



ERICSSON NIKOLA TESLA d.d.
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SECURITY: ERNT (ISIN: HRERNTRA0000)

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HOME MEMBER STATE: Republic of Croatia

REGULATED MARKET SEGMENT: Regular Market of the Zagreb Stock Exchange

Ericsson Nikola Tesla Group

Zagreb, October 24, 2024

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for the first nine months of 2024

Highlights:

- Sales revenue: EUR **168.1** million
- Gross margin: **13.3 %**
- Operating profit: EUR **17.9** million
- Profit before tax: EUR **18.8** million
- Net profit: EUR **11.9** million
- Cash flow from operating activities: EUR **1.2** million

Gordana Kovačević, President of Ericsson Nikola Tesla, commented:

"In the first nine months of 2024, in line with our strategy, we continued with the implementation of many projects in the domestic and export markets and achieved sales revenue amounting to EUR 168.1 million. Total sales revenue decreased by 18.4% YoY, primarily due to lower sales revenue in the domestic market in Managed Services segment, caused by the contract expiration with Hrvatski Telekom which was completed at the end of last year. For comparable units, if we exclude revenue from Managed Services with Hrvatski Telekom, the total sales revenue increased by 6% YoY, which indicates the continuation of stable business performance. Our strategy to strengthen business operations in export markets and in new business segments has been showing results. Sales revenue in the operator segment in the export markets and the Digital Society segment recorded growth and, together with the continuously stable business performance in Ericsson market, partially offset the decline in sales revenue in the domestic market in the operator segment.

Talking about financial indicators, gross profit amounted to EUR 22.3 million, down by 22.5% YoY, mainly due to lower sales revenue in the domestic market in the operator segment, and business mix. Gross margin was 13.3% (first nine months of 2023: 14.0%). Operating profit amounted to EUR 17.9 million, down by 27.5% YoY, primarily as a result of lower sales revenue and gross profit. We concluded the end of Q3 with a solid balance sheet and an equity ratio of 39.7%. Cash and cash equivalents, including the short-term financial assets, amounted to EUR 54.8 million, which accounts for 33.8% of the total assets. In line with our expectations, a positive cash flow from operating activities was realized in the amount of EUR 1.2 million (first nine months of 2023: EUR -2.4 million).

During the third quarter, we continued quality cooperation with our partners, the leading operators on the domestic market, on the extension and modernization of telecom networks. For us, the success of our customers is confirmation of our expertise and dedication in creating and implementing the latest technological solutions. Our strategic partnership with Hrvatski Telekom (HT) in the radio part of mobile network, has certainly contributed that Hrvatski Telekom once again, for the sixth year in a row, wins the Ookla® Speedtest Awards™ for the fastest mobile network and the best mobile coverage in Croatia. With our strategic partner A1 Hrvatska, that celebrates 25 years of successful business performance this year, we have achieved many significant joint steps forward in the application of state-of-the-art technological solutions. Currently, our activities continue on the extension of coverage and capacity of the 5G radio network, as well as on the modernization and construction of the convergent core network. In the Digital Society segment in the domestic market, we would like to highlight new contracts related to the green borders monitoring system, and the maintenance of the Joint Information System of Land Registry and Cadaster. With the City of Osijek the contract was signed on the development and implementation of the single and comprehensive City web and mobile app in which our consortium partner is A1 Hrvatska.

As we have previously commented, our strong focus is on strengthening business operations in export markets. During Q3, we continued intense activities on the modernization and expansion of network capacity with the Kosovo operators IPKO and Telekom Kosova, as well as HT Mostar (Bosnia and Herzegovina) and Crnogorski Telekom (Montenegro). We are pleased that the pre-sales activities in the Digital Society segment resulted in the signing of a contract with the company Logicom Solutions from Cyprus on the replacement of the land administration information system of the Department of Lands and Surveys of the Republic of Cyprus.

We have further strengthened our strategic partnership cooperation with Ericsson by gaining new assignments in R&D and Services. As already announced, our R&D Center gained new responsibilities for the development of 5G Radio Access Network (RAN). Gaining these responsibilities is important because it will enable us to build additional E2E capability within networks software/modules. In order to achieve this goal, the focus remains on efficient deliveries of high-quality software, agile organization and continuous improvement and optimization in the way of working. Our teams in the Services segment have also gained additional responsibilities for the development of software tools for mobile networks management and optimization.

We are proud of our long-term cooperation with the academic community, through which we actively strengthen the innovation potential, knowledge and technology transfer, and the development of quality experts. In September we marked the closing of the 23rd Ericsson Nikola Tesla Summer Camp, which provides students with an opportunity to apply academic knowledge in specific business projects. This year's Summer Camp, held in Zagreb, Split and Osijek, has gathered 69 students from faculties from Croatia and abroad who, with the support of their mentors, worked on 27 projects. These are concrete projects through which students were solving challenges by using the latest technologies, such as AI, XR, Big Data, Blockchain, etc.

In the past weeks, there was a lot of talk about the CEZIH system considering that, among other things, due to activities on system modernization, there were difficulties in using certain features. Due to obsolete infrastructure, it was necessary to migrate the CEZIH system with the accompanying data to new technological infrastructure, which is an extremely demanding technical process because of different hardware and software components, numerous functionalities and a large number of stakeholders. As well as on other tasks where our experts are engaged, both on activities related to maintenance and CEZIH modernization, we are doing everything we can to fulfill the responsibilities we have taken over, timely and with quality, in line with the contractual obligations.

Our focus remains on profitability, cost and operational efficiency, cash flow from operating activities and responsible risk management. We are working intensely to secure stable business performance by implementing a strategy focused on strengthening the leading position in mobile networks, growth in the Digital Society segment through intensified pre-sales activities and activities related to the expansion of our portfolio, business diversification in services and R&D segment, as well as continuous improvement of our position in the segments of services and R&D for Ericsson. Our investments continue in new business segments and customers, the development of ICT solutions based on the latest technologies, our employees' competencies and digital transformation of Ericsson Nikola Tesla Group. Furthermore, we have been working on a stronger application of Artificial Intelligence (AI) in creating new business opportunities and increasing internal efficiency.

In November we will celebrate 75 years of Ericsson Nikola Tesla doing business, and we will present our new visual identity. We are proud of our company that, thanks to technology leadership, strong innovative capacity and competent employees, has successfully adapted to numerous market and technological changes over the years.“

Financial highlights for the Group:

- Sales revenue amounted to EUR 168.1 million (first nine months of 2023: EUR 205.9 million), down by 18.4% year-over-year, as a result of non-renewal of the contract with Hrvatski Telekom regarding managed services, and slow-down of operators' investments in mobile telecom infrastructure in the domestic market. The decline in sales revenue in the operator segment in the domestic market was partially offset by the growth in the Digital Society and in the operator segment in export markets, as well as continuously stable business performance in Ericsson market.
- Sales in the Networks segment amounted to EUR 106.1 million (first nine months of 2023: EUR 104.0 million), Digital Services segment amounted to EUR 59.6 million (first nine months of 2023: EUR 53.9 million), Managed Services segment amounted to EUR 2.0 million (first nine months of 2023: EUR 47.6 million), and the segment Other amounted to EUR 396 thousand (first nine months of 2023: EUR 377 thousand). As expected, there was a decline in the Managed Services segment, however, the results of other segments are somewhat better compared to the same period last year.
- Gross profit amounted to EUR 22.3 million (first nine months of 2023: EUR 28.8 million), down by 22.5% year-over-year, mainly due to lower sales revenue in the domestic market in the operator segment and business mix. Gross margin was 13.3% (first nine months of 2023: 14.0%).
- Selling and administrative expenses increased by 2.4% year-over-year and amounted to EUR 8.8 million (first nine months of 2023: EUR 8.6 million). This increase is the result of investments in the development of new business opportunities, and expenses related to the celebration of the company's 75th anniversary and new visual identity. The share of selling and administrative expenses in the total sales revenue was 5.2% (first nine months of 2023: 4.2%).
- Operating profit amounted to EUR 17.9 million (first nine months of 2023: EUR 24.7 million), down by 27.5% year-over-year, primarily as a result of lower sales revenue and gross profit. Operating margin was 10.7% (first nine months of 2023: 12.0%).
- Profit from financial activities amounted to EUR 0.8 million (first nine months of 2023: EUR 0.3 million), as a result of higher interest income due to an increase in interest rates.

- Profit before tax decreased by 24.9% year-over-year and amounted to EUR 18.8 million (first nine months of 2023: EUR 25.0 million).
- Net profit amounted to EUR 11.9 million (first nine months of 2023: EUR 20.5 million), down by 41.9% year-over-year, partially also due to additionally calculated one-time tax expense from the previous years due to subsequent change in interpretation of cost eligibility for tax deduction. Return on sales (ROS) was 7.1% (first nine months of 2023: 9.9%).
- Cash flow from operating activities was EUR 1.2 million (first nine months of 2023: EUR -2.4 million).
- Total working capital efficiency, expressed in Working Capital Days (WCD), was 35 days (first nine months of 2023: 27 days). Excluding services to Ericsson, Working Capital Efficiency was 25 days (first nine months of 2023: 49 days). WCD is affected by the demanding projects in terms of work and capital engagement, with additionally extended dynamics of collection of receivables in the domestic and export markets, including Ericsson.
- Cash and cash equivalents, including the short-term financial assets, as at September 30, 2024, amounted to EUR 54.8 million (33.8% of the total assets), and at the end of 2023 they amounted to EUR 76.9 million (39.9% of the total assets). In July 2024, the dividend was paid, amounting to EUR 19.9 million.
- The Group has a solid balance sheet with the total assets of EUR 162.4 million as at September 30, 2024, down by 15.7% compared to the end of 2023, mainly as the result of lower customer receivables due to lower sales revenue in managed services segment and lower cash and cash equivalents, while the inventory (work-in-progress) records an increase due to contract execution dynamics. End of Q3 2024, the equity ratio was 39.7% (end of 2023: 37.6%).
- With related parties, the transactions were as follows: stable sale of products and services was realized, amounting to EUR 102.5 million (first nine months of 2023: EUR 104.2 million), while the procurement of products and services amounted to EUR 29.1 million (first nine months of 2023: EUR 28.7 million).
- As at September 30, 2024, balances outstanding with related parties were as follows: receivables amounted to EUR 33.1 million (end of 2023: EUR 37.4 million), and payables amounted to EUR 10.9 million (end of 2023: EUR 15.1 million).

Business situation in major markets

In the domestic market sales revenue amounted to EUR 38.5 million (first nine months of 2023: EUR 80.5 million), down by 52.2% year-over-year, primarily as a result of non-renewal of the contract with Hrvatski Telekom regarding managed services. Moreover, the operators are focused on 5G network monetization and have slowed down capital investments in the mobile telecom infrastructure.

The activities of implementation of Ericsson dual-mode 5G Core for 4G/5G core network of Hrvatski Telekom are ongoing as planned. The cooperation on modernization and extension of the radio part of mobile network in line with the exclusive multi-year agreement successfully continues. Hrvatski Telekom has won the Ookla® Speedtest Awards™ for the fastest mobile network and the best mobile coverage in Croatia, for the sixth year in a row. HT's mobile network achieved the best Speed Score™ result of 148.81, which also represents the best Speed Score™ result that was ever recorded in Croatia when testing all generations of mobile networks.

With A1 Hrvatska, we continue to work on extension of coverage and capacity of the 5G radio network, as well as on the modernization and construction of the convergent core network and the modernization of microwave transmission systems.

In the Digital Society segment, we signed a new contract with the Ministry of the Interior of the Republic of Croatia regarding green border monitoring system. With the Croatian Ministry of Justice, Public Administration and Digital Transformation and the State Geodetic Administration, we have contracted the maintenance of the Joint Information System of Land Registry and Cadaster. With the City of Osijek, we have signed a contract regarding the development and implementation of the single and comprehensive City web and mobile app, in which our consortium partner is A1 Hrvatska. With the company Split parking d.o.o., we contracted the replacement and expansion of the existing sensor system for vehicle detection in street parking lots.

As regards the CEZIH system, Ericsson Nikola Tesla is responsible for the maintenance of Subsystem 1, i.e. "Information subsystem of the Software of the central part of the CEZIH integrated information system at the primary, secondary and tertiary level of health care", while the entire CEZIH system consists of four subsystems. Due to obsolete infrastructure, it was necessary to migrate CEZIH's hardware and software base to a new technological environment, after which the activities of optimization of the system's operation followed. Considering the complexity of the system, various hardware and software components, including the ones which are not the products and solutions of our company and many functionalities, the optimization of the system's operation in a new environment, while at the same time securing the system's operation, is an extremely demanding technical process. The system's occasional unavailability was mainly caused by the activities mentioned. From the beginning of 2024 until now, the system was available 99.57% of the time, and in the first nine months of 2024, more than 650 million transactions were orderly executed, which include ePrescriptions, eReferrals, etc.

In export markets (excluding services to Ericsson) sales revenue amounted to EUR 25.2 million (first nine months of 2023: EUR 20.9 million), up by 20.8% year-over-year.

In Kosovo, with the operator IPKO, the activities are ongoing on the modernization and expansion of the functionalities of its core network, as well as on the expansion of coverage and capacity of 5G network. With the operator Telekom Kosova we have been working on the modernization and expansion of mobile network capacity.

With HT Mostar we have been working on the implementation of the latest technological version of the Ericsson IMS (IP Multimedia Subsystem) solution, as well as the introduction of VoLTE (Voice over LTE) service. New activities related to the expansion of radio access network and transmission network of this operator have been contracted.

With Crnogorski Telekom, the activities are ongoing on the implementation of Ericsson dual-mode 5G Core for 4G/5G core network.

In the Digital Society segment, a contract was signed with the company Logicom Solutions from Cyprus on the replacement of the land administration information system of the Department of Lands and Surveys of Cyprus. The commissioning party of this solution is the Deputy Ministry of Research, Innovation and Digital Policy of Cyprus.

In Ericsson market sales revenue remained at the same level year-over-year and amounted to EUR 104.4 million (first nine months of 2023: EUR 104.5 million). The trend of higher engagement of experts from the Services and Solutions Center on projects for the customers of Ericsson Nikola Tesla continues. Revenue from R&D activities are increasing year-over-year.

In Q3, Ericsson Nikola Tesla's R&D Center has gained new responsibilities for the development of 5G Radio Access Network (RAN), which is strategically important as it will also enable us to build additional E2E capability within networks software/modules.

The main development projects within R&D Center were in the segments: Remote Radio, Massive MIMO, Software Defined Infrastructure and G4 baseband, which are important for Ericsson technology leadership. The organization remains focused on efficient deliveries of high-quality software, agile organization and continuous improvement and optimization of the way of working.

Experts from the Customer Services and Solutions Center, in addition to customers of Ericsson Nikola Tesla Group, were engaged on projects for Ericsson customers through activities of creating solutions and defining network parameters, and optimization and integration of solutions and technologies in many EU Member States and other countries such as: the United Kingdom, Switzerland, Norway, the United States of America, Canada, Australia, India, Mexico, 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, and additional responsibilities were also gained.

Good results were achieved in the work with the company Aeris Communications on projects regarding IoT.

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

Other information

Extraordinary General Meeting of Ericsson Nikola Tesla, joint-stock company will be held on November 22, 2024, at the registered office of the Company in Zagreb, Krapinska 45. The agenda and the materials which serve as the basis to reach decisions are published on the Company's web site <https://www.ericsson.hr/en/20241011-general-meeting>.

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



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, 2024 to September 30, 2024 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".

Ericsson Nikola Tesla d.d.
Consolidated statement of comprehensive income
for the period ended 30 September 2024

	2024	2023
	EUR '000	EUR '000
Sales revenue	168.063	205.897
Cost of sales	-145.776	-177.144
	<hr/>	<hr/>
Gross profit	22.287	28.753
Selling expenses	-3.921	-3.900
Administrative expenses	-4.880	-4.693
Other operating income	4.472	5.136
Other operating expenses	-	-554
Impairment loss on financial assets	-12	-2
	<hr/>	<hr/>
Operating profit	17.947	24.739
	<hr/>	<hr/>
Finance income	1.497	426
Finance expense	-655	-133
	<hr/>	<hr/>
Finance income/(expense), net	841	293
	<hr/>	<hr/>
Profit before tax	18.788	25.032
Income tax	-6.901	-4.559
	<hr/>	<hr/>
Profit for the year	11.887	20.473
	<hr/>	<hr/>
Other comprehensive income	-	-32
	<hr/>	<hr/>
Total comprehensive income for the year	11.887	20.441
	<hr/>	<hr/>
Earnings per share (EUR)	8,97	15,49

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 30 September 2024

	2024	2023
	EUR '000	EUR '000
ASSETS		
Non-current assets		
Property, plant and equipment	13.896	14.729
Right of use assets	14.511	15.028
Intangible assets	937	385
Loans and receivables	1.605	2.587
Deferred tax assets	2.506	2.506
Total non-current assets	33.455	35.235
Current assets		
Inventories	17.894	9.931
Trade receivables	17.498	28.603
Receivables from related parties	33.063	37.402
Other receivables	2.579	1.496
Income tax receivable	1.133	786
Prepayments	1.957	2.254
Financial assets at fair value through profit or loss	4.344	4.235
Cash and cash equivalents	50.462	72.655
Total current assets	128.930	157.362
TOTAL ASSETS	162.385	192.597
EQUITY AND LIABILITIES		
Equity		
Share capital	17.674	17.674
Treasury shares	-808	-1.256
Legal and other reserves	1.797	1.230
Reserve for treasury shares	3.451	4.157
Retained earnings	42.353	50.660
Total equity	64.467	72.465
Non-current liabilities		
Borrowings	114	114
Lease liabilities	12.853	13.250
Other non-current liabilities	6	12
Employee benefits	1.037	943
Total non-current liabilities	14.010	14.319
Current liabilities		
Payables to related parties	10.882	15.062
Borrowings	-	469
Trade and other payables	23.727	38.467
Income tax payable	1.891	690
Provisions	1.069	1.583
Accrued charges and deferred revenue	18.622	20.400
Contract liabilities	25.567	27.085
Lease liabilities	2.150	2.057
Total current liabilities	83.908	105.813
Total liabilities	97.918	120.132
TOTAL EQUITY AND LIABILITIES	162.385	192.597

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 30 September 2024

	2024	2023
	EUR '000	EUR '000
Cash flows from operating activities		
<i>Profit before tax</i>	18.788	25.032
Adjustments for:		
Depreciation and amortisation	4.061	4.432
Impairment losses and reversals	36	584
Gain on sale of property, plant and equipment	-42	-11
Net loss/(gain) on remeasurement of financial assets	-109	-64
Amortisation of discount	0	-8
Interest income	-1.384	-351
Dividend income	-1	-
Interest expense	651	151
Foreign exchange (gain)/loss, net	-43	-101
Share-based payments	252	452
<i>Changes in working capital</i>		
In receivables	17.425	-7.275
In inventories	-7.888	-16.289
In provisions	-419	-591
In payables	-23.495	-6.115
<i>Cash generated from operations</i>	7.833	-152
Interest paid	-657	-133
Income taxes paid	-5.989	-2.140
Net cash from (used in) operating activities	1.187	-2.426
Cash flows from investing activities		
Interest received	1.339	426
Dividends received	1	-
Proceeds from sale of property, plant and equipment	19	7
Purchases of property, plant and equipment, and intangible assets	-2.093	-1.038
Deposits given to financial institutions - net	-	261
Net cash from/(used in) investing activities	-734	-343
Cash flows from financing activities		
Repayment of borrowings	-936	-1.816
Purchase of treasury shares	-258	-110
Dividends paid	-19.888	-7.927
Payment of lease liabilities	-1.557	-1.981
Net cash used in financing activities	-22.638	-11.833
Effects of exchange rate changes on cash and cash equivalents	-8	20
Net increase/(decrease) in cash and cash equivalents	-22.193	-14.583
Cash and cash equivalents at the beginning of the year	72.655	69.872
Cash and cash equivalents at the end of the year	50.462	55.289

Ericsson Nikola Tesla d.d.
Consolidated statement of changes in equity
for the period ended 30 September 2024

	Share capital	Treasury shares	Legal and other reserves	Reserve for treasury shares	Translation reserve	Retained earnings	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
As at 1 January 2023	17.674	-2.268	884	5.353	-3	36.174	57.814
<i>Changes in equity for the period:</i>							
Total comprehensive income	-	-	-	-	3	22.194	22.197
Dividend distribution	-	-	-	-	-	-7.927	-7.927
Purchase of treasury shares	-	-184	-	-	-	-	-184
Shares granted	-	1.196	-	-1.196	-	-	-
Transfer	-	-	346	-	-	-346	-
Disposal of foreign operation	-	-	-	-	-	-42	-42
Share-based payments	-	-	-	-	-	607	607
Total contributions by and distributions to owners of the parent recognized directly in equity	-	1.012	346	-1.196	-	-7.708	-7.546
As at 31 December 2023	17.674	-1.256	1.230	4.157	-	50.660	72.465
As at 1 January 2024	17.674	-1.256	1.230	4.157	-	50.660	72.465
<i>Changes in equity for the period:</i>							
Total comprehensive income	-	-	-	-	-	11.887	11.887
Dividend distribution	-	-	-	-	-	-19.879	-19.879
Purchase of treasury shares	-	-258	-	-	-	-	-258
Shares granted	-	706	-	-706	-	-	-
Transfer	-	-	566	-	-	-566	-
Share-based payments	-	-	-	-	-	252	252
Total contributions by and distributions to owners of the parent recognized directly in equity	-	448	566	-706	-	-20.193	-19.885
As at 30 September 2024	17.674	-808	1.796	3.451	-	42.354	64.467