

PRESS INFO

April 28, 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 Q1 2022

Highlights:

- Sales revenue: MHRK **526.1**
- Gross margin: **15.8%**
- Operating profit: MHRK **69.6**
- Profit before tax: MHRK **71.0**
- Net profit: MHRK **59.7**
- Cash flow from operating activities: MHRK **-56.1**

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

“Ericsson Nikola Tesla Group started 2022 with successful implementation of projects and plans to contract new business deals in the domestic and export markets. Although the results for Q1 2022 show a significant growth of almost all business performance indicators, it should be noted that the war in Ukraine has a significant impact on the realization of contracted activities, as well as new business opportunities in Belarus and surrounding markets.

The activities of Ericsson Nikola Tesla Group in Belarus, where in Minsk our daughter company with 25 employees operates, include the expansion of LTE networks for local operators and the informatization of the central health system. In addition, signing of new contracts was also planned in this market. Due to sanctions imposed on Belarus, and consequently the expiration of validity of previously obtained export licenses, we have suspended all activities with the local customers and have submitted requests to Croatian authorities for issuing new export licenses. Their response, and the development of sanctions will significantly affect the future activities and the implementation of those projects. Depending on this, a longer disruption of our business in Belarus is also possible, which will reflect on our plans and results, especially on the planned sales revenue, operating margin and operating cash flow, however, we do not expect it to disrupt Ericsson Nikola Tesla Group’s business and financial stability. We have been continuously monitoring the development of the situation, and during Q2 we expect to have an assessment of the actual value impact on the Group’s results.

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In order to support the people of Ukraine, hit by this war and humanitarian crisis, the company has donated funds, and our employees have shown great empathy and are trying to help by donating money, collecting supplies and volunteering.

Compared to Q1 2021, sales revenue increased by 18%, and all market segments (domestic, export, services to Ericsson) recorded growth. Profitability also recorded significant growth; gross margin increased to 15.8%, while operating profit increased by 53.7% and amounted to MHRK 69.6. Negative cash flow from operating activities is in line with our expectations for Q1, and given the quarterly volatility, cash flow should be observed at the annual level. We have concluded Q1 with a healthy balance sheet and an equity ratio of 37.5%. Cash and cash equivalents, including short-term financial assets, amounted to MHRK 439.8 or 35.7% of the total assets. Business results for Q1 2022 do not include the impact of sanctions on Belarus, however, it is expected that their impact could be seen in the results for Q2.

In the domestic market, in the operator segment, we continued the implementation of the previously contracted activities with strategic partners A1 Hrvatska and Hrvatski Telekom, primarily related to mobile networks modernization, focusing on the implementation of 5G technology. Intensive activities are also ongoing on the build and maintenance of fixed and mobile telecommunication infrastructure of Hrvatski Telekom. The focus is on introducing fiber for end-users, as well as the preparatory activities related to contracts co-financed by European Funds, the purpose of which is to design and build the passive part of FTTH (*Fiber To The Home*) network for remote, not as densely populated and not as developed areas of the Republic of Croatia. In the segment Digital Society (*previously: Industry & Society*) the activities continued on the projects regarding e-Health, e-Business and public safety, and new agreements were also signed with Hrvatske ceste, the Ministry of the Interior, and several hospitals.

Despite the challenges in export markets, we have continued a quality cooperation with long-term customers in neighboring countries, operators HT Mostar and BH Telekom (Bosnia and Herzegovina), Ipko (Kosovo), and Crnogorski Telekom (Montenegro) on the modernization and expansion of their networks. I would like to highlight the activities on 5G technology with Crnogorski Telekom, the first operator in Montenegro to put 5G network into commercial operation.

The delivery of services to Ericsson has been continuously increasing. At the R&D Management Business Review meeting, held in March 2022, our Research & Development Center was again highly evaluated by all internal stakeholders, and was recognized as an organization that significantly contributes to the technology leadership of Ericsson Corporation. The possibility to gain new responsibilities was also expressed, which opens an opportunity for us to position even stronger within Ericsson market.

When we talk about global trends, the demand for digitalization of public services and solutions and services based on mobile technologies, which experienced strong growth during the pandemic, continues. Furthermore, there is a growing polarization of global politics and markets worldwide, which has an impact on the positioning of vendors of ICT solutions at the global level, and consequently requires our additional efforts and flexibility. Given the situation, our strong focus is on timely identification and mitigation of risks in order to better cope with the political crisis in certain markets, disruptions in global supply chains, significant increase in prices of energy, raw materials and services, as well as rising labor costs. In 2022, we will intensify investments in 5G and new technologies, Industry 4.0, new markets and customers, digital transformation of Ericsson Nikola Tesla Group and the retention of key people and attracting new talent. Considering the growing needs for experts in areas of new responsibilities we are focused on additional recruiting, and during Q1 our Group employed 78 experts. We are well positioned to continue the implementation of our strategy and I believe that with our technology leadership, strong leadership, motivation

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and commitment of employees, as well as the trust of customers and partners, we will mitigate the ahead of us. Having all this in mind, the Management Board and the Supervisory Board proposed to the Annual General Meeting to adopt a dividend proposal of HRK 64 per share, thus showing that, even in this very demanding year, we are taking care of sustainable and responsible business in the interest of all stakeholders.“

Financial highlights for the Group:

- Sales revenue amounted to MHRK 526.1 (Q1 2021: MHRK 445.9), up by 18.0% year-over-year. In total sales revenue, the domestic market accounted for 40.3%, services to Ericsson accounted for 49%, while other export markets accounted for 10.7%.
- Sales in the Networks segment amounted to MHRK 301.9 (Q1 2021: MHRK 219.9), Digital Services segment amounted to MHRK 111.5 (Q1 2021: MHRK 118.8), Managed Services segment amounted to MHRK 111.8 (Q1 2021: MHRK 105.4), and Emerging Business and Other amounted to MHRK 0.9 (Q1 2021: MHRK 1.7).
- Gross profit was MHRK 82.9 (Q1 2021: MHRK 63.1), up by 31.3% year-over-year, as a result of business mix (increased revenue in the segment of deliveries to Ericsson and intensified deliveries related to projects of modernization of our customers' networks) and operational and cost efficiency program. Gross margin increased to 15.8% (Q1 2021: 14.2%).
- Selling and administrative expenses slightly increased by 1.2% year-over-year to MHRK 22.1 (Q1 2021: MHRK 21.8). The share of selling and administrative expenses in sales revenue was 4.2% (Q1 2021: 4.9%).
- Operating profit amounted to MHRK 69.6, up by 53.7% year-over-year (Q1 2021: MHRK 45.3) as a result of significant growth of gross profit.
- Gain from financial activities amounted to MHRK 1.5 (Q1 2021: MHRK 3.2), mainly due to lower positive impact of exchange differences.
- Profit before tax increased by 46.6% year-over-year to MHRK 71.0 (Q1 2021: MHRK 48.4).
- Net profit amounted to MHRK 59.7 (Q1 2021: MHRK 40.8), up by 46.1% year-over-year. Return on Sales (ROS) was 11.3% (Q1 2021: 9.2%).
- Cash flow from operating activities amounted to MHRK -56.1 (Q1 2021: MHRK 22.6) and is in line with expectations for Q1. Given the quarterly volatility, cash flow should be observed at the annual level.
- Working Capital Efficiency, expressed in WCD, was 10 days (Q1 2021: 18 days), and excluding services to Ericsson, Working Capital Efficiency was 27 days (Q1 2021: 32 days). The current number of Working Capital Days is the result of finalization of several demanding network modernization projects.
- Cash and cash equivalents, including short term financial assets, as at March 31, 2022, amounted to MHRK 439.8 (35.7% of the total assets), while at the end of 2021, they amounted to MHRK 510.5 (42.4% of the total assets), and is in line with the planned regular activities for the quarter, including the payment of annual bonus.

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- The Group has a solid balance sheet with the total assets of MHRK 1,230.4 as at March 31, 2022, up by 2.2% compared to the end of 2021. The increase of balance sheet is still affected by the increase of work-in progress and inventory due to contract execution dynamics as well as the increase in customer receivables. Equity ratio was 37.5% (end of 2021: 33.6%).
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 257.7 (Q1 2021: MHRK 216.1), while the procurement of products and services amounted to MHRK 52.9 (Q1 2021: MHRK 60.6).
- As at March 31, 2022, balances outstanding with related parties were as follows: receivables amounted to MHRK 113.9 (end of 2021: MHRK 76.8), and payables MHRK 42.6 (end of 2021: MHRK 12.6).

Business situation in major markets

In the domestic market, sales revenue amounted to MHRK 212.1 (Q1 2021: MHRK 178.0), up by 19.2% year-over-year.

The first quarter of 2022 was marked by an intense cooperation with the strategic partner Hrvatski Telekom on preparatory activities related to the contracts co-financed by European Funds, which encompass the design and build of the passive part of FTTH network, and procurement and installation of material.

Based on the existing Management Services Agreement for the construction and maintenance of fixed and mobile telecommunications infrastructure, during last year fiber was introduced for new 100,000 end-users, and the build continues also during 2022.

In addition to build of fiber network, 2022 will be marked by further investments of Hrvatski Telekom in mobile network, with a focus on 5G and FWA (Fixed Wireless Access). FWA is a service that enables fixed access through mobile network, and by applying 5G technology it ensures great speeds and is applied primarily in rural, suburban and areas where there is no fiber.

With the strategic partner A1 Hrvatska, activities intensified related to the expansion of coverage and capacity of radio 5G network as well as the modernization of the existing radio access network and the expansion of capacities on LTE technology. Moreover, the cooperation continued on the realization of the second 5G contract signed in 2021 related to build of convergent 5G core network. At the same time, a successful partnership cooperation continues with the modernization of microwave transmission systems.

In the segment Digital Society, in cooperation with the Slovenian company Realis informacijske tehnologije, as a Bidding Consortium, we have signed a contract with Hrvatske ceste to establish a national access point for multimodal information in transport, as well as to develop a route guide as part of the provision of multimodal information services in transport. Moreover, in consortium with King ICT, we signed a new three-year framework agreement with the Ministry of the Interior of the Republic of Croatia on the maintenance of the emergency call system.

In the e-Health segment, we continued the informatization of the central healthcare IT system with the Ministry of Health. The contracts related to maintenance and upgrade were also signed with several hospitals.

We have continued the delivery of software solutions for the Ministry of Justice and Public Administration and State Geodetic Administration on the Joint Information System of Land Registry and Cadaster (JIS). Moreover, activities are ongoing for the Ministry of Justice and Public Administration on the delivery of IT system to improve the quality of work of public administration, as well as an IT system with the aim to optimize the system of local and regional municipalities. For the Ministry of Culture and Media, the project of digitalization of the cultural heritage of the Republic of Croatia, continues. Furthermore, the implementation of interesting innovative solutions for Industry 4.0 related to e-Environment and smart cities, are ongoing.

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In export markets (excluding services to Ericsson) sales revenue amounted to MHRK 56.3 (Q1 2021: MHRK 50.8), up by 10.8% year-over-year.

The political crisis has a negative impact on the realization of contracted business activities of Ericsson Nikola Tesla in Belarus, as well as on new business opportunities. We have been continuously monitoring the development of situation in order to respond and mitigate risks, to the extent possible.

In other export markets, with the operator BH Telecom, we contracted the upgrade of a part of core network and the necessary services of implementation and integration. With the operator HT Mostar, a contract was signed related to management of software and licenses of Ericsson solutions in the network of this operator.

With Crnogorski Telekom, activities continued on the modernization and expansion of telecommunication network. Crnogorski Telekom is the first operator in Montenegro to put 5G network into commercial operation. Dynamic Spectrum Sharing (DSS) technology was implemented at several locations, and intense preparation is ongoing to increase the capacity and to modernize the entire radio network, i.e. coverage of the entire Montenegro with 5G signal.

With the operator Ipko activities are ongoing on the modernization of radio access network and microwave transmission systems, and 5G pilot project was agreed.

In Ericsson market, sales revenue amounted to MHRK 257.7 (Q1 2021: MHRK 217.1), up by 18.7% year-over-year.

In Q1, Ericsson Nikola Tesla's Research & Development Center continued to deliver the planned services. In business segment Networks, the development of main 5G features within Radio, Traffic Control and Compute Digital Silicon is ongoing as planned. Within the business segment Digital Services in the area Mobile Switching Center, activities of automation and virtualization continue. In the area Home Location Register, numerous features were delivered, and customer support requests were successfully realized. Within Cloud, transfer of new responsibilities is successfully finalizing. In the area Unified Data Management, the work on critical feature is progressing as planned. There is a possibility to gain new responsibilities, especially in the area Unified Data Management and Compute & Digital Silicon.

The experts from the Center for Services and Solutions for Networks, in addition to projects for the customers of Ericsson Nikola Tesla Group, are included in the activities of design and optimization and integration of various technologies for Ericsson customers in United Kingdom, Sweden, Norway, Ireland, Germany, Czech Republic, Switzerland, Denmark, Romania, Ukraine, Japan, Saudi Arabia, Malaysia, Pakistan, Oman, Jordan, Indonesia, Bahrain.

The activities also continued on the development and implementation of software tools for management and optimization of mobile networks which are used in the network rollout by many operators worldwide.

Experts from Services and Solutions Center in the field of Digital Services, Media and Operations, in addition to projects for the customers of Ericsson Nikola Tesla Group, were also engaged on projects for Ericsson customers in the United Kingdom, Germany, Sweden, Switzerland, Denmark, Finland, France, Luxembourg, the Netherlands, Ireland, Norway, Italy, Belgium, Slovakia, Hungary, Macedonia, Greece, Serbia, Libya, Australia, etc. These are complex projects of introduction of 5G technology, operational and business support systems, as well as projects of introduction of core solutions in Cloud.

The teams working 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 transformation processes of Ericsson Nikola Tesla Group and provided quality support for a smooth work from home and remote support to customers.

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

Other information

At the meeting held on April 20, 2022, Ericsson Nikola Tesla Supervisory Board and Management Board made a joint proposal to the Annual General Meeting to adopt a decision regarding the dividend payment of HRK 64 per share.

Ericsson Nikola Tesla Annual General Meeting will be held on June 27, 2022. The shareholders who will have the Company shares registered on their securities account in the Central Depository & Clearing Company on July 01, 2022, are entitled to dividend payment. Ex-dividend date is June 30, 2022.

Ericsson Nikola Tesla's major shareholders (as at March 31, 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	30,334	2.28
Raiffeisenbank Austria d.d. / Raiffeisen voluntary pension fund	16,739	1.26
PBZ d.d. / The Bank of New York as Custodian	9,860	0.74
OTP banka d.d. / OTP Index fund – open-end investment fund with public offering	9,474	0.71
PBZ d.d. / custodian client account	9,369	0.70
Ericsson Nikola Tesla d.d.	9,053	0.68
Vuleta Ivica	5,318	0.40
Other shareholders	424,026	31.84

Share price information in Q1 2022 :

Highest (HRK)	Lowest (HRK)	Last (HRK)	Market cap. (in MHRK)
2,040.00	1,450.00	1,880.00	2,503.5

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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 March 31, 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:

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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 2022

	2022	2021
	HRK '000	HRK '000
Sales revenue	526.070	445.858
Cost of sales	-443.199	-382.732
Gross profit	82.871	63.126
Selling expenses	-10.078	-10.617
Administrative expenses	-11.991	-11.201
Other operating income	8.794	4.074
Impairment loss on financial assets	-33	-116
Operating profit	69.563	45.267
Finance income	2.451	3.510
Finance expense	-980	-338
Finance income/(expense), net	1.472	3.172
Profit before tax	71.035	48.439
Income tax	-11.373	-7.603
Profit for the year	59.662	40.836
Other comprehensive income	66	-10
Total comprehensive income for the year	59.728	40.826
Earnings per share (HRK)	45	31

Ericsson Nikola Tesla d.d.
Consolidated statement of financial position
as at 31 March 2022

	2022	2021
	HRK '000	HRK '000
ASSETS		
Non-current assets		
Property, plant and equipment	129.048	134.198
Right of use assets	47.388	52.087
Intangible assets	5.161	5.257
Loans and receivables	26.228	21.928
Deferred tax assets	15.597	15.606
Total non-current assets	223.422	229.076
Current assets		
Inventories	176.702	142.852
Trade receivables	250.724	201.473
Receivables from related parties	113.904	76.808
Other receivables	19.404	35.994
Income tax receivable	238	181
Prepayments	6.151	6.787
Financial assets at fair value through profit or loss	32.349	32.997
Cash and cash equivalents	407.469	477.487
Total current assets	1.006.941	974.579
TOTAL ASSETS	1.230.363	1.203.655
EQUITY AND LIABILITIES		
Equity		
Share capital	133.165	133.165
Treasury shares	-16.133	-12.422
Legal reserves	6.658	6.658
Reserve for treasury shares	36.512	36.512
Reserve of currency conversion	-331	-397
Retained earnings	302.118	240.526
Total equity	461.989	404.042
Non-current liabilities		
Borrowings	13.530	17.031
Lease liabilities	30.920	33.674
Other non-current liabilities	412	446
Employee benefits	8.289	8.597
Total non-current liabilities	53.151	59.748
Current liabilities		
Payables to related parties	42.587	12.628
Borrowings	14.123	14.134
Trade and other payables	212.222	253.501
Income tax payable	27.129	16.806
Provisions	10.862	13.601
Accrued charges and deferred revenue	119.184	120.483
Contract liabilities	272.266	289.976
Lease liabilities	16.850	18.736
Total current liabilities	715.223	739.865
Total liabilities	768.374	799.613
TOTAL EQUITY AND LIABILITIES	1.230.363	1.203.655

Ericsson Nikola Tesla d.d.
Consolidated statement of cash flows
for the period ended 31 March 2022

	2022	2021
	HRK '000	HRK '000
Cash flows from operating activities		
<i>Profit before tax</i>	71.035	48.439
Adjustments for:		
Depreciation and amortisation	13.258	14.358
Impairment losses and reversals	-42	-114
Gain on sale of property, plant and equipment	-139	-49
Net loss/(gain) on remeasurement of financial assets	648	-188
Interest income	-353	-370
Interest expense	328	335
Foreign exchange (gains)/losses, net	-1.364	-2.635
Share-based payments	1.929	583
<i>Changes in working capital</i>		
In receivables	-81.091	-8.704
In inventories	-33.850	-24.340
In provisions	-3.048	-4.154
In payables	-22.100	211
<i>Cash generated from operations</i>	-54.788	23.371
Interest paid	-507	-627
Income taxes paid	-797	-193
Net cash from operating activities	-56.092	22.551
Cash flows from investing activities		
Interest received	328	362
Proceeds from sale of property, plant and equipment	85	15
Purchases of property, plant and equipment, and intangible assets	-618	-2.166
Deposits given to financial institutions - net	723	-
Receipt of government grant	-	1.241
Net change of financial assets at fair value through profit and loss	-	3
Net cash used in investing activities	518	-546
Cash flows from financing activities		
Repayment of borrowings	-5.795	-3.522
Purchase of treasury shares	-3.711	-
Dividends paid	-10	-3
Payment of lease liabilities	-5.573	-5.730
Net cash used in financing activities	-15.088	-9.256
Effects of exchange rate changes on cash and cash equivalents	645	1.029
Net increase/(decrease) in cash and cash equivalents	-70.018	13.779
Cash and cash equivalents at the beginning of the year	477.487	281.056
Cash and cash equivalents at the end of the year	407.469	294.834