

## PRESS INFO

April 28, 2020



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 d.d.

Management Report on the Company and Ericsson Nikola Tesla Group business performance with comments on the financial results for Q1 2020

### Highlights:

- Sales revenue: MHRK **487.7**
- Gross margin: **10.2%**
- Operating profit: MHRK **33.5**
- Profit before tax: MHRK **34.6**
- Net profit: MHRK **29.6**
- Cash flow from operating activities: MHRK **18.1**

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

“The beginning of 2020 will be remembered by the COVID-19 pandemic, which changed our everyday business and personal lives. With the aim to limit the spreading of the virus, Croatia, and countries worldwide, introduced numerous measures of social distancing, which slowed down and/or stopped the movement of people and equipment and impacted the realization of contracted projects and customer investments. Due to the fact that Ericsson Nikola Tesla Group operates globally, we estimate that all the above mentioned could negatively impact a certain part of our business, slow down investments, realization of contracted projects and collection dynamics of customer receivables. In addition to COVID-19 pandemic, at the end of March, Zagreb and its surrounding area were hit by the most powerful earthquake in the last 140 years, with 5.5 magnitude on the Richter Scale, which additionally burdened business performance, in already complex circumstances and caused damage to buildings and equipment. In this situation, our priority in business decision making is the health and safety of our employees, customers, partners and suppliers. Therefore, we have timely enabled a majority of our employees to work remotely and are proud of their dedication and engagement in providing services/support to our customers. We would like to thank Ericsson Nikola Tesla Group's Crisis Management Team who, in addition to their regular activities, have been providing quality support to employees, reaching decisions, securing necessary protection equipment, and regularly and transparently communicating with Ericsson Nikola Tesla Group's employees with a lot of enthusiasm and motivation since February 25.

## PRESS INFO

April 28, 2020



In Q1 2020, Ericsson Nikola Tesla Group realized solid results with a limited impact of COVID-19. Sales revenue increased by 26% year-over-year to MHRK 487.7, primarily due to significant sales revenue growth in the operator segment in the domestic market. Along with increased activities on modernization and expansion of operators' networks capacities in the domestic market, I would like to highlight that in the beginning of 2020 we took over from Ericsson Corporation the full responsibility for the Managed Services of build and maintenance of HT's telecommunications infrastructure, which are services delivered by our daughter company Ericsson Nikola Tesla Servisi d.o.o.. During Q1 2020, in export markets we signed contracts for mobile networks expansion (to be realized during 2020, depending on market situations related to COVID-19) and network maintenance with the operators HT Eronet (Bosnia and Herzegovina), Crnogorski Telekom (Montenegro), beCloud (Belarus), and IDC (Moldova). Research and Development Center (R&D Center) has been successfully balancing between the existing and new responsibilities and contributes to the overall financial stability. Despite extraordinary circumstances, all development activities as well as activities in global and regional Services and Solutions Expert Centers, are mostly ongoing as planned.

On Group level, gross margin decreased to 10.2%, as a result of business mix due to taking over the full responsibility for managed services, restructuring charges, and impact of COVID-19 during March 2020. Selling and administrative expenses are up by 23% year-over-year, due to higher presales activities, related to 4G/5G radio access and core networks. Operating profit is down by 17.8% and amounts to MHRK 33.5, due to lower gross profit and higher selling and administrative expenses. Net profit amounts to MHRK 29.6, while ROS amounts to 6.1%. We concluded Q1 with a solid balance sheet and an equity ratio of 32.7%. A positive cash flow from operating activities was also realized, amounting to MHRK 18.1, due to higher collection of customer receivables and prolongation of certain payments caused by COVID-19. Total cash and cash equivalents, including short-term financial assets, at the end of Q1 amounted to MHRK 154.1. Working Capital Efficiency, measured in Working Capital Days, was 44 days, and if we exclude services to Ericsson, WCD was 101 day. Cash conversion rate was 40%.

In the crisis we are facing, the importance of technology and implementation of ICT solutions within the digital transformation of society is undisputed, which is why we believe that encouraging investment in solutions such as 5G and digital transformation is the right way to accelerate the economic recovery. Our experts continuously work with the customers on monitoring and maintaining their networks and on the implementation of new solutions in order to enable connectivity and timely exchange of information.

On the day this report is published, the crisis caused by the COVID-19 continues and it is therefore difficult to predict the overall impact on Group's business performance. Due to new circumstances, our strong focus is placed on even more detailed business planning, monitoring and managing risks, cost and operating efficiency and we are taking all the appropriate measures to secure the continuity of our stable business performance. We believe that along with the mentioned focus, the Group has sufficient funds and options on the financial market to respond to these challenges. In terms of our long-term outlook, we remain positive, even though we are expecting somewhat lower results in the upcoming period due to challenges and uncertainty caused by COVID-19.

Furthermore, we believe that investments into quality and expansion of networks' capacities are the best way to respond to multiple increase of end user demand for telecommunication services. The current situation demonstrated the advantages of services' digitalization; therefore the Group's long-term strategy remains unchanged and focuses on solutions and sales in the mobile broadband Internet access (4G/5G mobile solutions), Industry & Society segment (healthcare, public safety, e-Business), solutions for digital transformation and managed services."

# PRESS INFO

April 28, 2020



## Financial Highlights for the Group:

- Sales revenue amounted to MHRK 487.7 (Q1 2019: MHRK 388.2), up by 26% year-over-year. Of the total sales revenue, domestic market accounts for 41%, services to Ericsson account for 45.8%, while other export markets account for 13.2%.
- Sales in the Networks segment amounted to MHRK 303.7 (Q1 2019: MHRK 208.7), Digital Services amounted to MHRK 103.2 (Q1 2019: MHRK 140), Managed Services amounted to MHRK 78.8 (Q1 2019: MHRK 39.2), and Emerging Business and Other amounted to MHRK 2 (Q1 2019: MHRK 0.2).
- Gross profit was MHRK 49.9 (Q1 2019: MHRK 52.2), down by 4.4% year-over-year. Gross margin decreased to 10.2% (Q1 2019: 13.5%), as a result of business mix due to taking over full responsibility for managed services, restructuring charges, and impact of COVID-19 during March 2020.
- Selling and administrative expenses increased by 23% year-over-year, amounting to MHRK 21.3 (Q1 2019: MHRK 17.5) due to higher engagement on presales activities related to 4G/5G radio access and core networks.
- As a result of lower gross margin and increased selling and administrative expenses, the operating profit decreased by 17.8% year-over-year amounting to MHRK 33.5 (Q1 2019: MHRK 40.7).
- Gain from financial activities was MHRK 1.1 (Q1 2019: MHRK 1.7). Lower gain from financial activities is primarily the result of weakening of the exchange rate of HRK against EUR and USD during March 2020.
- Profit before tax decreased by 18.5% year-over-year amounting to MHRK 34.6 (Q1 2019: MHRK 42.4).
- Net profit was MHRK 29.6 (Q1 2019: MHRK 32.9), down by 10% year-over-year. Return on sales (ROS) is 6.1% (Q1 2019: 8.5%).
- Cash flow from operating activities amounted to MHRK 18.1 (Q1 2019: MHRK 26.8). Cash flow was positively impacted by higher collection of receivables from certain customers, and lower cash outflow as a result of prolongation of certain payments due to COVID-19. Cash conversion rate is 40% (Q1 2019: MHRK 43%).
- Working Capital Efficiency, expressed in WCD, on Group level was 44 days (Q1 2019: 39 days), and excluding services to Ericsson, Working Capital Efficiency was 101 day (Q1 2019: 96 days). Increase in WCD is a result of difficulties in field activities due to restrictions in movement related to COVID-19, primarily related to implementation of network modernization projects and managed services that demand the presence of our employees on sites.
- Total cash and cash equivalents, including short term financial assets, as at March 31, 2020 amounted to MHRK 154.1 (14.6% of the total assets), while at the end of 2019, they amounted to MHRK 135.8 (14.2% of the total assets). The increase of cash and cash equivalents is primarily the result of positive cash flow from operating activities and additional control of investment activities.
- The company has a solid balance sheet with total assets of MHRK 1,055.0 as at March 31, 2020, up by 10% compared to end of 2019, primarily as the result of increase in current customer receivables. Equity ratio amounted to 32.7% (end of 2019: 33%).
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 217.7 (Q1 2019: MHRK 255.7), while procurement of products and services amounted to MHRK 123.3 (Q1 2019: MHRK 89.5).

# PRESS INFO

April 28, 2020



- As at March 31, 2020, balances outstanding with related parties were as follows: receivables amounted to MHRK 124.3 (end of 2019: MHRK 116.1), and payables amounted to MHRK130.9 (end of 2019: MHRK 95.4).

## Reclassification of financial data:

- Compared to the results published in Q1 2019, the Group modified its presentation of Financial Statements to comply with the reporting as per the Capital Market Act (65/18 Article 470). The key changes include Other Group's revenues which were presented last year as the decrease of Direct expenses of sales of products and services, and operating currency exchange which is now presented as Financial income.

## Business situation in major markets

**In the domestic market**, sales revenue amounted to MHRK 199.9 (Q1 2019: MHRK 91.5), up by 118% year-over-year.

With the strategic partner Hrvatski Telekom (HT), we have continued the cooperation in the segment of radio access network, with a focus on additional increase of capacity and securing readiness for commercial introduction of 5G technology once the necessary radio frequency spectrum has been assigned for it and required conditions have been met.

Along with the mobile telecommunication network segment, we have continued our long-term cooperation in the segments of fixed telecommunication network and the delivery of HT's telecommunication infrastructure rollout and maintenance services (managed services).

In addition to the impact of COVID-19, which requires working in special conditions, the event that marked Q1 was the earthquake that hit Zagreb, which affected a building of Hrvatski Telekom, in which fire caused damage to part of the equipment related to providing internet access services. The experts of Ericsson Nikola Tesla Servisi d.o.o., in cooperation with HT's experts, promptly reacted in this crisis and returned the system into previous condition, thus securing service availability to end users, as well as customer satisfaction.

With the strategic partner A1 Hrvatska we continued the activities on further modernization and expansion of radio access network. Ericsson Nikola Tesla proved to be a reliable partner to A1 Hrvatska by securing high network quality in order for the customer to meet the increased end-users' demand during crisis. Furthermore, we continued the cooperation in the segments of core network and transport telecommunication network, which contributes to the increased network quality and new services for end-users.

With the mobile operator Tele2 we have worked on the expansion of microwave transport network. Furthermore, we have continued to provide support services for voice core network, as well as software solution for data traffic shaping.

With the company RUNE Crow, the activities are ongoing on creating project documentation regarding the implementation of ultra-fast broadband fiber infrastructure for users in Croatian rural areas (Primorje-Gorski Kotar County and Istria County).

In the field of ICT solutions for Industry & Society, we continued the upgrade of the Joint Information System of Land Registry and Cadaster (JIS). With the Ministry of Public Administration of the Republic of Croatia, a contract was signed for the introduction of quality management system into Public Administration. In cooperation with the Croatian Ministry of Health, Croatian Institute for Public Health, APIS IT and Croatian Health Insurance Fund, we have upgraded the Central Healthcare Information System of the Republic of Croatia (CEZIH). These upgrades refer in particular to CEZIH's security structure, in order to enable the implementation of new web applications to fight COVID-19.

## PRESS INFO

April 28, 2020



**In export markets (excluding Ericsson market)**, sales revenue recorded an increase by 47% year-over-year to MHRK 64.4 (Q1 2019: MHRK 43.8).

In Q1 2020, Ericsson Nikola Tesla signed new contracts in the operator's segment in the markets of Bosnia and Herzegovina, Montenegro, Belarus and Moldova, worth approximately MHRK 85. The contracts encompass mobile networks expansions and maintenance in the upcoming period.

We contracted network maintenance for the period of two years with HT Eronet (Bosnia and Herzegovina). With the operator IDC (Moldova), IP Multimedia Subsystem (IMS) maintenance was contracted, and with the operator beCloud (Belarus) LTE network expansion. With Crnogorski Telekom, we signed a contract to extend support for Contact Center platform in the following three years, and we have been continuously working on radio access network modernization.

In ICT segment for Industry & Society, within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan the activities are ongoing on the maintenance of the national information healthcare system. The activities also continue on healthcare system maintenance for the needs of the Ministry of Healthcare of Armenia.

Realization of signed contracts in export markets significantly depends on the development of the situation regarding COVID-19 in countries mentioned.

**In Ericsson market**, sales revenue amounted to MHRK 223.4 (Q1 2019: MHRK 252.9), down by 12% year-over-year, due to change of business model regarding managed services of HT's network in 2020. Sales revenue increased by 4.6% for comparable units, excluding managed services.

Ericsson Nikola Tesla's R&D Center continued with the ongoing business and projects. In radio development within the business segment Networks, a range of significant functions related to 5G products was completed and delivered. In core networks segment, the elements related to modernization (IPv6) and MSC (Mobile Switching Centre) virtualization for the customer CMCC (China Mobile Communication Company) were successfully delivered. Ericsson Nikola Tesla's responsibilities expanded within the system for the so called "Cloud functions", and the transfer of responsibilities for CUDB (Centralized User Database) nodes is ongoing within the organization for the development of Unified Data Management.

A regular semi-annual business overview of the R&D Center was conducted mid-March with the representatives of Ericsson Corporation organizations with whom our R&D Center experts cooperate. The quality and innovativeness of our teams were highlighted as well as achieved results, which provides a good basis for further R&D's development and business.

Demand for Ericsson Nikola Tesla's experts by Ericsson global/regional organizations remains high, however, the realization of activities is limited due to travel restrictions caused by COVID-19. Experts from Services and Solutions Center for Networks, along with projects for the customers of Ericsson Nikola Tesla Group, are included in activities of integration and optimization of various technologies for Ericsson customers in the USA, China, Japan, Brazil, Mexico, Nigeria, Egypt, Germany, Slovenia, Denmark, Norway, Finland, the United Kingdom, France, Australia, Vietnam and Turkey. Furthermore, they are engaged on support to the Swiss operator Swisscom for the maintenance of the „Best network in the world“, according to P3 measurements. We have continued to work on the development and implementation of software tools for mobile networks management and optimization.

## PRESS INFO

April 28, 2020



Experts from Services and Solutions Center for Digital Services, Media and Operations, along with working on projects for our customers, were also engaged on projects for Ericsson customers in Austria, Germany, Sweden, Switzerland, the United Kingdom, the Netherlands, Belgium, Denmark, Finland, France, Ireland, Norway, Lithuania, Italy, Slovenia, Czech Republic, Albania, Mexico and Bahrein. They are engaged in complex projects of 5G technology introduction, operational and business support systems, as well as projects of introduction of core solutions in Cloud.

The teams working IT& Engineering Services unit are achieving excellent results on projects of test environment management and IT operations management. Our experts have shown excellence, proactivity, speed and quality in organizing the necessary equipment and technical conditions for remote work, and the restoration of Company's IT equipment which was destroyed during earthquake. ICT for Industry and Society segment records good results in projects in the field of IoT platforms, Connected Urban Traffic and the development of solutions to fight COVID-19.

Regarding innovations we continue with the implementation of the best ideas from innovation competition of our Research and Development Unit regarding core networks, and Industry & Society Unit regarding the implementation of new possibilities that 5G brings within solutions in the Industry&Society segment.

# PRESS INFO

April 28, 2020



## Other information

Ericsson Nikola Tesla major shareholders (as at March 31, 2020)

	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Addiko Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	56,013	4.21
Addiko Bank d.d. / PBZ Croatia mandatory pension fund, B category	31,023	2.33
PBZ d.d. / The Bank of New York as Custodian	12,173	0.91
PBZ d.d. / custodian client account	9,130	0.69
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	8,271	0.62
Addiko Bank d.d. / Raiffeisen voluntary pension fund	8,094	0.61
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	7,180	0.54
Vuleta Ivica	4,630	0.35
Other shareholders	418,149	31.39

Share price information in Q1 2020:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (In MHRK)
1,500.00	1,020.00	1,120.00	1,491.5

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Ericsson Nikola Tesla d.d.  
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, 2020 to March 31, 2020 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".



## PRESS INFO

April 28, 2020



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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 2020

	<b>2020</b>	<b>2019</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Sales revenue	487.663	388.163
Cost of sales	-437.780	-335.939
<b>Gross profit</b>	<b>49.883</b>	<b>52.224</b>
Selling expenses	-11.002	-10.063
Administrative expenses	-10.226	-7.475
Other operating income	4.812	6.025
<b>Operating profit</b>	<b>33.466</b>	<b>40.710</b>
Finance expense/income – net	1.097	1.697
<b>Profit before tax</b>	<b>34.563</b>	<b>42.407</b>
Income tax	-5.008	-9.467
<b>Profit for the year</b>	<b>29.555</b>	<b>32.940</b>
Other comprehensive income	126	173
<b>Total comprehensive income for the year</b>	<b>29.681</b>	<b>33.113</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of financial position  
as at 31 March 2020

	<b>2020</b>	<b>2019</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	143.038	143.776
Right of use assets	52.297	51.920
Intangible assets	4.321	4.412
Loans and receivables	47.505	53.772
Deferred tax assets	16.197	16.200
<b>Total non-current assets</b>	<b>263.358</b>	<b>270.080</b>
<b>Current assets</b>		
Inventories	177.987	173.311
Trade receivables	290.451	215.437
Contract assets	0	3.239
Receivables from related parties	124.335	112.861
Other receivables	9.853	18.123
Receivables from government	24.031	14.323
Financial assets at fair value through profit or loss	37.088	37.892
Prepayments and accrued income	10.965	11.654
Cash and cash equivalents	116.965	97.906
<b>Total current assets</b>	<b>791.675</b>	<b>684.746</b>
<b>TOTAL ASSETS</b>	<b>1.055.033</b>	<b>954.826</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	133.165	133.165
Treasury shares	-241	-241
Legal reserves	6.658	6.658
Reserve for treasury shares	14.873	14.873
Translation reserve	-226	-176
Retained earnings	191.044	160.473
<b>Total equity</b>	<b>345.273</b>	<b>314.753</b>
<b>Non-current liabilities</b>		
Borrowings	33.183	27.362
Lease liability	38.685	33.584
Employee benefits	10.343	10.314
Other non-current liabilities	3.953	8.704
<b>Total non-current liabilities</b>	<b>86.165</b>	<b>79.964</b>
<b>Current liabilities</b>		
Payables to related parties	129.314	90.579
Borrowings	7.077	34
Lease liabilities	16.387	19.057
Trade and other payables	202.548	188.460
Contract liabilities	156.835	149.375
Income tax payable	881	315
Provisions	15.492	16.376
Accrued charges and deferred revenue	95.061	95.913
<b>Total current liabilities</b>	<b>623.595</b>	<b>560.109</b>
<b>Total liabilities</b>	<b>709.760</b>	<b>640.073</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1.055.033</b>	<b>954.826</b>

Ericsson Nikola Tesla d.d.  
Consolidated statement of cash flows  
for the period ended 31 March 2020

	<b>2020</b>	<b>2019</b>
	<b>HRK '000</b>	<b>HRK '000</b>
<b>Cash flows from operating activities</b>		
<i>Profit before tax</i>	34.563	42.407
Adjustments for:		
Depreciation and amortisation	13.775	16.859
Impairment losses and reversals	-111	2.086
Net change in provisions	-884	3.131
Gain on sale of property, plant and equipment	-108	-1.773
Net loss/(gain) on remeasurement of financial assets	804	-191
Amortisation of discount	0	-412
Interest income	-726	-437
Interest expense	326	441
Foreign exchange losses/(gains)	-998	-76
Equity-settled transactions	-839	0
	45.801	62.034
<i>Changes in working capital</i>		
In receivables	-78.258	1.164
In inventories	-4.653	-69.559
In payables	55.565	33.932
<i>Cash generated from operations</i>	18.455	27.571
Interest paid	-247	-441
Income taxes paid	-154	-316
<b>Net cash from operating activities</b>	<b>18.054</b>	<b>26.814</b>
<b>Cash flows from investing activities</b>		
Interest received	302	416
Dividends received	0	34
Proceeds from sale of property, plant and equipment	121	816
Purchases of property, plant and equipment, and intangible assets	-11.433	-19.111
Other investment activities	4.299	2.330
Purchases of financial assets at fair value through profit and loss	0	-20.000
<b>Net cash used in investing activities</b>	<b>-6.712</b>	<b>-35.516</b>
<b>Cash flows from financing activities</b>		
Loans received	13.101	0
Loans paid	-487	0
Lease liabilities	-5.842	-5.572
Other financial activities	-22	0
<b>Net cash used in financing activities</b>	<b>6.749</b>	<b>-5.572</b>
Effects of exchange rate changes on cash and cash equivalents	968	338
<b>Net decrease/(increase) in cash and cash equivalents</b>	<b>19.059</b>	<b>-13.936</b>
Cash and cash equivalents at the beginning of the year	97.906	187.888
<b>Cash and cash equivalents at the end of the year</b>	<b>116.965</b>	<b>173.952</b>