



ERICSSON NIKOLA TESLA d.d.  
Krapinska 45, 10000 Zagreb

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, July 25, 2023

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for H1 2023

## Highlights:

- Sales revenue: EUR **138.0** million
- Gross margin: **13.3%**
- Operating profit: EUR **14.7** million
- Profit before tax: EUR **14.8** million
- Net profit: EUR **12.2** million
- Cash flow from operating activities: EUR **-5.4** million

Gordana Kovačević, President of Ericsson Nikola Tesla, commented:

“Despite the challenging market conditions, Ericsson Nikola Tesla Group’s business results show a continuation of a stable business performance. In H1 2023, sales revenue amounted to EUR 138.0 million, down by 2.2% year-over-year, while net profit amounted to EUR 12.2 million, up by 34.3% year-over-year. The delivery of services to Ericsson has continued to grow and has offset lower sales revenue in the domestic and export markets, primarily as a result of operators’ lower capital investments. In H1 we signed several new contracts with the existing and new customers thus securing a continuation of good business performance and a significant level of orders booked.

As we have already informed, the technological unit for construction and maintenance of HT’s network of Ericsson Nikola Tesla Servisi d.o.o. will be transferred to HT as of January 1, 2024, in line with their development strategy. Until the end of 2023 we will work on the realization of obligations under the existing contract for construction and maintenance of HT’s network, while partnership with HT continues in other segments. In managed services segment in the upcoming period, we remain focused on executing contracts for other customers, as well as on the realization of new business opportunities.

With A1 Hrvatska, the activities have continued on the modernization and expansion of the mobile network capacity.

In the Digital Society segment, we have signed new contracts with the Ministry of Tourism and Sport, the Ministry of Justice and Public Administration, the State Geodetic Administration, the Croatian Pension Insurance

Institute, and the Ministry of Labor, Pension System, Family and Social Policy. Intense sales activities on new business opportunities are ongoing.

In export markets, we have continued a quality cooperation with the operators HT Mostar, Crnogorski Telekom, Ipko Kosovo, Telekom Kosova, and Ucom Armenia.

In Q2, Ericsson Nikola Tesla's Research and Development (R&D) Center delivered the agreed projects in a quality and timely manner and maintained its position as the leading R&D Center within the global Ericsson. Such result motivates us to continue fulfilling our obligations at a high level and makes us confident and ready for new responsibilities and activities. Thanks to achieved results in the field of software development, Ericsson Nikola Tesla is the leading exporter of software in Croatia, and the majority of this development takes place in our R&D, which is the largest research and development center in the region.

Compared to the H1 2022, the gross margin increased to 13.3%, primarily as a result of the sales mix and focus on operational and cost efficiency. Accordingly, operating profit increased by 44.3% and amounted to EUR 14.7 million, while net profit increased by 34.3%, amounting to EUR 12.2 million. A negative cash flow from operating activities is due to change in the payment dynamics of certain customers and is in line with our expectations. In H2 2023, we expect improvement and return to positive levels. We have concluded the quarter with a solid balance sheet, with an equity ratio of 38.0%. At the end of Q2, cash and cash equivalents, including the short-term financial assets, amounted to EUR 65.8 million (40.2% of the total assets).

Ericsson Nikola Tesla Technology Days were held with the aim to strengthen the cooperation with the existing and potential new customers and partners, as well as the representatives of stakeholders/academia and regulatory authorities. Numerous innovative technological solutions were presented with a focus on 5G monetization, network slicing, open network interfaces and network functionalities, energy efficiency and 5G private networks. In addition to Ericsson's latest radio products, the industrial application of 5G networks was presented on the example of smart solutions regarding energetics, digital twins and remote 5G robot control. Furthermore, we presented Ericsson Nikola Tesla's ICT solutions for the digital transformation of society, which include the use of geospatial information from public mobile communication networks and the use of virtual assistant, as well as innovative green solutions for industry, cities, and water quality monitoring.

We have been successfully cooperating with the academic community for many years, and in order to connect science and economy as the prerequisite of local and national economic development, we have signed a Cooperation Agreement in the field of information and communication technologies with the Faculty of Electrical Engineering, Computer Science and Information Technology of Josip Juraj Strossmayer, University of Osijek (FERIT) and founded a joint research lab. Our R&D site in Osijek was opened five years ago (in September 2018); the site that started with twenty employees now has more than a hundred, which clearly highlights the strength and the growth of our activities in the research and development segment.

Ericsson Nikola Tesla's Summer Camp started at the beginning of July, and this time in addition to locations in Zagreb and Split, it also takes place in Osijek. The Summer Camp has been gathering the best students, mostly STEM students, for 22 consecutive years. Among almost 170 students who were interested in participating in the Summer Camp, we have selected 62. Over a period of five weeks, under the guidance of mentors, students will work on interesting digital-transformation projects in the field of analytics and management of large databases. This year the Summer Camp's theme is "Digital transformation in action: How data changes our world."

In the upcoming period, our strong focus will remain on quality realization of the contracted activities for our customers in the domestic and export markets and business development in all segments with an emphasis on growth in the Digital Society segment. Furthermore, we continue the digital transformation of Ericsson Nikola Tesla Group in order to additionally improve internal processes, efficiently respond to market demands and strengthen our leadership position in ICT industry.

As the largest R&D Center in Croatia and beyond, and the leading Croatian exporter of software, we have many years of experience and great knowledge and innovation potential in many segments. Our experts are engaged on network modernization and provide services for domestic and global operators, develop innovative digital solutions for various industries, smart cities and local and state administration bodies, provide quality services and work on the latest technologies for global Ericsson. Therefore, we are well positioned and ready to respond to all business opportunities and challenges. We are mitigating risks as much as possible and we are focusing on new opportunities ahead of us. Furthermore, we have also been continuously investing in new solutions and products, and our employees' knowledge. Regardless of the challenging and demanding environment in which we operate, we have been investing in our future in order to secure long-term sustainable business performance for the company, and have been building a motivating and innovative high performance organizational culture.”

#### Financial highlights for the Group:

- Sales revenue amounted to EUR 138.0 million (H1 2022: EUR 141.0 million), down by 2.2% year-over-year. In total sales revenue, the domestic market accounted for 37.6%, services to Ericsson accounted for 52.4%, while other export markets accounted for 10.0%.
- Sales in the Networks segment amounted to EUR 71.7 million (H1 2022: EUR 69.2 million), Digital Services segment amounted to EUR 35.5 million (H1 2022: EUR 38.0 million), Managed Services segment amounted to EUR 30.5 million (H1 2022: EUR 33.6 million), and the segment Other amounted to EUR 0.3 million (H1 2022: EUR 0.2 million).
- Gross profit was EUR 18.4 million (H1 2022: EUR 13.7 million), up by 34% year-over-year primarily as a result of business mix as well as the cost and operational efficiency, but also due to the fact that the gross profit in the previous year was affected by one-time costs of contract termination resulting from geopolitical challenges and sanctions. Gross margin increased to 13.3% (H1 2022: 9.7%).
- Selling and administrative expenses decreased by 1.4% year-over-year, amounting to EUR 5.8 million (H1 2022: EUR 5.9 million). The share of selling and administrative expenses in sales revenue is at the same level year-over year, amounting to 4.2 % (H1 2022: 4.2%).
- Operating profit amounted to EUR 14.7 million, up by 44.3% year-over-year (H1 2022: EUR 10.2 million), as a result of higher gross profit.
- Gain from financial activities is EUR 0.1 million (H1 2022: EUR 0.4 million).
- Profit before tax increased by 39.7% year-over-year to EUR 14.8 million (H1 2022: EUR 10.6 million).
- Net profit amounted to EUR 12.2 million (H1 2022: EUR 9.1 million), up by 34.3% year-over-year. Return on Sales (ROS) amounted to 8.8% (H1 2022: 6.4%).
- Cash flow from operating activities amounted to EUR -5.4 million (H1 2022: EUR 2.7 million), due to the change in the payment dynamics of certain customers and is in line with our expectations. In H2 2023, we expect an improvement and return to positive levels.
- Working Capital Efficiency, expressed in WCD, was 19 days (H1 2022: 10 days), and excluding

services to Ericsson WCD was 41 days (H1 2022: 28 days). WCD is affected by the demanding projects in terms of work and capital engagement in the domestic and export markets.

- Cash and cash equivalents, including the short-term financial assets, as at June 30, 2023 amounted to EUR 65.8 million (40.2% of the total assets), while at the end of 2022, they amounted to EUR 74.0 million (44.4% of the total assets), which is in line with the planned regular activities for the first half year.
- The Group had a solid balance sheet with the total assets of EUR 163.9 million as at June 30, 2023, down by 1.6% compared to the end of 2022, as a result of lower cash level and customer receivables, while the stocks (work-in progress) record an increase due to the dynamics of contract execution. Equity ratio was 38.0% (end of 2022: 34.7%).
- With related parties, the transactions were as follows: sales of products and services amounted to EUR 72.2 million (H1 2022: EUR 67.0 million), while the procurement of products and services amounted to EUR 20.2 million (H1 2022: EUR 16.5 million).
- As at June 30, 2023, balances outstanding with related parties were as follows: receivables amounted to EUR 17.9 million (end of 2022: EUR 17.9 million), and payables amounted to EUR 9.2 million (end of 2022: EUR 7.0 million).

## Business situation in major markets

**In the domestic market** sales revenue amounted to EUR 51.8 million (H1 2022: EUR 58.5 million), down by 11.4% year-over-year, primarily as a result of the operators' lower capital investments.

From 2024, the technology unit for the construction and maintenance of HT's network will transfer from Ericsson Nikola Tesla Servisi d.o.o. to HT, which is result of their development strategy. Until the end of the year we will continue to carry out the obligations under the existing contract in a quality manner. The contract includes the activities of planning and construction of fixed and mobile network, maintenance of electronic communication infrastructure, supervision of the telecommunications network, field maintenance of active access network and passive network. The activities under other contracts for HT, and which encompass mobile network modernization, are ongoing as before.

With A1 Hrvatska, we have continued the activities related to the expansion of coverage and capacity of radio 5G network and modernization and expansion of capacity of radio access network. Furthermore, the cooperation has continued on the modernization of microwave transfer systems.

In the Digital Society segment, a cooperation was agreed with the Ministry of Tourism and Sport of the Republic of Croatia within the framework of the Croatian Digital Tourism - eTourism project. Activities have continued on the modernization of the Information System of Land Registry and Cadaster by signing contracts related to upgrading, maintenance and new measurements with the Ministry of Justice and Public Administration of the Republic of Croatia and the State Geodetic Administration. The upgrade and maintenance of the Unified Information System for monitoring the implementation of the General Administrative Procedure Act and the upgrade and maintenance of the quality management system in public administration were contracted with the Ministry of Justice and Public Administration of the Republic of Croatia.

In the health segment, we would like to highlight the continuation of consolidation of CEZIH health information infrastructure system with the Central State Office for the Development of the Digital Society. Furthermore, a contract was signed with the Croatian Pension Insurance Institute for the development of a national application for connecting to the EU Electronic Exchange of Social Security Information (EESSI)

system. With the Ministry of Labor, Pension System, Family and Social Policy, we will cooperate on the project of creating and establishing a system for e-delivery of collective agreements.

**In export markets** (excluding services to Ericsson) sales revenue amounted to EUR 13.9 million (H1 2022: EUR 15.5 million), down by 10.2% year-over-year as a result of the operators' investment dynamics and geopolitical uncertainties.

In Q2, we have continued a good cooperation on the realization of the previously contracted activities with the operators HT Mostar, Crnogorski Telekom, Telekom Kosova and IPKO on the expansion and modernization of their telecommunications networks. National regulatory authorities for postal and electronic communications have awarded 5G licenses to IPKO and Telekom Kosovo, and investments are expected in the upcoming period. In the market of Armenia, we have cooperated on telecommunications network modernization with the operator UCOM.

**In Ericsson market** sales revenue amounted to EUR 72.2 million (H1 2022: EUR 67.0 million), up by 7.8% year-over-year.

One of the most important projects in Ericsson Nikola Tesla's R&D Center is the development of a new RAN Compute product family generation, where the main objective is to increase capacity compared to the current generation. This big and complex project will deliver a new product that will ensure Ericsson's even stronger position as 5G technology leader. There are ongoing discussions about the possible growth of assignments.

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, the UAE, 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. 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, in addition to many projects for Ericsson Nikola Tesla's customers, our experts have been achieving quality results on projects in IoT platforms and Connected Urban Traffic for the needs of Ericsson corporation.

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 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.

## Other information

Ericsson Nikola Tesla places a high value on socially responsible and sustainable business, and in addition to regularly reporting about the financial results, also reports on non-financial aspects of business performance. An integrated financial and non-financial report for 2022 was published on the company's web page and as a printed version in Q2.

At the Annual General Meeting of Ericsson Nikola Tesla joint-stock company, held on June 14, 2023, among other decisions, a decision was reached about the dividend payment in the amount of EUR 6 per share from the retained earnings from 2021 and retained earnings from 2022. The dividend was paid on July 11, 2023, to

all the Company's shareholders that on June 20, 2023, had the Company's shares registered on their securities account in the Central Depository & Clearing Company.

It was decided that in the procedure of alignment of the Company's share capital and the parts of this capital that refer to individual shares with the provisions of Article 21 of the Act on the Amendments to the Companies Act (Official Gazette, no. 114/22), all the Company's shares, in total 1,331,650, of the nominal value of HRK 100.00 each, shall be substituted with the shares without the nominal value, while the share capital is determined in the amount of EUR 17,674,030.00.

Olgica Spevec, Director in Amplus Consult d.o.o., was re-elected as the member of the Supervisory Board for a four-year term. Carl Henrik Magnus Carle, Ericsson Head of Finance & Business Management for IPR & Licensing, was elected as the new member of the Supervisory Board.

Furthermore, Remuneration Report for Supervisory Board members and Management Board in 2022 was approved. KPMG Croatia d.o.o. was once again appointed as the Auditor for the year 2023.

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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 June 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



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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 June 2023

	<b>2023</b>	<b>2022</b>
	<b>EUR '000</b>	<b>EUR '000</b>
Sales revenue	137.958	140.992
Cost of sales	-119.543	-127.250
	<hr/>	<hr/>
<b>Gross profit</b>	<b>18.414</b>	<b>13.742</b>
Selling expenses	-2.634	-2.649
Administrative expenses	-3.162	-3.229
Other operating income	2.696	2.522
Other operating expenses	-554	-
Impairment loss on financial assets	-36	-184
	<hr/>	<hr/>
<b>Operating profit</b>	<b>14.724</b>	<b>10.203</b>
	<hr/>	<hr/>
Finance income	206	779
Finance expense	-87	-358
	<hr/>	<hr/>
Finance income/(expense), net	119	421
	<hr/>	<hr/>
<b>Profit before tax</b>	<b>14.843</b>	<b>10.624</b>
Income tax	-2.659	-1.549
	<hr/>	<hr/>
<b>Profit for the year</b>	<b>12.184</b>	<b>9.075</b>
	<hr/>	<hr/>
Other comprehensive income	-28	-8
	<hr/>	<hr/>
<b>Total comprehensive income for the year</b>	<b>12.184</b>	<b>9.067</b>
	<hr/>	<hr/>
<b>Earnings per share (EUR)</b>	<b>9</b>	<b>5</b>

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

	<b>2023</b>	<b>2022</b>
	<b>EUR '000</b>	<b>EUR '000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	14.978	16.093
Right of use assets	5.266	5.925
Intangible assets	63	644
Loans and receivables	2.932	2.093
Deferred tax assets	3.182	3.187
<b>Total non-current assets</b>	<b>26.421</b>	<b>27.943</b>
<b>Current assets</b>		
Inventories	23.983	13.226
Trade receivables	24.337	30.290
Contract assets	-	-
Receivables from related parties	17.882	17.884
Other receivables	3.144	2.077
Income tax receivable	2	7
Prepayments	2.238	1.169
Financial assets at fair value through profit or loss	4.155	4.124
Cash and cash equivalents	61.689	69.872
<b>Total current assets</b>	<b>137.429</b>	<b>138.649</b>
<b>TOTAL ASSETS</b>	<b>163.850</b>	<b>166.592</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	17.674	17.674
Treasury shares	-2.343	-2.268
Legal reserves	884	884
Reserve for treasury shares	5.318	5.353
Reserve of currency conversion	-31	-3
Retained earnings	40.732	36.175
<b>Total equity</b>	<b>62.234</b>	<b>57.814</b>
<b>Non-current liabilities</b>		
Borrowings	185	215
Lease liabilities	3.565	3.703
Other non-current liabilities	-	1
Employee benefits	827	1.103
<b>Total non-current liabilities</b>	<b>4.576</b>	<b>5.022</b>
<b>Current liabilities</b>		
Payables to related parties	9.208	7.000
Borrowings	938	1.876
Trade and other payables	33.329	42.385
Income tax payable	2.215	561
Provisions	1.777	2.117
Accrued charges and deferred revenue	25.667	22.059
Contract liabilities	22.211	25.515
Lease liabilities	1.697	2.244
<b>Total current liabilities</b>	<b>97.040</b>	<b>103.756</b>
<b>Total liabilities</b>	<b>101.616</b>	<b>108.778</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>163.850</b>	<b>166.592</b>

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

	2023 EUR '000	2022 EUR '000
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	14.843	10.624
Adjustments for:		
Depreciation and amortisation	3.047	3.382
Effects of lease derecognition	-	-
Impairment losses and reversals	518	-190
Gain on sale of property, plant and equipment	-6	-33
Net loss/(gain) on remeasurement of financial assets	-31	252
Amortisation of discount	-8	-
Interest income	-144	-404
Interest expense	105	105
Foreign exchange (gains)/losses, net	-55	-354
Share-based payments	301	525
<i>Changes in working capital</i>		
In receivables	3.107	-5.917
In inventories	-10.757	-997
In provisions	-616	-392
In payables	-13.672	-3.079
<i>Cash generated from operations</i>	-3.368	3.521
Interest paid	-86	-126
Income taxes paid	-1.902	-680
<b>Net cash (used in)/from operating activities</b>	<b>-5.357</b>	<b>2.715</b>
<b>Cash flows from investing activities</b>		
Interest received	249	391
Dividends received	-	-
Proceeds from sale of property, plant and equipment	2	26
Purchases of property, plant and equipment, and intangible assets	-503	-501
Deposits given to financial institutions - net	261	1.712
Receipt of government grant	-	-
Net change of financial assets at fair value through profit and loss	-	-
<b>Net cash from/(used in) investing activities</b>	<b>9</b>	<b>1.628</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	-
Repayment of borrowings	-1.347	-1.638
Purchase of treasury shares	-110	-492
Dividends paid	0	-7
Payment of lease liabilities	-1.377	-1.451
<b>Net cash used in financing activities</b>	<b>-2.834</b>	<b>-3.589</b>
Effects of exchange rate changes on cash and cash equivalents	-1	112
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-8.182</b>	<b>867</b>
Cash and cash equivalents at the beginning of the year	69.872	63.373
<b>Cash and cash equivalents at the end of the year</b>	<b>61.689</b>	<b>64.240</b>