

PRESS INFO

February 23, 2021



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 2020

Highlights:

- Sales revenue: MHRK **2,023.0**
- Gross margin: **8.62%**
- Operating profit: MHRK **104.4**
- Profit before tax: MHRK **106.6**
- Net profit: MHRK **94.5**
- Cash flow from operating activities: MHRK **308.1**

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

“Considering the extraordinary challenges in 2020, Ericsson Nikola Tesla Group achieved excellent business results. The year was globally marked by a long-lasting fight against the coronavirus pandemic and the measures of physical distancing and restricting the movement of people and equipment continue. In addition to earthquake that hit Zagreb in March, which was the most powerful one in the last 140 years, at the end of December Sisak-Moslavina County was hit by a series of strong earthquakes. We have reacted quickly, adjusted and were innovative in order to help our employees and the community in which we operate to cope somewhat easier with the consequences of pandemic and then earthquake. The health and safety of our employees, customers, and partners has always been our main priority. We are proud of the dedication and engagement of our employees who, despite the difficult business conditions, have continued to provide services/support to our customers. Ericsson Nikola Tesla Group’s products, services and solutions, as well as the knowledge, proactivity, innovativeness and courage of our employees in the most critical moments, in cooperation with our customers, have secured the operation of telecom network and internet connections, as well as smooth operation of, among others, a strategically important Central National Information Healthcare System.

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In complicated circumstances, by applying the highest standards of ethics, compliance and transparency, we have timely, and with quality, realized many projects in Croatia and in export markets, and have signed several strategic multi-year agreements. Thus, we have strengthened our market position and created a strong foundation for the future.

Sales revenue grew by 13.7% year-over-year to MHRK 2,023.0. In total revenue, export accounts for 54.2%, and therefore, with more than a billion HRK of export in 2020, Ericsson Nikola Tesla Group is positioned among the largest Croatian exporters, and as number one, when it comes to exporting knowledge.

Taking over and signing a new contract for managed services in build and maintenance of HT's telecommunication infrastructure had a significant impact on Company's results in 2020. The main focus was placed on securing sales revenue, cost optimization and control of operating cash flow. Such focus was also placed on other network modernization projects, as well as projects in Industry&Society segment.

In the domestic market in the operator segment, we have been supporting our long-term strategic partners HT and A1 Hrvatska on the modernization and expansion of radio access network, while in the segment of ICT for Industry&Society, we have been working on innovative solutions in e-Health, e-Business, and public safety, which additionally strengthened our results in the domestic market.

The two biggest operators in Croatia (HT and A1 Hrvatska) have started to introduce the 5th generation (5G) of mobile telephony based on Dynamic Spectrum Sharing technology, delivered by Ericsson Nikola Tesla (ESS – Ericsson Spectrum Sharing). We look forward that, by assigning 5G radio frequency spectrum, conditions will be created for full implementation of 5G in which our company will play an important role.

Export markets recorded lower sales revenue year-over-year. Realization of projects, in addition to COVID-19, is aggravated by political and economic situation in certain markets. Quality cooperation on the expansion, modernization and maintenance of telecommunication networks has been achieved with our long-term customers: HT Eronet (Bosnia and Herzegovina), Ipko (Kosovo), Crnogorski Telekom (Montenegro), beCloud (Belarus), Beltelekom (Belarus), A1 (Belarus), and Interdnestercom (Moldova). Our activities on these markets continue with a strong focus on risk mitigation. Risk management, as the key area of our business strategy, includes the mitigation of all potential business, financial and operating risks through appropriate policies and continuous improvement in the way of working. A successful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and commercial banks led to the mitigation of political and financial risks in certain markets.

When we talk about the importance of digitalization in all spheres of business and personal lives, I would like to highlight a contract for the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus that we signed at the end of 2020. I am proud of such a significant e-Health contract, which additionally confirms our references in this domain, in Croatia and abroad. The fact that the World Bank and the customer have recognized us as a quality partner shows that our focused strategy in this area and long-term investment in creating a strong team of experts with the necessary domain knowledge, bring new business opportunities.

Our excellent position in global Ericsson in Research and Development (R&D), services and solutions, and new technologies and business areas, gives us a good foundation to continue to achieve planned results in 2021. I am proud that our research and development and expert teams for solutions and services in Zagreb, Split, Osijek, Mostar, Sarajevo and Minsk have been continuously gaining new responsibilities within the global organization. In 2020, 204 new employees, mostly highly educated experts in STEM, joined Ericsson Nikola Tesla Group. At the end of 2020, the Group had 3236 new employees.

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At Group level, gross profit increased by 6.0% to MHRK 174.4 year-over-year, while gross margin decreased by 0.6 percentage points as a result of business mix due to taking over the full responsibility for managed services for HT and related transition and transformation costs. Operating profit increased by 1.8% year-over-year to MHRK 104.4, as a result of higher gross profit and profitability program aimed at comprehensive cost optimization. Despite an increased engagement in pre-sales activities related to 4G/5G radio access and core networks, as well as increased costs related to managed services for HT, the share of selling and administration expenses in sales revenue was stable and amounted to 4.14%. Net profit amounted to MHRK 94.5, and ROS was 4.67%. We concluded the year with a solid balance sheet, 4.1% higher compared to end of previous year, and an equity ratio of 34.8%. A strong cash flow from operating activities was realized, amounting to MHRK 308.1. Therefore, total cash and cash equivalents, including short-term financial assets, at the end of 2020 amounted to MHRK 314.0. Group's Working Capital Efficiency, measured in Working Capital Days (WCD), was 25 days, and if we exclude services to Ericsson, WCD was 44 days.

In order to achieve additional efficiency and flexibility in business performance, we have continued the digital transformation of Ericsson Nikola Tesla Group, with the aim to simplify and automate key processes, boost efficiency, and increase the satisfaction of our employees.

We dedicate special attention to sustainable business, as the foundation to realize a strategic goal of achieving a competitive and innovative economy, i.e. the development of green and digital industry through products, solutions and services that we offer to our customers, but also through internal activities in Ericsson Nikola Tesla Group.

After two and a half years, we have successfully completed the project "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.". This is one of the biggest energy efficiency projects in the Republic of Croatia, co-financed by the EU's Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014-2020. The total investment in this project was MHRK 63.5, of which EU grants represent MHRK 17.5, while the rest of the funds for energy efficiency were secured by Ericsson Nikola Tesla. After the project implementation, the expected calculated annual energy savings amount to more than 4.6 million kWh, with the annual reduction of CO2 by 1400 tonnes.

At the end of December, Zagreb Stock Exchange awarded Ericsson Nikola Tesla in two categories: the share with the largest increase in turnover and the largest increase in price in 2020. In such a challenging year, this is an important recognition as it shows the trust of investors and the public in what we do and how we do it.

In new circumstances, the importance of information and telecommunication technologies for the functioning of the economy and society as a whole was once again confirmed, and the ICT industry justified the position of a priority and strategic industry. In crisis situations, the quality of the telecommunications infrastructure, which ensures timely transfer of information and connectivity, is particularly pronounced. Innovative ICT solutions that are widely used in various industries and government institutions, have also shown the important role they have. We believe that the introduction of 5G technology, on which our experts also intensively work within global teams, through the development and implementation of new solutions and services, will enable positive economic impacts and the creation of jobs for the future. As an "open innovation platform" 5G will provide a quality foundation in fostering the economic, social, and creative potential of our country.

Although at the end of Q4 2020, vaccination against COVID-19 began in Croatia and worldwide, measures restricting movement, as well as certain business activities on site, are still in force. It is encouraging that at the time of reporting, according to the data of the Croatian Civil Protection Headquarters, the number of people infected by COVID-19 in Croatia is declining every day. Nevertheless, 2021 remains challenging and will require

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a lot of knowledge and flexibility in doing business. As the already mentioned circumstances and risks, such as delays in the implementation of existing contracts, reduction / postponement of investments and travel restrictions, are still present, the Group's strong focus remains on risk management, profitability and operating cash flow.

As a company with more than 70 years of business experience, which is Croatia's largest exporter of knowledge and a technology leader, we are motivated to additionally engage and focus even more on new areas in 2021. Considering the numerous advantages that digitalization of services brings, the Group's long-term strategy remains unchanged.

Once again, I would like to thank our customers, partners, suppliers and investors for their cooperation and their trust, and especially to our employees whose expertise and continuous motivation and dedication enable them to achieve top results even in unpredictable circumstances.”

Financial Highlights for the Group:

- Sales revenue amounted to MHRK 2,023.0 (2019: MHRK 1,779.3), up by 13.7% year-over-year. Of the total sales revenue, domestic market accounted for 45.8%, services to Ericsson accounted for 42.6%, while other export markets accounted for 11.6%.
- Sales in the Networks segment amounted to MHRK 980.4 (2019: MHRK 1,012.0), Digital Services amounted to MHRK 464.8 (2019: MHRK 570.8), Managed Services amounted to MHRK 569.6 (2019: MHRK 189.3), and Emerging Business and Other was MHRK 8.1 (2019: MHRK 7.2).
- Gross profit was MHRK 174.4 (2019: MHRK 164.5), up by 6.0 year-over-year. Gross margin decreased to 8.6% (2019: 9.2%), as a result of business mix due to taking over the full responsibility for managed services for HT, and transition and transformation costs.
- Selling and administration expenses increased by 2.5% year-over-year to MHRK 83.8 (2019: MHRK 81.8). Despite an increased engagement on presales activities related to 4G/5G radio access and core networks, and increased costs related to managed services for HT, the share of selling and administrative expenses in sales revenue was stable, amounting to 4.14% (2019: 4.6%).
- Operating profit increased by 1.8% year-over-year to MHRK 104.4 (2019: MHRK 102.6).
- Gain from financial activities amounted to MHRK 2.2 (2019: MHRK 5.7) primarily as a result of negative exchange differences (EUR/HRK, USD/HRK).
- Profit before tax decreased by 1.5 year-over-year to MHRK 106.6 (2019: MHRK 108.2), due to lower gain from financial activities.
- Net profit was MHRK 94.5 (2019: MHRK 102.5), down by 7.8% year-over-year due to lower gain from financial activities and lower tax incentives based on the completion of the previous investment cycle. Return on sales (ROS) was 4.7% (2019: 5.8%).
- Cash flow from operating activities amounted to MHRK 308.1 (2019: MHRK 69.0) as a result of higher collection of receivables from certain customers as well as decreased outflows due to COVID-19 impact.
- Working Capital Efficiency, expressed in WCD, was 25 days (2019: 42 days), and excluding services to Ericsson, Working Capital Efficiency was 44 days (2019: 110 days). High level of implementation of the previously contracted network modernization projects resulted in decrease of WCD.

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- Cash and cash equivalents, including short term financial assets, as at December 31, 2020 amounted to MHRK 314.0 (32% of the total assets), while at the end of 2019, they amounted to MHRK 135.8 (14.2% of the total assets). Strong cash flow from operating activities and additional control of investment activities resulted in the increase of cash and cash equivalents.
- As at December 31, 2020, the Group had a solid balance sheet with total assets of MHRK 994.3, up by 4.1% compared to the end of 2019, primarily as a result of increase in total cash and cash equivalents due to accelerated collection of a significant part of current customer receivables and reduction of inventory due to high level of implementation of certain network modernization projects. Equity ratio amounted to 34.8% (end of 2019: 33%). Dividend in the total amount of MHRK 65.2 was paid on December 21, 2020.
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 858.4 (2019: MHRK 1,035.0), while procurement of products and services amounted to MHRK 314.7 (2019: MHRK 459.9).
- As at December 31, 2020, balances outstanding with related parties were as follows: receivables amounted to MHRK 89 (end of 2019: MHRK 116.1), and payables MHRK 10.9 (end of 2019: MHRK 95.4).

Business situation in major markets

In the domestic market, sales revenue amounted to MHRK 926.7 (2019: MHRK 496.9), up by 86.5% year-over-year.

Hrvatski Telekom (HT) and Ericsson Nikola Tesla Group strengthened their cooperation during 2020 by signing several significant multi-year agreements.

A strong partnership of two companies even in crisis situations was further highlighted during the devastating earthquake of Zagreb and Banovina, where, due to good communication and coordination of joint teams, an uninterrupted operation of HT's base stations was enabled in the shortest time possible after the earthquake in Sisak, Petrinja, Glina and surrounding areas. Moreover, the joint implementation of additional cell on wheels increased the capacity in Petrinja by 30% and in Glina by 100%, in order to enable all the citizens and field services to work.

The implementation of Ericsson's state-of-the-art radio access network technology continues, based on a cooperation agreement signed in late June, making Ericsson Nikola Tesla the exclusive supplier of 5G in the radio part of mobile network until 2024.

Based on the Management Services Agreement for the construction and maintenance of fixed and mobile telecommunications infrastructure, supervision of the telecommunications network, and field maintenance of the active access and passive network, signed by Ericsson Nikola Tesla Servisi d.o.o. (daughter company of Ericsson Nikola Tesla d.d.), the agreed goal for the most important contracted program, deployment of fiber to the home (FTTH), was realized. In the last quarter alone, optical infrastructure was deployed to almost 40,000 households, and thus the total number of deployed optics infrastructure to households and enterprises in 2020 reached the planned almost 80,000 households.

Mid-December, a contract was signed regarding the delivery of microwave transport technology, which makes Ericsson Nikola Tesla an exclusive supplier to HT until the end of 2024 in this segment. The signing of this agreement is the continuation of HT's network modernization, and a key step to introduce 5G in rural and hardly accessible areas in Croatia, including islands.

With the strategic partner A1 Hrvatska, activities continued on the modernization and expansion of radio access network using the latest technological solutions from Ericsson Radio System (ERS) portfolio. In cooperation with A1 Hrvatska, Ericsson Nikola Tesla continuously ensures high network quality in order to meet the additional

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increased user demand for services in a situation caused by COVID-19. The cooperation in the segments of core network and transport telecommunication network also continued. In H1 2020, A1 Hrvatska put into commercial operation the longest MIMO (Multiple Input – Multiple Output) radio relay network in the world, which was realized by using Ericsson's ML TN system in configuration 2x2 MIMO, measuring 26.8 km in the hinterland of the city of Split.

With the mobile operator Telemach Hrvatska, we have worked on the expansion and maintenance of their microwave transport network, capacity expansion and maintenance of the core network.

In ICT solutions for Industry & Society, intensive activities are ongoing on the implementation of solutions that will additionally improve digital connectivity between the public sector and citizens, and enable new ways of using information and communications infrastructure. In 2020, we signed several contracts with the Ministry of Justice and Public Administration, Ministry of Health, Ministry of the Interior, Ministry of Culture and Media, Ministry of Defense, and State Geodetic Administration.

In Q4, an agreement was signed with the Ministry of the Interior on the continuation of the implementation of the "Green Borders" project. New functionalities in further build and maintenance of the Central Healthcare Information System of the Republic of Croatia (CEZIH) have been agreed with the Ministry of Health, while the expansion of activities on the adjustment of geodetic surveys for import into the cadaster infrastructure system has been agreed with the State Geodetic Administration.

In export markets (Ericsson market excluded) sales revenue decreased by 7.9% year-over-year to MHRK 234.4 (2019: MHRK 254.6). In addition to negative impact of COVID-19 pandemic, the political and economic situation in certain export markets makes business even more difficult.

We have been working with the operator HT Eronet (Bosnia and Herzegovina) on the construction and modernization of LTE network throughout Bosnia and Herzegovina, and on the expansion of transport network. We have also continued our cooperation on the modernization and maintenance of telecommunications networks with the operators Crnogorski Telekom (Montenegro) and IPKO (Kosovo). In the Belarusian market, we have continued our cooperation with the operator beCloud on the project of expanding the LTE network, as well as activities in the field of fixed network with Beltelecom, and transport network with A1 Belarus. Activities on the virtualization of the IP Multimedia Subsystem (IMS) are ongoing with the Moldovan operator Interdnestrcom (IDC).

In ICT for Industry&Society, we contracted a business deal worth almost MHRK 370 related to the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus. The contract is financed by a loan of the International Bank for Reconstruction and Development within the scope of the World Bank project "Belarus Health System Modernization Project". The planned duration of the platform implementation project is 2.5 years, and the Contract also includes a 3-year warranty period. 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.

In Ericsson market, sales revenue amounted to MHRK 861.9 (2019: MHRK 1,027.8), down by 16.1% year-over-year, due to change of business model regarding managed services of HT's network in 2020. For comparable units, excluding managed services, sales revenue increased by 2.7%.

Ericsson Nikola Tesla R&D Center operates on sites in Zagreb, Split and Osijek and employs a total of 1,463 experts. The Center finished 2020 with excellent results, despite the COVID-19 situation and the fact that, for almost an entire year, R&D worked mostly from home. All activities and deliveries in all business segments are ongoing as planned. In business segment Networks, a significant number of features related to 5G and classic products were delivered. Within the business segments Digital Services, Cloud development activities and Centralized User Database (CUIDB) node, the functions were successfully delivered with a high level of quality.

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We continue to receive new responsibilities in business segment Digital Services, in domain Home Location Register. In segments of Service Area Networks, Wireline and Legacy, numerous customer support activities were successfully provided.

Demand for the services of Ericsson Nikola Tesla's experts by Ericsson's global/regional organizations remains high. The impact of pandemic on the realization of activities is limited, as through application of innovative solutions, the majority of activities can be performed remotely. Experts from Services and Solutions Center for Networks, in addition to projects for the customers of Ericsson Nikola Tesla Group, participate in activities of integration and optimization of various technologies for Ericsson customers in the United Kingdom, Germany, Ireland, Denmark, Finland, Switzerland, Sweden, Czech Republic, Greece, the USA, Albania, Malta, Slovenia, Slovakia, Hungary, Bulgaria, Russia, Estonia, Turkey, Singapore, Japan, Indonesia, the UAE, Oman, Bahrein, Qatar, Iraq, Vietnam, Mexico, Thailand, Kazakhstan, Pakistan, Brazil, Malesia, etc.

We have continued to work on the development and implementation of software tools for management and optimization of mobile networks, which are applied in the implementation of these services in many countries/ by many operators worldwide, with which Ericsson and Ericsson Nikola Tesla do business.

Experts from Services and Solutions Center in the field of Digital Services, Media and Operations, in addition to projects for our customers, were also engaged on projects for Ericsson customers in Germany, Sweden, Switzerland, the United Kingdom, the Netherlands, Denmark, France, Luxembourg, Ireland, Norway, Lithuania, Italy, Slovenia, Poland, Greece, Albania, Australia, and Mexico. 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 IT& Engineering Services, in addition to providing excellent support and achieving excellent results on test environment management projects and IT operations for Ericsson corporation, have a key role in our company's transformation processes. A new data information center was built which, energy efficiently, by using advanced technologies (Zero Trust Network, Software Defined Network,...) creates a programmable network with centralized management with fast delivery of solutions where they are needed. This expands the foundation of digital platform, optimally prepared to support security and functional business requirements, such as transformation of business towards customers, transformation of business processes within Ericsson Nikola Tesla Group, transformation/optimization of business model towards Ericsson corporation, as well as the introduction of advanced computer algorithms in the development of intelligent digital tools (Machine Learning, Artificial Intelligence,...). Moreover, the experts of units for IT& Engineering Services have secured IT equipment and infrastructure and have continuously provided quality support for a smooth operation from home, as well as providing customer support remotely.

The segment of ICT for Industry and Society, in addition to numerous projects for Ericsson Nikola Tesla, also achieves quality results on projects in the field of IoT platforms and Connected Urban Traffic for the needs of Ericsson corporation.

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Other information

At the extraordinary General Meeting of Ericsson Nikola Tesla, joint-stock company, held on December 9, 2020, the decision was made to pay a dividend to the Company's shareholders, amounting to HRK 49 per share from retained earnings from 2018 and 2019.

The dividend was paid on December 21, 2020 to all the Company's shareholders who had the Company's shares registered on their securities account in the Central Depository & Clearing Company on December 14, 2020.

Ericsson Nikola Tesla major shareholders (as at December 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	54,507	4.09
Addiko Bank d.d. / PBZ Croatia mandatory pension fund, B category	35,667	2.68
PBZ d.d. / The Bank of New York as Custodian	13,605	1.02
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	10,104	0.76
PBZ d.d. / custodian client account	8,949	0.67
Addiko Bank d.d. / Raiffeisen voluntary pension fund	8,094	0.61
Vuleta Ivica	4,761	0.36
Addiko Bank d.d. / Raiffeisen mandatory pension fund, A category	3,668	0.28
Other shareholders	415,308	31.18

Share price information in 2020:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,530.00	1,020.00	1,500.00	1,997.5

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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, 2020 to December 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".

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