



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 27, 2023

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for Q1 2023

Highlights:

- Sales revenue: EUR **69.4** million
- Gross margin: **16.6%**
- Operating profit: EUR **9.5** million
- Profit before tax: EUR **9.5** million
- Net profit: EUR **7.8** million
- Cash flow from operating activities: EUR **-7.1** million

Gordana Kovačević, the President of Ericsson Nikola Tesla, commented:

“In Q1 2023, despite a complex macroeconomic situation, Ericsson Nikola Tesla Group’s business results show a continuation of stable business performance. Sales revenue recorded a slight decrease compared to Q1 2022 and amounted to EUR 69.4 million. The delivery of services to Ericsson has been continuously growing and has offset lower sales revenue in the domestic and export markets caused by reduced operators’ capital investments.

The domestic market was marked by the continuation of cooperation with the leading operators on the modernization of telecom networks, with an emphasis on the build of 5G and fiber network. The results of an independent measurement of the quality of services in mobile networks in Croatia that was conducted by HAKOM in cooperation with the German company NET CHECK have confirmed high network performance of our strategic partners, the operators HT and A1 Hrvatska, whose infrastructure, equipment and services we supply. In the Digital Society segment, among new contracts signed I would like to highlight a contract with the City of Split for the project “Introduction of Intelligent Transport Systems in the Functional Traffic Area of the City of Split”.

In export markets, we have continued a quality cooperation with the operators HT Mostar, Crnogorski Telekom and Ipko Kosovo on the modernization of their networks. The activities were especially intense on the implementation of the contract that was signed at the end of 2022 with the new customer Telekom Kosova, related to the modernization of the core and radio network as well as the network maintenance of this Kosovo operator. We have also continued cooperation with the operator Ucom in Armenia on network modernization

and the introduction of new functionalities. In Belarus, we are finalizing the remaining activities in the operator segment according to contracts that were signed before the introduction of sanctions, strictly adhering to the decisions on sanctions introduced by the Republic of Croatia and the authorities of the European Union.

As regards services to Ericsson, our Research and Development (R&D) Center, and other expert centers, have been recording quality results and thus significantly contribute to the company's business results. At the regular half-year meeting *R&D Management Business Review*, the representatives of all development units with which Ericsson Nikola Tesla's R&D Center collaborates, evaluated our Center as the best performing partner. The efficient delivery of high-quality software and speed deliveries of key features that ensure technology leadership for Ericsson were especially highlighted. I would also like to highlight the role that our experts from other expert centers have in the modernization of telecom networks for Ericsson's customers in the European Union, and worldwide.

At Mobile World Congress, the most important event in the mobile communications industry, held end of February / beginning of March in Barcelona, the representatives of Ericsson Nikola Tesla held many meetings with customers and partners and introduced them to Ericsson's novelties. New radio portfolio for indoor and outdoor coverage, Fixed Wireless Access, as well as digital twins achievable in 6G network attracted special attention. The presented solutions offer faster networks build and new communication possibilities for the operators, as well as 5G monetization. Among many innovative solutions, a solution that enables better energy-efficient operation of the mobile network was presented, in the development of which Ericsson Nikola Tesla's experts had an important role.

Compared to Q1 2022, gross margin increased to 16.6%, as a result of business mix and focus on operational and cost efficiency, while the operating profit was at a similar level and amounted to EUR 9.5 million. A negative cash flow from operating activities was in line with our expectations for Q1, and considering the trends so far, cash flow is subject to quarterly volatility and should be observed at the annual level. We have concluded Q1 with a solid balance sheet, and an equity ratio of 39.7%. At the end of Q1, cash and cash equivalents, including the short-term financial assets, amounted to EUR 66.2 million (39.9% of the total assets).

As a technology leader, we have the potential for further development of the company in new technologies; therefore, we continue to implement our strategy to strengthen our leadership in mobile technologies, growth in the Digital Society segment and in R&D. With more than 3,500 employees, of which more than 1,800 are software designers, and the largest R&D Center in Croatia, we have a great intellectual and innovation potential to make an even more active contribution to the achievement of targets on the EU's "Path to the Digital Decade".

Considering the challenges that marked the previous periods, and which continue to impact our operations, in Q1 we continued to monitor and mitigate risks with special focus. Profitability, quick adjustment to market conditions and cost optimization were at the center of our attention. We continued the activities aimed at retaining quality experts by investing in the development of their competencies and providing additional benefits. Moreover, we continued to implement of our own digital transformation project, as well as strengthening the company's culture with a focus on compliance, ethics and integrity.

With the aim to achieve long-term development and sustainability of the company as well as growth in strategic business segments, we invest and plan significant further investments in the development of strategic competencies, development of new solutions, products and services, possible acquisitions, investment in the equipment for the development and testing of new technologies and digital transformation of Ericsson Nikola Tesla Group, which demands a significant amount of funds to be secured.

The Management Board and the Supervisory Board have reached a joint decision to propose to the Company's Annual General Meeting to adopt a decision regarding dividend of EUR 6 per share."

Financial highlights for the Group:

- Sales revenue amounted to EUR 69.4 million (Q1 2022: EUR 69.8 million), 0.6% lower year-over-year. In total sales revenue, the domestic market accounted for 37.6%, services to Ericsson accounted for 53.8%, while other export markets accounted for 8.6%.
- Sales in the Networks segment amounted to EUR 39.3 million (Q1 2022: EUR 40.1 million), Digital Services segment amounted to EUR 17.0 million (Q1 2022: EUR 14.8 million), Managed Services segment amounted to EUR 13.0 million (Q1 2022: EUR 14.8 million), and the segment Other amounted to EUR 0.1 million (Q1 2022: EUR 0.1 million).
- Gross profit was EUR 11.5 million (Q1 2022: EUR 11.0 million), up by 5.0% year-over-year as a result of business mix and operational and cost efficiency. Gross margin increased to 16.6% (Q1 2022: 15.8%).
- Selling and administrative expenses decreased by 5.0% year-over-year, amounting to EUR 2.8 million (Q1 2022: EUR 2.9 million). The share of selling and administrative expenses in sales revenue was 4.0% (Q1 2022: 4.2%).
- Operating profit amounted to EUR 9.5 million, up by 3.3% year-over-year (Q1 2022: EUR 9.2 million), as a result of higher gross profit.
- Profit from financial activities was EUR 2.1 thousand (Q1 2022: EUR 0.2 million).
- Profit before tax increased by 1.2% year-over-year to EUR 9.5 million (Q1 2022: EUR 9.4 million).
- Net profit amounted to EUR 7.8 million (Q1 2022: EUR 7.9 million), down by 1.2% year-over-year. Return on Sales (ROS) remained unchanged year-over-year, amounting 11.3%.
- Cash flow from operating activities amounted to EUR -7.1 million (Q1 2022: EUR -7.4 million) and is in line with the expectations for Q1. Given the quarterly volatility, and in this quarter additionally affected by the payments of the annual bonus to employees for the results achieved in the previous year, cash flow should be observed at the annual level.
- Working Capital Efficiency, expressed in WCD, was 17 days (Q1 2022: 10 days), and excluding services to Ericsson WCD was 36 days (Q1 2022: 27 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 March 31, 2023 amounted to EUR 66.2 million (39.9% of the total assets), while at the end of 2022, they amounted to EUR 74.0 million (44.4% of the total assets) and is in line with the planned regular activities for the quarter, including the payment of the larger part of the annual bonus.
- The Group has a solid balance sheet with the total assets of EUR 165.8 million as at March 31, 2023, down by 0.5% compared to the end of 2022, as a result of lower level of cash and customer receivables, while the work-in progress (WIP) increased caused by dynamics of contract execution. Equity ratio was 39.7% (end of 2022: 34.7%).

- With related parties, the transactions were as follows: sales of products and services amounted to EUR 37.3 million (Q1 2022: EUR 34.2 million), while the procurement of products and services amounted to EUR 14.6 million (Q1 2022: EUR 7.0 million).
- As at March 31, 2023, balances outstanding with related parties were as follows: receivables amounted to EUR 18.0 million (end of 2022: EUR 17.9 million), and payables amounted to EUR 13.7 million (end of 2022: EUR 7.0 million).

Business situation in major markets

In the domestic market sales revenue amounted to EUR 26.1 million (Q1 2022: EUR 28.2 million), down by 7.3% year-over-year.

With Hrvatski Telekom, we have continued the cooperation in the area of construction and monitoring of telecommunications infrastructure, monitoring of telecommunications network, field maintenance of fixed and mobile telecommunications infrastructure, and expansion and modernization of mobile network. All activities are ongoing in line with the agreed targets. Moreover, during Q1 the delivery of radio access active equipment was contracted, as well as the accompanying services for the build of the next generation mobile broadband access network in areas without the broadband infrastructure and without the sufficient market interest for investments. The project is co-financed by the Operational Programme Competitiveness and Cohesion 2014 - 2020.

With A1 Hrvatska, the activities related to the expansion of coverage and capacity of radio 5G network, and the modernization and expansion of capacities of the radio access network, continued. Moreover, the cooperation continued on the realization of contracts related to the build of convergent core network, the modernization of microwave transmission systems, as well as the delivery of radio access active equipment for the build of the next generation mobile broadband access network in areas without the broadband infrastructure and without the sufficient market interest for investments, which is co-financed by the Operational Programme Competitiveness and Cohesion 2014 - 2020.

In the Digital Society segment, a contract was signed with the City of Split for the project "Introduction of Intelligent Transport Systems in the Functional Traffic Area of the City of Split" which encompasses the activities of the implementation of the traffic management software solution in the control center and informing passengers, and the delivery of the communication backbone. A contract was also signed with the Ministry of Agriculture for the creation of software solution to carry out the tender for the lease and sale of the state-owned agricultural land. Moreover, contracts were signed with the Ministry of Tourism and Sports for the services of the development of the central portal eTourism and creation of mobile apps.

In export markets (excluding services to Ericsson) sales revenue amounted to EUR 6.0 million (Q1 2022: EUR 7.5 million), down by 19.7% year-over-year.

A quality cooperation continued with the operators HT Mostar, Crnogorski Telekom and IPKO on the expansion and modernization of their telecommunication networks. We would like to highlight the continuation of activities with Crnogorski Telekom on software upgrade and modernization of mobile network which includes an increase of capacity, expansion and coverage of the entire country with 5G signal. Crnogorski Telekom has the largest 5G and 4G network in Montenegro, and according to the official report from the Agency for Electronic Communications and Postal Services (EKIP), also the fastest mobile network.

Activities with the operator Telekom Kosova have intensified on the implementation of contract that was signed at the end of 2022. The contract encompasses the modernization and virtualization of the entire core network,

the introduction of the most advanced equipment in radio part of the network and the implementation of Kosovo international code 383 in the network. Furthermore, we continue cooperation with the operator Ucom in Armenia on network modernization and the introduction of new functionalities.

In Ericsson market sales revenue amounted to EUR 37.3 million (Q1 2022: EUR 34.2 million), up by 9.1% year-over-year.

At the end of Q1 2023, a regular half-year R&D Management Business Review meeting was held, during which a detailed analysis of performance and evaluation was carried out by all Ericsson development units with which Ericsson Nikola Tesla's R&D Center collaborates. Furthermore, focus areas for the upcoming period were also presented. The stakeholders' evaluation once again proved high satisfaction in areas quality, delivery performance, efficiency and innovation, which makes Ericsson Nikola Tesla's Research and Development Center currently Ericsson's best performing partner. Feedback received showed high recognition in terms of efficient delivery of high-quality software, speed and quality deliveries of key features that ensure technology leadership for Ericsson, continuous improvement in operations, organizational flexibility in developing, keeping, and using key competencies.

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 on 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, Serbia, North Macedonia, etc.

These are complex projects that, among other activities, include 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 modernization of radio network of T-Mobile in the Netherlands and T-Mobile in Germany. Their engagement encompassed the work on key activities related to design, integration, optimization and application of program tools for the build and optimization of network.

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. The latest success was achieved with RAMT (Rehoming Automation Management Tool) global tool that was fully developed by Ericsson Nikola Tesla's experts, and that for more than ten years has been significantly accelerating the configuration and optimization processes when modernizing networks.

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 area 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, also had a key role in digital transformation processes of Ericsson Nikola Tesla Group and provided quality support for work of Ericsson Nikola Tesla Group's employees, as well as remote support to customers.

Other information

At the meeting held on April 13, 2023, Ericsson Nikola Tesla's Supervisory Board and Management Board made a joint proposal to the Company's Annual General Meeting to adopt a decision regarding the dividend payment of EUR 6 per share.

Ericsson Nikola Tesla's Annual General Meeting will be held on June 14, 2023. The shareholders who have the Company shares registered on their securities account in the Central Depository & Clearing Company on June 20, 2023, are entitled to dividend payment. Ex-dividend date is June 19, 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 March 31, 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:

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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 31 March 2023

	2023	2022
	EUR '000	EUR '000
Sales revenue	69.379	69.822
Cost of sales	-57.830	-58.823
Gross profit	11.549	10.999
Selling expenses	-1.208	-1.338
Administrative expenses	-1.574	-1.591
Other operating income	1.097	1.167
Impairment loss on financial assets	-327	-4
Operating profit	9.537	9.233
Finance income	46	239
Finance expense	-44	-44
Finance income/(expense), net	2	195
Profit before tax	9.539	9.428
Income tax	-1.719	-1.509
Profit for the year	7.820	7.918
Other comprehensive income	-28	9
Total comprehensive income for the year	7.792	7.927
Earnings per share (EUR)	6	6

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 31 March 2023

	2023	2022
	EUR '000	EUR '000
ASSETS		
Non-current assets		
Property, plant and equipment	15.450	16.093
Right of use assets	5.677	5.925
Intangible assets	631	644
Loans and receivables	2.756	2.093
Deferred tax assets	3.187	3.187
Total non-current assets	27.701	27.943
Current assets		
Inventories	21.496	13.226
Trade receivables	30.185	30.290
Receivables from related parties	18.045	17.884
Other receivables	1.214	2.077
Income tax receivable	52	7
Prepayments	956	1.169
Financial assets at fair value through profit or loss	4.130	4.124
Cash and cash equivalents	62.062	69.872
Total current assets	138.139	138.649
TOTAL ASSETS	165.840	166.592
EQUITY AND LIABILITIES		
Equity		
Share capital	17.674	17.674
Treasury shares	-2.260	-2.268
Legal reserves	884	884
Reserve for treasury shares	5.344	5.353
Reserve of currency conversion	-31	-3
Retained earnings	44.145	36.175
Total equity	65.757	57.814
Non-current liabilities		
Borrowings	192	215
Lease liabilities	3.676	3.703
Other non-current liabilities	-	1
Employee benefits	1.122	1.103
Total non-current liabilities	4.991	5.022
Current liabilities		
Payables to related parties	13.699	7.000
Borrowings	1.407	1.876
Trade and other payables	29.248	42.385
Income tax payable	1.570	561
Provisions	1.733	2.117
Accrued charges and deferred revenue	22.476	22.059
Contract liabilities	22.969	25.515
Lease liabilities	1.992	2.244
Total current liabilities	95.093	103.756
Total liabilities	100.084	108.778
TOTAL EQUITY AND LIABILITIES	165.840	166.592

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 31 March 2023

	2023	2022
	EUR '000	EUR '000
Cash flows from operating activities		
<i>Profit before tax</i>	9.539	9.428
Adjustments for:		
Depreciation and amortisation	1.519	1.760
Impairment losses and reversals	-328	-6
Gain on sale of property, plant and equipment	-1	-18
Net loss/(gain) on remeasurement of financial assets	-6	86
Interest income	-19	-47
Interest expense	57	44
Foreign exchange (gains)/losses, net	-49	-181
Share-based payments	151	256
<i>Changes in working capital</i>		
In receivables	-930	-10.763
In inventories	-8.270	-4.493
In provisions	-364	-405
In payables	-7.575	-2.933
<i>Cash generated from operations</i>	-6.277	-7.272
Interest paid	-44	-67
Income taxes paid	-749	-106
Net cash (used in)/from operating activities	-7.070	-7.445
Cash flows from investing activities		
Interest received	145	43
Proceeds from sale of property, plant and equipment	1	11
Purchases of property, plant and equipment, and intangible assets	-69	-82
Deposits given to financial institutions - net	403	96
Net cash from/(used in) investing activities	480	69
Cash flows from financing activities		
Repayment of borrowings	-550	-769
Purchase of treasury shares	-	-492
Dividends paid	-	-1
Payment of lease liabilities	-682	-740
Net cash used in financing activities	-1.232	-2.003
Effects of exchange rate changes on cash and cash equivalents	13	86
Net increase/(decrease) in cash and cash equivalents	-7.810	-9.293
Cash and cash equivalents at the beginning of the year	69.872	63.373
Cash and cash equivalents at the end of the year	62.062	54.080