

PRESS INFO

April 29, 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 Q1 2021

Highlights:

- Sales revenue: MHRK **445.9**
- Gross margin: **14.2%**
- Operating profit: MHRK **45.3**
- Profit before tax: MHRK **48.4**
- Net profit: MHRK **40.8**
- Cash flow from operating activities: MHRK **22.6**

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

„In Q1 2021, the life and business in Croatia and globally were strongly impacted by the continued spread of the COVID-19 pandemic. Considering the persistence of extraordinary circumstances in which we operate, Ericsson Nikola Tesla Group realized solid business results. Compared to Q1 2020, sales revenue is lower by 8.6% and amount to MHRK 445.9, as a result of cyclical investments of our main customers in the networks, while gross margin improved to 14.2% (10.2%), primarily due to lower transition and transformation costs and the effect of cost-efficiency program. With a share of 60.1% in the total revenue generated in export markets, the company remains one of the largest Croatian exporters.

In regard to investments/ plans for 2021, telecom operators on the domestic market announced continuation of investments in infrastructure, high-speed Internet coverage and 5G. By implementing these plans, the domestic telecom operators, as well as the overall telecommunication market, follow European and global trends that in spite of pandemic, but also because of it, show the direction of accelerated development of communication technologies and services. The beginning of the full implementation of 5G in Croatia is expected in Q3 2021, after HAKOM assigns the necessary radio frequency spectrum. Therefore, we are especially pleased that we have signed a new five-year agreement with A1 Hrvatska. Thus we have continued to be the supplier of the radio part of the mobile network of this operator and at the same time a strategic partner in the field of 5G technology.

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With the strategic partner Hrvatski Telekom, we continue to cooperate on all projects contracted during 2020. We would like to single out Management Services Agreement for the construction and maintenance of fixed and mobile telecommunications infrastructure which is carried out by our subsidiary Ericsson Nikola Tesla Servisi d.o.o., as well as the cooperation agreement in the field of radio access networks with emphasis on 5G. In the segment of ICT solutions for Industry and Society in the domestic market, we have signed new agreements with the Croatian Ministry of the Interior, the Croatian Ministry of Justice and Public Administration, and State Geodetic Administration.

In export markets, sales revenue is lower year-over-year due to the dynamics of operators' investments in networks, and along with the challenges brought by COVID-19 pandemic, the realization of projects is aggravated by the political and economic situation in some markets. Our activities in these markets continue with a strong focus on risk mitigation. The implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus, which is financed by a loan from the International Bank for Reconstruction and Development within the World Bank project, is ongoing as planned.

The delivery of services to Ericsson is stable. At the regular semi-annual R&D Management Business Review meeting, our Research and Development Center (R&D) confirmed the position of highly evaluated center in the global organization, with a customer satisfaction level of more than 90%. The evaluations in all categories are very high, and represent an increase in comparison to a previous evaluation, which proves that even in extraordinary circumstances, Ericsson Nikola Tesla's R&D Center continues to build positive perception within global Ericsson and contribute to the results of our company.

The strength of Ericsson's 5G portfolio was recently confirmed by Gartner report, naming Ericsson a leader in 5G network infrastructure for communications service providers. With over 130 commercial 5G agreements with communication service providers and 85 live 5G networks worldwide, consulting firm Frost & Sullivan in its latest report Frost Radar™ also named Ericsson the leader in the global 5G network infrastructure market in 2020.

By creating innovative solutions, based on the capabilities provided by the modern information-communication technology, Ericsson Nikola Tesla Group enables digital transformation of other industries, but also society itself. In this way, we create new opportunities for our customers and their end users, and through continuous internal transformation we secure the sustainability and competitiveness of our business. Through close cooperation with our customers we create solutions that speed up processes and contribute to a more quality work. As an example, the solution MOST (Managed Operations Support Tool) needs to be mentioned, which is our tool for monitoring the delivery of services to our strategic partner Hrvatski Telekom. By putting this tool into operation in this quarter, an important step was made in the realization of this complex project in which many experts from Ericsson Nikola Tesla and Ericsson Nikola Tesla Servisi have participated, as well as experts from Hrvatski Telekom. By integrating several previously used tools into one, which is also connected to the customer's relevant IT system, we simplify business and achieve a high level of quality.

A recent survey conducted on a sample of joint stock companies with over 500 employees verified the importance that these companies attach to the significance and risks of climate change. The results confirm the correctness of linking our goals in the field of sustainability and corporate responsibility with the strategic determinants of the company. Special emphasis was placed on the best practice that our company has in reporting on climate change at the highest management level; leadership in reporting about the risks of negative impact on the climate ; practice of reporting on business opportunities linked to climate, and leadership in reporting on climate change mitigation. Following our strategic orientation and concrete activities in a form of calculating our own carbon footprint, which comes mostly from energy consumption and transport, to a successful realization of the energy

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efficiency project at Ericsson Nikola Tesla, we are ready for new challenges. In this sense, a key goal in the field of positive impact on climate change has already been defined - to reduce our CO2 emissions by 50% by 2030.

In Q1 2021, intensive vaccinations against COVID-19 began in Croatia and worldwide. Unfortunately, the increase in the number of infected people in Croatia and globally, and the fact that the vaccination is progressing in a slower pace than expected, results in constant updating of local /global restrictive measures to limit the flow of people and goods, which affects business planning and requires great flexibility. Therefore, as main risks, we see the ramp-down of the existing contracts realization, decrease/postponement of investments, restrictions in travelling, delays in equipment delivery due to reduced production and logistics capacities as well as physical and mental health of employees. With the primary focus on the safety, health and well-being of our employees, customers, partners and suppliers, we remain focused on risk management, profitability, and operating cash flow.

The global pandemic has significantly increased the need for networking and communication resulting in strong data traffic growth and increased awareness of the need for faster digital transformation of society with an emphasis on the digitalization of public services. Therefore, in 2021 we will continue to invest in 5G and new technologies, digital transformation of the Group, retaining key people and attracting new talents and developing competencies, because only through technological leadership and with highly qualified experts we can create and implement modern ICT solutions that contribute to digital transformation with positive impact on industry, society and individuals. "

Financial Highlights for the Group:

- Sales revenue amounted to MHRK 445.9 (Q1 2020: MHRK 487.7), 8.6% lower year-over-year. Of the total sales revenue, the domestic market accounted for 39.9%, services to Ericsson accounted for 48.7%, while other export markets accounted for 11.4%.
- Sales in the Networks segment amounted to MHRK 219.9 (Q1 2020: MHRK 303.7), Digital Services amounted to MHRK 118.8 (Q1 2020: MHRK 103.1), Managed Services amounted to MHRK 105.4 (Q1 2020: MHRK 78.8), and Emerging Business and Other amounted to MHRK 1.7 (Q1 2020: MHRK 2.0).
- Gross profit amounted to MHRK 63.1 (Q1 2020: MHRK 49.7), up by 26.9% year-over-year, due to lower transition and transformation costs, and the impact of cost-efficiency program. Gross margin increased to 14.2% (Q1 2020: 10.2%).
- Selling and administrative expenses increased by 2.8% year-over-year to MHRK 21.8 (Q1 2020: MHRK 21.2), due to increased presales activities related to 5G radio access and core networks, and broadband network implementation projects.
- Operating profit increased by 35.2% year-over-year to MHRK 45.3 (Q1 2020: MHRK 33.5), as a result of significant increase of gross profit.
- Gain from financial activities amounted to MHRK 3.2 (Q1 2020: MHRK 1.1) because of positive exchange differences.
- Profit before tax increased by 40.1% year-over-year to MHRK 48.4 (Q1 2020: MHRK 34.6).
- Net profit amounted to MHRK 40.8 (Q1 2020: MHRK 29.6) up by 38.2% year-over-year. Return on sales (ROS) was 9.2% (Q1 2020: 6.1%).

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- Cash flow from operating activities amounted to MHRK 22.6 (Q1 2020: MHRK 18.1) positively impacted by solid collection of receivables from certain customers
- Working Capital Efficiency, expressed in WCD, was 18 days (Q1 2020: 44 days), and excluding services to Ericsson, Working Capital Efficiency was 32 days (Q1 2020: 101 days). Improvement in Working Capital Efficiency is due to completion of demanding network modernization projects which required longer and intensive engagement of material and human resources.
- Total cash and cash equivalents, including short term financial assets, as at March 31, 2021 amounted to MHRK 338.0 (32% of the total assets), while at the end of 2020, they amounted to MHRK 314.0 (31.6% of the total assets). Total cash increased slightly due to lower outflows from operating activities as well as less investment outflows / activities in the quarter.
- As at March 31, 2021, the Group had a solid balance sheet with total assets of MHRK 1,038.5, up by 4.4% compared to the end of 2020. The increase in the balance sheet is mostly due to the increase in work in progress (WIP) due to the dynamics of contract execution, new receivables, as well as a slightly lower cash outflows in the quarter. Equity ratio amounted to 37.3% (end of 2020: 34.8%).
- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 216.1 (Q1 2020: MHRK 217.6), while procurement of products and services amounted to MHRK 60.6 (Q1 2020: MHRK 123.3).
- As at March 31, 2021, balances outstanding with related parties were as follows: receivables amounted to MHRK 95.2 (end of 2020: MHRK 89.0), and payables amounted to MHRK 29.8 (end of 2020: MHRK 10.9).

Business situation in major markets

In the domestic market, sales revenue amounted to MHRK 178.0 (Q1 2020: MHRK 199.9), down by 10.9% year-over-year.

During Q1 2021, the cooperation between Hrvatski Telekom and Ericsson Nikola Tesla Group has continued on all strategic projects, contracted during 2020. The cooperation is realized through intensive planning of activities for the investment period until the end of 2021, and a continuous realization in line with the announced plans, which aims to further connect society and create the prerequisites for the development of smart industries, modern cities and the society of the future.

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., we will continue with the realization of FTTH in the network of Hrvatski Telekom. During 2020 alone, optical infrastructure was deployed to over 75,000 new households.

The implementation of the state-of-the-art Ericsson technology in the domain of radio access network and 5G continues, based on the cooperation agreement in which Ericsson Nikola Tesla d.d. is the supplier of the radio part of mobile network. At the same time, through deliveries related to the modernization of microwave transmission technology, based on the contract signed in mid-December 2020, intensive work was done to achieve all the necessary preconditions for the introduction of 5G in rural and hard-to-reach areas, including islands.

5G network of Hrvatski Telekom currently operates on the technology of Dynamic Spectrum Sharing (DSS), the application of which enables the use of the existing frequencies for 5G and a quick implementation of 5G network.

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In March 2021, Hrvatski Telekom in cooperation with Ericsson Nikola Tesla d.d., was the first to also start including commercial users in testing on the 3.5 GHz frequency.

A new five-year contract on further development of the radio part of the mobile network of this operator was signed with the strategic partner A1 Hrvatska. The implementation of the contract will provide users with the state-of-the-art and secure radio access technology, and the highest quality standards in the development of 5G infrastructure will support the advanced user experience and the implementation of very high capacity networks at the national level. New capacities will be built on 4G technology and all the existing equipment on base stations will be modernized to 5G technology. The new 5G network will offer an open platform for innovation and a range of new business opportunities in various industries.

With the mobile operator Telemach Hrvatska, we have been working on the expansion of capacities of core network, and maintenance of core and transport network.

In the segment of ICT solutions for Industry and Society, an agreement was signed with the Ministry of the Interior of the Republic of Croatia related to the continuation of the Green Borders project, which aims to establish the surveillance of the state border in line with Schengen rules. In this area, a contract related to stationary systems was signed, which refers to equipping additional locations with video equipment and software that functionally comply with the Schengen rules.

A contract was signed with the Croatian Ministry of Justice and Public Administration for services of improvement, refinement, and upgrade of ZUP IT systems and user education. Contracted work includes the development of IT systems to support process and quality management in public administration.

Successful cooperation with the State Geodetic Administration continued with the signing of a contract for geoinformatics services on the establishment of a building register for the area of Varaždin County and the development of a multi-purpose information system for the building register.

In export markets (Ericsson market excluded) sales revenue decreased by 21.1% year-over-year to MHRK 50.8 (Q1 2020: MHRK 64.4) due to the dynamics of operators' investments in networks. In addition to negative impact of COVID-19 pandemic, the political and economic crisis in some export markets makes business more difficult.

With the operator HT Eronet (Bosnia and Herzegovina), we have been working on the build and modernization of LTE network across Bosnia and Herzegovina. We have also continued the activities on the modernization and maintenance of telecommunications networks with the operators Crnogorski Telekom (Montenegro) and IPKO (Kosovo). In Belarus, LTE network expansion projects are being implemented with the operator beCloud, and activities on the expansion of the transmission network are underway with A1 Belarus.

In ICT for Industry&Society, the activities related to the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus are ongoing as planned. Our teams are finishing the realization of the first phase that includes the solution design, on which the national platform will be built on.

In Ericsson market, sales revenue amounted to MHRK 217.1 (Q1 2020: MHRK 223.4), down by 2.8% year-over-year.

Ericsson Nikola Tesla's R&D Center started 2021 with excellent results, highly recognized from all stakeholders on Management Business Review held in March. All work and deliveries are going according to plan. In business segment Networks, significant number of features related to classic and 5G products are ongoing at the same time building competence of new teams. Within the business area Digital Services, new responsibilities and complete operations in the area of Home Location Register were successfully transferred to R&D center. In the area Mobile Switching Center, development of feature modernization concluded with successful demo. Cloud development activities verified new features and Centralized User Database continued features development and verification according to plan. In Service Area Networks, Wireline and Legacy, number of customer support

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activities were successfully executed.

Ericsson Nikola Tesla Group's experts from the Center for Services and Solutions Center for Networks are included in the activities of integration and optimization of various technologies for Ericsson customers in the United Kingdom, Germany, Sweden, Ireland, Spain, Denmark, Norway, Belgium, Czech Republic, Lithuania, Greece, Malta, Canada, Saudi Arabia, Japan, Indonesia, Malaysia, Taiwan, Hong Kong, etc.

We have continued to work on the development and implementation of software tools for management and optimization of mobile networks (SRS/Smart Rollout Support, ESI/Ericsson Site Integration, RAMT/Rehoming Automation Management Tool, RNPT/ Radio Network Proposal Tools & Gynt) that are used in the network rollout 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 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, Ireland, Norway, Lithuania, Italy, Czech Republic, Australia, Tahiti, Pakistan 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 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 have a key role in our company's transformation processes, and provide a quality support for smooth work from home and remote support to customers.

In the segment ICT solutions for Industry and Society, in addition to numerous projects for Ericsson Nikola Tesla's customers, quality results are also achieved on projects in the field of IoT platforms and Connected Urban Traffic for the needs of Ericsson corporation.

Other information

At the meeting held on April 23, 2021, Ericsson Nikola Tesla Supervisory Board and Managing Director made a joint proposal to the company's General Meeting to adopt a decision regarding the dividend payment of HRK 82 per share.

Ericsson Nikola Tesla's General Meeting will be held on June 29, 2021. The shareholders who have the Company shares registered on their securities account in the Central Depository & Clearing Company on July 02, 2021 are entitled to dividend payment. Ex-dividend date is July 01, 2021.

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Ericsson Nikola Tesla major shareholders (as at March 31, 2021)

| | 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 | 53,680 | 4.03 |
| Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category | 40,458 | 3.04 |
| PBZ d.d. / The Bank of New York as Custodian | 12,619 | 0.95 |
| OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering | 9,474 | 0.71 |
| 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 | 412,960 | 31.00 |

Share price information in Q1 2021:

| Highest (HRK) | Lowest (HRK) | Closing (HRK) | Market cap. (in MHRK) |
|---------------|--------------|---------------|-----------------------|
| 1,650.00 | 1,500.00 | 1,590.00 | 2,117.3 |

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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, 2021 to March 31, 2021 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>