



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, April 25, 2024

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for Q1 2024

Highlights:

- Sales revenue: EUR **52.0** million
- Gross margin: **16.8%**
- Operating profit: EUR **7.4** million
- Profit before tax: EUR **7.8** million
- Net profit: EUR **6.4** million
- Cash flow from operating activities: EUR **1.1** million

Gordana Kovačević, President of Ericsson Nikola Tesla, commented:

“We started the year by contracting new business deals in the operator segment in Croatian and export markets, as well as in the Digital Society segment, thus ensuring a solid level of orders booked for the continuation of the business year. However, as we have previously commented, non-renewal of the contract with Hrvatski Telekom regarding managed services had an impact on the decline of sales revenue year-over-year. Additionally, the decline of sales revenue was impacted by the operators’ cautious investments in network modernization and the dynamics in the implementation of contracted activities, which was partially offset by growth in other business segments. Despite all the challenges and the demanding market environment, we kept the leading market position, and we remain a strong strategic partner for our customers and partners.

In the operator segment, we would like to highlight the cooperation agreement with Hrvatski Telekom (HT) based on which we will be the supplier of the radio part of HT’s mobile network (RAN) until the end of 2027. We are pleased to continue our cooperation on the introduction of the 5G standard into HT’s mobile network, which began in 2018 and resulted in several achievements in 5G mobile network on the Croatian market. In accordance with the multi-year contract with our partner A1 Hrvatska, we have been working on additional expansion of coverage and capacity of the 5G radio network as well as core network modernization.

We have continued to strengthen our position in the Kosovo market by signing a framework multi-year contract with the operator Telekom Kosova, related to the modernization and maintenance of the complete radio network of this operator. We have also continued the cooperation with our long-term partner IPKO on the core network modernization and maintenance, among which we would like to single out the introduction of functionalities VoLTE and Mobile Number Portability. In other export markets, we signed contracts for mobile networks modernization and maintenance, among which the contract with HT Mostar for the implementation of the latest technological version of the Ericsson Evolved Packet Core (EPC) and Diameter Signaling Controller (DSC) solutions should be mentioned.

In the Digital Society segment, we have signed several new contracts related to the digital transformation of healthcare, land administration, public administration and security, which will positively affect the availability and quality of public services and thus support the further development of the economy. In this business segment we have additionally strengthened business development and R&D teams. In Q1, we would like to highlight the contracts with the Croatian Employment Service (CES) and the Ministry of the Interior of the Republic of Croatia. With CES, we have contracted the delivery of a system to support the basic CES processes, the e-Advisor system, and improved user profiling. With the Ministry of the Interior, we have contracted the delivery of mobile systems for green border monitoring.

Our R&D Center has continued with a quality performance and achieved good results. We have expanded our capacities in radio access network (RAN) development to work on Network robustness testing and have been working to additionally position ourselves in the Business Cloud Software & Services segment. Furthermore, we are focused on the development of E2E capability in the area of 5G software/modules and, accordingly, we are preparing in an organizational sense to position ourselves even stronger in the long-term.

Compared to Q1 2023, gross margin increased slightly to 16.8%, as a result of profitability program and business mix. However, due to lower sales revenue, gross profit decreased to EUR 8.7 million. Although selling and administrative expenses remained at the same level year-over-year, amounting to EUR 2.8 million, selling expenses increased due to intense activities on new business opportunities, while administrative expenses are lower. Operating profit decreased by 22.7% to EUR 7.4 million, while net profit decreased by 18.3%, amounting to EUR 6.4 million, due to lower gross profit. We concluded the end of Q1 with a solid balance sheet and an equity ratio of 42.7%. A positive cash flow from operating activities was realized, amounting to EUR 1.1 million compared to EUR -7.1 million in Q1 2023. Cash and cash equivalents, including the short-term financial assets, amounted to EUR 76.8 million, which accounts for 41.7% of the total assets.

In order to achieve the company's long-term growth, we continue to invest in new business segments and customers, the development of ICT solutions based on the latest technologies, business diversification in R&D segment, our employees' competencies and digital transformation of Ericsson Nikola Tesla Group. We are considering potential acquisitions, as well as a stronger application of artificial intelligence in creating new business opportunities and increasing internal efficiency. Furthermore, we remain focused on timely recognition and mitigation of risks, operational efficiency, cost management, sustainability, and high ethical standards in business.

Considering the company's business results achieved in the previous year, stable financial position and a high level of cash, the Supervisory Board and the Managing Director made a joint proposal to the Company's General Meeting to adopt a decision regarding the regular dividend payment in the amount of EUR 10 per share and an extraordinary dividend in the amount of EUR 5 per share, thus showing that we are taking care of the interest of all our stakeholders.

As the company that celebrates 75 years of successful, responsible and sustainable business this year, we will remain committed to the continuous development of knowledge, expertise and innovation potential of our employees, as well as dedicated to the success of our customers.“

Financial highlights for the Group:

- Sales revenue amounted to EUR 52.0 million (Q1 2023: EUR 69.4 million), down by 25.1% year-over-year. In the total sales revenue, the domestic market accounted for 22.9%, services to Ericsson accounted for 69.5%, while other export markets accounted for 7.6%.
- Sales in the Networks segment amounted to EUR 33.9 million (Q1 2023: EUR 39.3 million), Digital Services segment amounted to EUR 17.3 million (Q1 2023: EUR 17.0 million), Managed Services segment amounted to EUR 737 thousand (Q1 2023: EUR 13.0 million), and the segment Other amounted to EUR 118 thousand (Q1 2023: EUR 149 thousand).
- Gross margin increased slightly to 16.8% (Q1 2023: 16.6%), as a result of profitability program and business mix. However, due to lower sales revenue, gross profit decreased by 24.3% and amounted to EUR 8.7 million (Q1 2023: EUR 11.5 million).
- Selling and administrative expenses amounted to EUR 2.8 million (Q1 2023: EUR 2.8 million). When compared to Q1 2023, selling expenses increased due to intense activities to secure new business opportunities, while administrative expenses are lower. The share of selling and administrative expenses in the total sales revenue was 5.5% (Q1 2023: 4.0%).
- Operating margin increased to 14.2% (Q1 2023: 13.7%). Operating profit amounted to EUR 7.4 million (Q1 2023: EUR 9.5 million), down by 22.7% year-over-year, primarily due to lower sales revenue and gross profit.
- Profit from financial activities was EUR 468 thousand (Q1 2023: EUR 2 thousand), due to an increase of interest rates.
- Profit before tax decreased by 17.8% year-over-year to EUR 7.8 million (Q1 2023: EUR 9.5 million).
- Net profit amounted to EUR 6.4 million (Q1 2023: EUR 7.8 million), down by 18.3% year-over-year. Return on Sales (ROS) was 12.3% (Q1 2023: 11.3%).
- Cash flow from operating activities amounted to EUR 1.1 million (Q1 2023: EUR -7.1 million).
- Working capital efficiency, expressed in Working Capital Days (WCD), was 33 days (Q1 2023: 17 days), and excluding services to Ericsson, Working Capital Efficiency was 41 days (Q1 2023: 36 days). The increase in WCD is affected by the demanding projects in terms of work and capital engagement in the domestic and export markets, as well as the extended dynamics of collection of customer receivables in all markets including services to Ericsson.
- Cash and cash equivalents, including the short-term financial assets, as at March 31, 2024, amounted to EUR 76.8 million (41.7% of the total assets) and at the end of 2023 they amounted to EUR 76.9 million (39.9% of the total assets).
- The Group has a solid balance sheet with the total assets of EUR 184.3 million as at March 31, 2024, down by 4.3% compared to the end of 2023, mainly as a result of lower customer receivables due to lower sales revenue in managed services, while inventory (work-in-progress) increased due to contract execution dynamics. End of Q1 equity ratio was 42.7% (end of 2023: 37.6%).

- With related parties, the transactions were as follows: a stable sale of products and services was realized, amounting to EUR 35.5 million (Q1 2023: EUR 37.3 million), while the procurement of products and services amounted to EUR 8.5 million (Q1 2023: EUR 14.6 million).
- As at March 31, 2024, balances outstanding with related parties were as follows: receivables amounted to EUR 33.2 million (end of 2023: EUR 37.4 million), and payables amounted to EUR 8.0 million (end of 2023: EUR 15.1 million).

Business situation in major markets

In the domestic market, sales revenue amounted to EUR 11.9 million (Q1 2023: EUR 26.1 million), down by 54.3% year-over-year due to non-renewal of contract with Hrvatski Telekom regarding managed services, and the operators' cautious investments in network modernization.

At the beginning of the year, we signed the cooperation agreement with Hrvatski Telekom, based on which Ericsson Nikola Tesla will be the exclusive supplier of the radio part of HT's mobile network (RAN) until the end of 2027. By applying Ericsson's state-of-the-art 5G technology, HT will further improve the quality of Internet access and access to mobile applications for its customers, while at the same time opening new space for the introduction of advanced digital solutions such as augmented reality, robotics, the so called "digital twins", and similar solutions.

With A1 Hrvatska, in accordance with multi-year framework contracts, we have been working on the additional expansion 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 have been working on many activities. With the Croatian Employment Service (CES), a contract was signed related to the delivery of a system to support the basic processes of the CES, the e-Advisor system, and improved user profiling. For the Ministry of Health, in cooperation with the pharmaceutical company Roche, we have implemented the analytical system of the Croatian Oncology Database within the project "Personalized Medicine in Oncology with the Aim to Improve the Outcomes". Furthermore, with the Ministry of the Interior of the Republic of Croatia, we have contracted the delivery of mobile systems for green border monitoring. With the Ministry of Culture and Media, a new contract was signed related to the digitalization of cultural heritage (eCulture). The cooperation with the Ministry of Justice and Public Administration and State Geodetic Administration related to the Joint Information System of Land Registry and Cadaster continues. With the Central State Office for the Development of the Digital Society, we have contracted the delivery of the Once Only Technical System (OOTS) platform for the exchange of services at the level of the European Union. The second phase of the project regarding the implementation of intelligent transport systems in the functional traffic area of the City of Split is ongoing.

In export markets (excluding services to Ericsson) sales revenue amounted to EUR 4.0 million (Q1 2023: EUR 6.0 million), down by 34.3% year-over-year, as a result of projects execution dynamics.

With the operator Telekom Kosova, we signed a multi-year framework contract for the complete modernization and maintenance of radio network. The contract includes the introduction of the state-of-the-art Ericsson 5G equipment in the radio part of the network. It is planned that the overall network modernization project will be implemented by the end of 2024.

Furthermore, with the Kosovo operator IPKO, several projects for the modernization and maintenance of the core network were contracted. We would like to highlight the introduction of VoLTE functionality that will provide users with an improved voice service on the LTE/4G network, and the implementation of Mobile Number Portability functionality that will enable users to change operators while keeping their existing number.

With HT Mostar (Bosnia and Herzegovina), the implementation of the latest technological version of the Ericsson Evolved Packet Core (EPC) and Diameter Signaling Controller (DSC) solutions was contracted. By implementing this contract, HT Mostar will modernize and further expand the existing packet core network solution and enable simpler and more agile management, as well as the creation of new advanced services.

We have also contracted the projects of modernization and maintenance of mobile networks with the customers in other export markets, with Crnogorski Telekom and Ucom Armenia.

In Ericsson market, sales revenue amounted to EUR 36.1 million (Q1 2023: EUR 37.3 million), down by 3.1% year-over-year, due to a higher engagement of the Services and Solutions Center's experts on projects for the customers of Ericsson Nikola Tesla Group. Revenue from research and development activities is increasing.

The main development projects were in the segments of Remote Radio, Massive MIMO, Time Critical Services, resilience Network and Positioning, RBS Features & Configurations and G4 baseband, that are important for Ericsson technology leadership. Moreover, we have expanded our capacities in radio access network (RAN) development to work on Network robustness testing, which resulted in additional employment. Our goal is to keep high performance and strengthen the E2E capability within 5G software/modules, where we expect new openings in 2024, and have already been preparing in an organizational sense to position ourselves even stronger in the long-term. Furthermore, we have also been working to additionally position ourselves in the Business Cloud Software & Services segment, on the development of Home Subscriber Services and Software Defined Infrastructure 3. The main prerequisites for achieving these opportunities are efficient deliveries of high-quality software, agile organization and continuous work on innovativeness and excellence.

Experts from the Customer Services and Solutions Center, in addition to projects for the customers of Ericsson Nikola Tesla Group, have worked on many 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 United Kingdom, Switzerland, Israel, Norway, the United States of America, Canada, Australia, India, Mexico, Pakistan, Bahrain, 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 work of our experts on the development of NorthStar 5G innovation program for the Swedish multinational operator Telia. Our experts participate in the delivery of services for 5G core network, with engagement ranging from presales activities to network design and verification.

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.

Good results were achieved in cooperation with the company Aeris Communications on IoT projects (Centralized User Database and Device Connection Platform).

The teams working on activities in the field of IT& Engineering Services, in addition to providing quality 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.

Other information

At the meeting held on March 22, 2024, Ericsson Nikola Tesla's Supervisory Board and Managing Director made a joint proposal to the General Meeting to adopt a decision regarding the regular dividend payment in the amount of EUR 10 per share and extraordinary dividend in the amount of EUR 5 per share.

Ericsson Nikola Tesla's General Meeting will be held on June 27, 2024. The shareholders who have the Company's shares registered on their securities account in the Central Depository & Clearing Company on July 3, 2024, are entitled to dividend payment. Ex-dividend date is July 2, 2024.



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@ericssonnikolatesla.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@ericssonnikolatesla.com

E-mail: odnosi.investitori@ericssonnikolatesla.com

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 March 31, 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



Ericsson Nikola Tesla d.d.
Consolidated statement of comprehensive income
for the period ended 31 March 2024

	2024	2023
	EUR '000	EUR '000
Sales revenue	51.988	69.379
Cost of sales	-43.243	-57.830
Gross profit	8.745	11.549
Selling expenses	-1.357	-1.208
Administrative expenses	-1.477	-1.574
Other operating income	1.465	1.097
Impairment loss on financial assets	-	-327
Operating profit	7.376	9.537
Finance income	579	46
Finance expense	-111	-44
Finance income/(expense), net	468	2
Profit before tax	7.844	9.539
Income tax	-1.457	-1.719
Profit for the year	6.387	7.820
Other comprehensive income	-	-28
Total comprehensive income for the year	6.387	7.792
Earnings per share (EUR)	4,82	5,92

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 31 March 2024

	2024	2023
	EUR '000	EUR '000
ASSETS		
Non-current assets		
Property, plant and equipment	14.296	14.729
Right of use assets	15.093	15.028
Intangible assets	472	385
Loans and receivables	2.577	2.587
Deferred tax assets	2.506	2.506
Total non-current assets	34.944	35.235
Current assets		
Inventories	14.495	9.931
Trade receivables	15.111	28.603
Receivables from related parties	33.196	37.402
Other receivables	6.961	1.496
Income tax receivable	1.043	786
Prepayments	1.762	2.254
Financial assets at fair value through profit or loss	4.274	4.235
Cash and cash equivalents	72.478	72.655
Total current assets	149.320	157.362
TOTAL ASSETS	184.264	192.597
EQUITY AND LIABILITIES		
Equity		
Share capital	17.674	17.674
Treasury shares	-1.335	-1.256
Legal and other reserves	1.328	1.230
Reserve for treasury shares	3.978	4.157
Retained earnings	57.051	50.660
Total equity	78.696	72.465
Non-current liabilities		
Borrowings	114	114
Lease liabilities	13.367	13.250
Other non-current liabilities	12	12
Employee benefits	924	943
Total non-current liabilities	14.417	14.319
Current liabilities		
Payables to related parties	8.028	15.062
Borrowings	1	469
Trade and other payables	27.502	38.467
Income tax payable	1.781	690
Provisions	1.317	1.583
Accrued charges and deferred revenue	15.709	20.400
Contract liabilities	34.704	27.085
Lease liabilities	2.109	2.057
Total current liabilities	91.151	105.813
Total liabilities	105.568	120.132
TOTAL EQUITY AND LIABILITIES	184.264	192.597

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 31 March 2024

	2024	2023
	EUR '000	EUR '000
Cash flows from operating activities		
<i>Profit before tax</i>	7.844	9.539
Adjustments for:		
Depreciation and amortisation	1.390	1.519
Impairment losses and reversals	-39	-328
Gain on sale of property, plant and equipment	-	-1
Net loss/(gain) on remeasurement of financial assets	-39	-6
Interest income	-524	-19
Interest expense	100	57
Foreign exchange (gain)/loss, net	-68	-49
Share-based payments	102	151
<i>Changes in working capital</i>		
In receivables	13.198	-930
In inventories	-4.489	-8.270
In provisions	-284	-364
In payables	-15.339	-7.575
<i>Cash generated from operations</i>	1.852	-6.277
Interest paid	-111	-44
Income taxes paid	-617	-749
Net cash from (used in) operating activities	1.125	-7.070
Cash flows from investing activities		
Interest received	465	145
Proceeds from sale of property, plant and equipment	-	1
Purchases of property, plant and equipment, and intangible assets	-547	-69
Deposits given to financial institutions - net	-	403
Net cash from/(used in) investing activities	-82	480
Cash flows from financing activities		
Repayment of borrowings	-467	-550
Purchase of treasury shares	-258	-
Dividends paid	-5	-
Payment of lease liabilities	-502	-682
Net cash used in financing activities	-1.232	-1.232
Effects of exchange rate changes on cash and cash equivalents	12	13
Net increase/(decrease) in cash and cash equivalents	-177	-7.810
Cash and cash equivalents at the beginning of the year	72.655	69.872
Cash and cash equivalents at the end of the year	72.478	62.062