

PRESS INFO

October 27, 2022



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

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for the first nine months of 2022

Highlights:

- Sales revenue: MHRK **1,545.8**
- Gross margin: **9.0%**
- Operating profit: MHRK **102.6**
- Profit before tax: MHRK **107.8**
- Net profit: MHRK **79.3**
- Cash flow from operating activities: MHRK **64.8**

Gordana Kovačević, President of Ericsson Nikola Tesla, commented:

“In the first nine months of 2022, we have continued the implementation of many projects in the domestic and export markets and have achieved solid results with sales revenue of more than 1.5 billion HRK. As well as in the previous quarters, Q3 was marked by a complex geopolitical and economic environment caused by the war in Ukraine, inflationary pressures in the form of rising prices of labor, energy and materials, disruptions in supply chains, as well as the insufficient number of ICT experts. Despite all the challenges, we have continued a stable business performance, and recorded a slight increase in sales revenue compared to the same period of the excellent 2021, because of revenue growth in the operator segment in the neighboring markets and a continuous growth of services to Ericsson. This offset lower revenue in the domestic market, as well as decline in revenue in Belarus due to sanctions.

In the domestic market, with the strategic partners Hrvatski Telekom and A1 Hrvatska, we have continued the implementation of 5G technology and the related infrastructure. Due to negative global trends, such as rising prices of electricity and inflation, the operators had adjusted the investment dynamics, which reflected on our sales revenue. In the segment Digital Society, we have signed several significant contracts with the Ministry of Justice and Public Administration, State Geodetic Administration, Ministry of the Interior, and the City of Split.

In the neighboring markets, we have continued a quality cooperation with our long-term customers, HT Mostar, Crnogorski Telekom and IPKO on the expansion and modernization of their telecommunication networks. I would like to highlight that several days ago we have also signed a five-year agreement that includes activities on the

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introduction of 5G technology across Montenegro, and the modernization of the entire radio network of Crnogorski Telekom, by which a long-term successful cooperation continues. In order to better position ourselves and at the same time reduce the impact of crisis on business performance, we have been strongly focused on the requirements of the existing, as well as the potential new customers.

The delivery of services to Ericsson have been continuously growing, and significantly contribute to the financial stability of the Group. This is the result of quality, knowledge and innovativeness of our teams and individuals in Research and Development (R&D) Center and expert centers for Customer Solutions and Services, Digital Society and IT & Test Environment. At the regular semi-annual R&D Management Business Review meeting, the excellence of our R&D Center in all business segments was once again confirmed, which strategically positions us in the global organization, and opens new opportunities. We are proud that Ericsson Nikola Tesla has the biggest number of software designers in Croatia, as many as 1,800 of them, and we are the country's leading company in terms of software exports and the largest research and development center with the potential for further growth.

In regard to key performance indicators, at Group level sales revenue increased by 0.8% year-over-year. Gross margin decreased to 9.0%, primarily due to sanctions in Belarus, as well as the increase of labor costs and rising prices of energy, raw materials and materials, while operating profit decreased by 22.4%, amounting to MHRK 102.6. If we exclude the one-time impact of the termination of eHealth implementation project in Belarus, gross margin is 10.7% (first nine months 2021: 11.5%), while operating profit decreased by 2.2% year-over-year, amounting to MHRK 129.3, which indicates that our exceptional effort have enabled us to secure the company's stable business performance. A positive cash flow from operating activities was realized, amounting to MHRK 64.8, which is in line with expectations, considering the market environment. We concluded the end of the third quarter with a healthy balance sheet, with equity ratio of 34.7%. Cash and cash equivalents, including short-term financial assets, at the end Q3, amounted to MHRK 462.6 (40.0% of the total assets).

In September, we marked 40 years of successful business operations of Ericsson Nikola Tesla's site in Split that employs almost 700 experts. Most of them work on the development of the latest solutions in R&D center, and along with them, there are also experts for Customer Solutions and Services, Digital Society and IT & Test Environment. We can proudly say that we have the biggest research and development center in Dalmatia, which is included in the development of the state-of-the-art technologies.

During Q3, Ericsson Nikola Tesla held its 21st Summer Camp, where approximately fifty students, with the support of their mentors, worked on projects related to Big Data domain (Augmentative Reality/XR, Digital Twin, IoT, Security, AI, Quantum computing, ML/Speech recognition, eHealth, e-Environment). Over the years, Summer Camp has become a recognized and respected brand that represents a successful model of cooperation between the economy and the academic community, which enables students to work on innovative high-tech projects, through which we contribute to raise the quality of education. We believe that also among the participants of this year's Summer Camp, there will be those who will become our employees and together with us, continue to build an innovative organizational culture of high performance.

During 2022, we hired more than 200 new employees who, with the quality support from their mentors, are quickly included in the company's business processes.

At the official ceremony of the Croatian Index of Sustainability (HRIO) Awards, Ericsson Nikola Tesla won the annual award for sustainable corporate governance. This award confirms our practice of integrating sustainable development in the decision-making system, and thus manage the impact of our business on the society and the environment. Furthermore, we have also won the ECO Lider Invest recognition for the investment in the new Data Center. This investment reflects our strategy and focus on sustainable business, since by switching to the new

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infrastructure of the Data Center, we have additionally reduced the carbon footprint and energy consumption, while at the same time increasing efficient management and flexibility for our users.

Despite the challenging geopolitical and economic environment, we believe that our technology leadership in 5G, innovative solutions in the Digital Society segment and the quality of our experts, make us ready for future challenges and new business opportunities. We are committed to further strengthening the company's culture based on integrity, ethics and compliance management. In order to finalize 2022 in line with the plan and to prepare well for the next year, we remain strongly focused on the realization of all contractual obligations, cost and operational efficiency, and risk management.“

Financial highlights for the Group:

- Sales revenue amounted to MHRK 1,545.8 (first nine months 2021: MHRK 1,533.0), up by 0.8% year-over-year, as a result of sales increase in the operator segment in the neighboring markets and a continuous increase in services to Ericsson. In total sales revenue, the domestic market accounted for 41.4%, services to Ericsson 47.9%, while other export markets accounted for 10.7%. In the company's sales revenue, the share of total export accounted for 58.6%.
- Sales in the Networks segment amounted to MHRK 745.2 (first nine months 2021: MHRK 671.5), Digital Services segment amounted to MHRK 421.1 (first nine months 2021: MHRK 407.1), Managed Services segment amounted to MHRK 376.9 (first nine months 2021: MHRK 449.4), and segment Other amounted to MHRK 2.6 (first nine months 2021: MHRK 5.0).
- Gross profit was MHRK 138.6 (first nine months 2021: MHRK 176.8), down by 21.6% year-over-year, primarily due to higher costs as a result of termination of eHealth implementation project in Belarus. Furthermore, gross profit was impacted by the increase of labor costs and the increase in the prices of energy, raw materials and materials. Gross margin decreased to 9.0% (first nine months 2021: 11.5%).
- Selling and administrative expenses increased by 3.9% year-over-year, amounting to MHRK 64.6 (first nine months 2021: MHRK 62.2). The share of selling and administrative expenses in sales revenue was 4.2% (first nine months 2021: 4.1%).
- Operating profit amounted to MHRK 102.6, down by 22.4% year-over-year (first nine months 2021: MHRK 132.2) due to lower gross profit.
- Gain from financial activities amounted to MHRK 5.2 (first nine months 2021: MHRK 3.2), mainly due to higher interest income and positive exchange differences.
- Profit before tax decreased by 20.4% year-over-year to MHRK 107.8 (first nine months 2021: MHRK 135.4).
- Net profit amounted to MHRK 79.3 (first nine months 2021: MHRK 114.7), down by 30.9% year-over-year. Return on Sales (ROS) was 5.1% (first nine months 2021: 7.5%).
- Cash flow from operating activities amounted to MHRK 64.8 (first nine months 2021: MHRK 235.3) due to lower cash collection from certain customers in the domestic and export markets. However, it is in line with the expectations, taking into consideration the market environment.

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- Working Capital Efficiency, expressed in WCD, was 12 days (first nine months 2021: 8 days), and excluding services to Ericsson, Working Capital Efficiency was 31 days (first nine months 2021: 22 days). The number of WCD is impacted by the implementation dynamics of the ongoing projects and disruptions in supply chains.
- Cash and cash equivalents, including short term financial assets, as at September 30, 2022, amounted to MHRK 462.6 (40.0% of the total assets), while at the end of 2021, they amounted to MHRK 510.5 (42.4% of the total assets), and are in line with the planned regular activities.
- The Group has a solid balance sheet with the total assets of MHRK 1,155.2 as at September 30, 2022, down by 4% compared to the end of 2021, mainly due to the regular process of the rights of use assets depreciation, and somewhat lower cash and cash equivalents recorded at the day of the balance sheet (in the meantime, the dividend for 2021 was paid). Equity ratio was 34.7% (end of 2021: 33.6%).
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 740.9 (first nine months 2021: MHRK 645.9), while the procurement of products and services amounted to MHRK 173.9 (first nine months 2021: MHRK 203.3).
- As at September 30, 2022, balances outstanding with related parties were as follows: receivables amounted to MHRK 107.7 (end of 2021: MHRK 76.8), and payables amounted to MHRK 60.8 (end of 2021: MHRK 12.6).

Business situation in major markets

In the domestic market, sales revenue amounted to MHRK 640.3 (first nine months 2021: MHRK 729.8), down by 12.3% year-over-year.

The activities related to the design and build of the passive part of FTTH (*Fiber To The Home*) networks, based on the three contracts signed with Hrvatski Telekom, co-financed by the European Structural and Investment Funds, are ongoing as planned. In regard to build and monitoring of telecommunications infrastructure, monitoring of telecommunications network, field maintenance of fixed and mobile telecommunications infrastructure, and expansion and modernization of Hrvatski Telekom's mobile network, the realization based on the signed multi-year agreements, continues.

With A1 Hrvatska, the activities continue on the expansion of coverage and capacity of 5G radio network, as well as the realization of contract related to the build of convergent core network. At the same time, the cooperation continues on the modernization and expansion of capacities of 4G network, as well as on the modernization of microwave transfer systems.

Furthermore, with A1 Hrvatska, we have signed three contracts for the delivery of radio access active equipment for the build of mobile broadband access network of the next generation in areas without broadband infrastructure and without sufficient market interest for investments. The project is implemented within the "Build of the Next Generation Networks (NGN) / Next Generation Access Networks (NGA) in NGA white areas", co-financed by the Operational Programme Competitiveness and Cohesion funds.

In the Digital Society segment, with the Ministry of Justice and Public Administration we have contracted the upgrade of the information system of land registry and cadaster, including a digital assistant. With the State Geodetic Administration, we have contracted the basic and expanded maintenance of the Infrastructure Cadaster System, based on the two-year frame agreement. In cooperation with the Ministry of the Interior, the maintenance

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of the state border monitoring system of the Republic of Croatia continues (Green Border). With the City of Split, the activities have been contracted on the communication infrastructure relocation.

In export markets (excluding services to Ericsson) sales revenue amounted to MHRK 164.7 (first nine months 2021: MHRK 157.0), up by 4.9% year-over-year.

Unstable political and economic environment continues and impacts the realization of contracted activities in export markets, as well as new business opportunities.

In neighboring countries, during Q3, we have continued a quality cooperation with the operators HT Mostar, Crnogorski Telekom and IPKO, on the expansion and modernization of their telecommunication networks.

In Belarus, we have terminated the contract for the project of implementation of eHealth of the Republic of Belarus and have also stopped the signing of the already agreed new contracts. In line with the obtained time-limited permits from sanctions committees of the Republic of Croatia and the European Union, we are fulfilling certain obligations in the operator segment for the contracts that were signed before the EU's sanctions for Belarus came into force.

Services to Ericsson record sales revenue amounting to MHRK 740.8 (first nine months 2021: MHRK 646.2), up by 14.6% year-over-year.

The quality and innovativeness of our R&D Center in all business segments has once again been confirmed at the regular semi-annual R&D Management Business Review meeting, which creates prerequisites for further business development. In the business segment Networks, the development of main 5G features is ongoing as planned. In the business segment Mobile Switching Center preparations continued for the future consolidation of activities based on legacy systems, by engaging teams in both R&D and services work. Within the business segments Cloud and Unified Data Management, teams are working on critical features, progressing as planned.

The experts from the Customer Services and Solutions Center, in addition to projects for the customers of Ericsson Nikola Tesla Group, were engaged on projects for Ericsson customers through activities of creating solutions and defining network parameters, optimization and integration of solutions and technologies in Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Hungary, Germany, the Netherlands, Norway, Poland, Romania, Switzerland, Sweden, the United Kingdom, Slovenia, Serbia, North Macedonia, the United States of America, Canada, Japan, Singapore, Indonesia, India, Iraq, Jordan, Libya, Pakistan, Bahrain, Saudi Arabia, Qatar, Mexico, Tahiti, etc. These are complex projects that, among other, included the activities on the introduction of 5G technology, operational and business support systems, as well as projects of introduction of core solutions in Cloud. The work has also continued on the development and implementation of software tools for management and optimization of mobile networks that are used in the area of network build by numerous operators worldwide.

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

In the Digital Society segment, our experts, in addition to many projects for Ericsson Nikola Tesla's customers, have also achieved quality results on projects in IoT platforms and Connected Urban Traffic for the needs of Ericsson corporation.

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Other information

Ericsson Nikola Tesla's major shareholders (as at September 30, 2022)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
PBZ d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28
Erste & Steiermarkische Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	40,490	3.04
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	27,618	2.07
Raiffeisenbank Austria d.d. / Raiffeisen voluntary pension fund	16,739	1.26
PBZ d.d. / custodian client account	10,388	0.78
OTP banka d.d. / OTP Index fund – open-end alternative investment fund with public offering	9,108	0.68
PBZ d.d. / The Bank of New York as Custodian	8,492	0.64
PBZ d.d. / Raiffeisen mandatory pension fund, A category	6,523	0.49
Ericsson Nikola Tesla d.d.	6,068	0.46
Other shareholders	429,413	32.23

Share price information in Q3 2022:

Highest (HRK)	Lowest (HRK)	Last (HRK)	Market cap. (in MHRK)
1,750.00	1,415.00	1,570.00	2,090.7

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Krapinska 45
Zagreb
OIB: 84214771175

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, 2022 to September 30, 2022 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 additional information, please contact:

Antonija Lončar

Director Marketing, Communication and CSR

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: +385 1 365 4473

Mob.: +385 91 365 4473

E-mail: antonija.loncar@ericsson.com

Orhideja Gjenero

Investor Relations Manager

Ericsson Nikola Tesla d.d.

Krapinska 45

HR-10 002 Zagreb

Tel.: +385 1 365 4431

Mob.: +385 91 365 4431

E-mail: orhideja.gjenero@ericsson.com

E-mail: odnosi.investitori@ericsson.com

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 2022

	2022	2021
	HRK '000	HRK '000
Sales revenue	1.545.807	1.533.027
Cost of sales	-1.407.206	-1.356.232
Gross profit	138.601	176.795
Selling expenses	-28.657	-28.216
Administrative expenses	-35.942	-34.015
Other operating income	28.658	17.724
Impairment loss on financial assets	-56	-132
Operating profit	102.604	132.156
Finance income	8.558	4.560
Finance expense	-3.390	-1.361
Finance income/(expense), net	5.168	3.199
Profit before tax	107.771	135.355
Income tax	-28.502	-20.626
Profit for the year	79.269	114.729
Other comprehensive income	421	-161
Total comprehensive income for the year	79.690	114.568
Earnings per share (HRK)	60	86

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 September 2022

	2022	2021
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	126.382	134.198
Right of use assets	47.485	52.087
Intangible assets	4.956	5.257
Loans and receivables	21.150	21.928
Deferred tax assets	15.632	15.606
Total non-current assets	215.605	229.076
Current assets		
Inventories	152.239	142.852
Trade receivables	199.218	201.473
Receivables from related parties	107.745	76.808
Other receivables	8.083	35.994
Income tax receivable	2.175	181
Prepayments	7.540	6.787
Financial assets at fair value through profit or loss	30.814	32.997
Cash and cash equivalents	431.781	477.487
Total current assets	939.595	974.579
TOTAL ASSETS	1.155.200	1.203.655
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-10.825	-12.422
Legal reserves	6.658	6.658
Reserve for treasury shares	40.538	36.512
Reserve of currency conversion	24	-397
Retained earnings	231.037	240.526
Total equity	400.597	404.042
Non-current liabilities		
Borrowings	6.974	17.031
Lease liabilities	30.376	33.674
Other non-current liabilities	281	446
Employee benefits	8.237	8.597
Total non-current liabilities	45.868	59.748
Current liabilities		
Payables to related parties	60.804	12.628
Borrowings	14.099	14.134
Trade and other payables	210.575	253.501
Income tax payable	18.958	16.806
Provisions	10.567	13.601
Accrued charges and deferred revenue	161.274	120.483
Contract liabilities	215.367	289.976
Lease liabilities	17.091	18.736
Total current liabilities	708.735	739.865
Total liabilities	754.603	799.613
TOTAL EQUITY AND LIABILITIES	1.155.200	1.203.655

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 30 September 2022

	2022	2021
	HRK '000	HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	107.771	135.355
Adjustments for:		
Depreciation and amortisation	37.334	43.153
Impairment losses and reversals	-148	-126
Gain on sale of property, plant and equipment	-205	-33
Net loss/(gain) on remeasurement of financial assets	1.920	-229
Interest income	-3.675	-2.487
Interest expense	1.503	1.306
Foreign exchange (gains)/losses, net	-3.537	-2.963
Share-based payments	5.892	2.285
<i>Changes in working capital</i>		
In receivables	-5.749	-54.446
In inventories	-9.387	-61.234
In provisions	-3.394	768
In payables	-35.468	179.240
<i>Cash generated from operations</i>	92.857	240.589
Interest paid	-1.368	-1.555
Income taxes paid	-26.655	-3.722
Net cash from operating activities	64.834	235.312
Cash flows from investing activities		
Interest received	3.155	2.581
Dividends received	-	60
Proceeds from sale of property, plant and equipment	196	100
Purchases of property, plant and equipment, and intangible assets	-5.859	-10.822
Deposits given to financial institutions - net	12.901	-1.236
Receipt of government grant	-	1.325
Net cash used in investing activities	10.392	-7.993
Cash flows from financing activities		
Repayment of borrowings	-17.596	-11.308
Purchase of treasury shares	-4.377	-3.240
Dividends paid	-84.701	-109.166
Payment of lease liabilities	-16.168	-17.086
Net cash used in financing activities	-122.841	-140.800
Effects of exchange rate changes on cash and cash equivalents	1.908	277
Net increase/(decrease) in cash and cash equivalents	-45.706	86.796
Cash and cash equivalents at the beginning of the year	477.487	281.056
Cash and cash equivalents at the end of the year	431.781	367.851