanent storage of digital records and many tools that enable the digitalization of cultural heritage, and the portal eCulture.

The closing of the WaterQ project was also marked. The goal of this project was to develop a solution for the digital transformation of water quality monitoring. We would also like to mention that WaterQ is the winner of a prestigious national award for the environment Green Prix in the category Green innovation, which is one of many recognitions for our company.

In export markets (excluding services to Ericsson) sales revenue amounted to EUR 20.9 million (first nine months 2022: EUR 21.9 million), down by 4.6% year-over-year, as the result of the operators' investment dynamics and geopolitical uncertainties.

In Q3, a quality cooperation continued on the realization of contracted activities with the operators HT Mostar, Crnogorski Telekom, Telekom Kosova, IPKO and Ucom on the modernization, expansion and maintenance of mobile telecommunication networks. The activities of modernization of radio and transmission part of Telekom Kosova's network were finished, as well as the first phase of 5G base stations implementation in the operator IPKO's network. With the Ministry of the Interior of Montenegro we have signed a contract on the maintenance of the 112 Center, a single center for all calls in emergency situations in the territory of Montenegro.

In Ericsson market sales revenue amounted to EUR 104.5 million (first nine months 2022: EUR 98.3 million), up by 6.3% year-over-year.

In Q3, at the regular half-year R&D Management Business Review meeting, a detailed analysis of performance and evaluation of our R&D Center was carried out by all the Ericsson development units with which we collaborate. Ericsson's evaluation has once again proved that our R&D Center is a reliable choice for fast and efficient E2E delivery of high-quality products and services, which makes it one of the best performing Ericsson's partners. Feedback received showed recognition in terms of efficient delivery of high-quality software, speed and quality deliveries of key features, continuous improvement in operations and organizational flexibility in developing, keeping and using key competences.

During Q3 work was completed on the development of several key features that were delivered to Ericsson's customers in India, Italy, and the USA. We have also positioned ourselves in new, strategically important areas such as Cloud RAN.

Experts from the Customer Services and Solutions Center, in addition to projects for the customers of Ericsson Nikola Tesla Group, have worked on projects for Ericsson customers through the activities of creating solutions and defining network parameters, optimization and integration of solutions and technologies in many EU Member States and other countries such as the UK, Switzerland, the USA, Canada, Japan, India, Israel, Mexico, Indonesia, Singapore, the UAE, Qatar, Bahrein, etc. These are complex projects that, among other activities, included the introduction of 5G technology, operational and business support systems, as well as projects of introduction of core solutions in cloud. We would like to highlight the participation in the realization of the project of testing the applications' functionalities in Ericsson 5G core network on distributed Google Cloud platform, thus contributing to Ericsson's win of the recognition Google Cloud Industry Solution Technology Partner of the Year for 2023.

The activities have also continued on the development and implementation of software tools for management and optimization of mobile networks which are used in network rollout by many operators worldwide.

In the Digital Society segment, significant results were achieved on projects in IoT area withing with the company Aeris Communications, which took over this part of Ericsson's business and continued the cooperation with Ericsson Nikola Tesla.



The teams working on activities in the field of IT& Engineering Services, in addition to providing excellent support and achieving excellent results on test environment management projects and IT operations for Ericsson corporation, have also had a key role in the digital transformation processes of Ericsson Nikola Tesla Group, and have provided quality support for the work of Ericsson Nikola Tesla Group's employees, as well as remote support to customers.



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Pursuant to the Articles 462 to 468 of the Capital Market Law (Official Gazette 65/18) the Managing Director of the joint stock company Ericsson Nikola Tesla d.d. Zagreb, Krapinska 45 gives the following:

Statement
of the Management Board responsibility

The accompanying consolidated and non-consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statements also comply with the provisions of the Croatian Financial Accounting Law valid as of the date of these financial statements.

Unaudited financial statements for the period January 1, 2023 to September 30, 2023 present a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows in compliance with applicable accounting standards.

Managing Director:

Gordana Kovačević, MSc

A handwritten signature in black ink, appearing to read "Gordana Kovačević".



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For more information about Ericsson Nikola Tesla's business, please visit: <http://www.ericsson.hr>

Ericsson Nikola Tesla d.d.
Consolidated statement of comprehensive income
for the period ended 30 September 2023

	2023	2022
	EUR '000	EUR '000
Sales revenue	205.897	205.164
Cost of sales	-177.144	-186.768
	<hr/>	<hr/>
Gross profit	28.753	18.395
Selling expenses	-3.900	-3.803
Administrative expenses	-4.693	-4.770
Other operating income	5.136	3.804
Other operating expenses	-554	-
Impairment loss on financial assets	-2	-7
	<hr/>	<hr/>
Operating profit	24.739	13.618
	<hr/>	<hr/>
Finance income	426	1.136
Finance expense	-133	-450
	<hr/>	<hr/>
Finance income/(expense), net	293	686
	<hr/>	<hr/>
Profit before tax	25.032	14.304
Income tax	-4.559	-3.783
	<hr/>	<hr/>
Profit for the year	20.473	10.521
	<hr/>	<hr/>
Other comprehensive income	-32	56
	<hr/>	<hr/>
Total comprehensive income for the year	20.441	10.577
	<hr/>	<hr/>
Earnings per share (EUR)	15	8

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 September 2023

	2023	2022
	EUR '000	EUR '000
ASSETS		
Non-current assets		
Property, plant and equipment	14.904	16.093
Right of use assets	14.827	5.925
Intangible assets	50	644
Loans and receivables	2.931	2.093
Deferred tax assets	3.176	3.187
Total non-current assets	35.888	27.943
Current assets		
Inventories	29.543	13.226
Trade receivables	25.269	30.290
Receivables from related parties	27.858	17.884
Other receivables	2.141	2.077
Income tax receivable	102	7
Prepayments	2.500	1.169
Financial assets at fair value through profit or loss	4.188	4.124
Cash and cash equivalents	55.289	69.872
Total current assets	146.891	138.649
TOTAL ASSETS	182.780	166.592
EQUITY AND LIABILITIES		
Equity		
Share capital	17.674	17.674
Treasury shares	-1.234	-2.268
Legal reserves	884	884
Reserve for treasury shares	4.209	5.353
Reserve of currency conversion	-35	-3
Retained earnings	49.172	36.175
Total equity	70.670	57.814
Non-current liabilities		
Borrowings	188	215
Lease liabilities	12.327	3.703
Other non-current liabilities	-	1
Employee benefits	834	1.103
Total non-current liabilities	13.349	5.022
Current liabilities		
Payables to related parties	10.956	7.000
Borrowings	469	1.876
Trade and other payables	34.558	42.385
Income tax payable	2.948	561
Provisions	1.795	2.117
Accrued charges and deferred revenue	25.034	22.059
Contract liabilities	20.484	25.515
Lease liabilities	2.517	2.244
Total current liabilities	98.761	103.756
Total liabilities	112.110	108.778
TOTAL EQUITY AND LIABILITIES	182.780	166.592

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 30 September 2023

	2023	2022
	EUR '000	EUR '000
Cash flows from operating activities		
<i>Profit before tax</i>	25.032	14.304
Adjustments for:		
Depreciation and amortisation	4.432	4.955
Impairment losses and reversals	584	-20
Gain on sale of property, plant and equipment	-11	-27
Net loss/(gain) on remeasurement of financial assets	-64	255
Amortisation of discount	-8	-
Interest income	-351	-488
Interest expense	151	199
Foreign exchange (gains)/losses, net	-101	-469
Share-based payments	452	782
<i>Changes in working capital</i>		
In receivables	-7.275	-763
In inventories	-16.289	-1.246
In provisions	-591	-451
In payables	-6.115	-4.707
<i>Cash generated from operations</i>	-152	12.324
Interest paid	-133	-182
Income taxes paid	-2.140	-3.538
Net cash (used in)/from operating activities	-2.426	8.605
Cash flows from investing activities		
Interest received	426	419
Proceeds from sale of property, plant and equipment	7	26
Purchases of property, plant and equipment, and intangible assets	-1.038	-778
Deposits given to financial institutions - net	261	1.712
Net cash from/(used in) investing activities	-343	1.379
Cash flows from financing activities		
Repayment of borrowings	-1.816	-2.335
Purchase of treasury shares	-110	-581
Dividends paid	-7.927	-11.242
Payment of lease liabilities	-1.981	-2.146
Net cash used in financing activities	-11.833	-16.304
Effects of exchange rate changes on cash and cash equivalents	20	253
Net increase/(decrease) in cash and cash equivalents	-14.583	-6.067
Cash and cash equivalents at the beginning of the year	69.872	63.373
Cash and cash equivalents at the end of the year	55.289	57.307