

PRESS INFO

July 27, 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 H1 2021

Highlights:

- Sales revenue: MHRK **1,014.2**
- Gross margin: **15.2%**
- Operating profit: MHRK **119.3**
- Profit before tax: MHRK **120.8**
- Net profit: MHRK **101.4**
- Cash flow from operating activities: MHRK **141.8**

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

"Ericsson Nikola Tesla Group has continued to achieve outstanding business results, despite a very challenging market environment. Compared to H1 2020, all key business indicators are growing. Sales revenue increased by 5%, recording growth in all market segments. Gross margin recorded a strong growth to 15.2% (H1 2020: 7.8%), as a result of lower transition and transformation costs, the effect of cost efficiency programs and favorable business mix. Accordingly, operating profit increased by 179.1% year-over-year to MHRK 119.3, while net profit increased by 190% to MHRK 101.4. A strong cash flow from operating activities was also realized, amounting to MHRK 141.8, and at the end of H1 2021, cash and cash equivalents, including short term financial assets amounted to MHRK 436.3.

The uncertainty caused by the COVID-19 pandemic has remained present during H1 2021, and is likely to continue to some extent. Although the emergence of new variants of the virus is causing caution, at the local and global level restrictions of movement are being eased and the global economy is slowly opening up. However, the political situation in certain markets in which we operate, such as in Belarus, continues to worsen. Most of our activities on the Belarusian market are in the operator segment. In Q4 2020, we entered in the Industry and Society segment by signing an agreement covering the implementation of the central software platform of the centralized eHealth system of Belarus, the implementation of which is ongoing as planned.

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Considering the new circumstances, Ericsson Nikola Tesla Group has been continuously monitoring and estimating potential risks, with a strong focus on quality and timely delivery of contracted business deals, maintaining business continuity and collection of receivables. Our focus on risk perception and mitigation is best reflected in our business results. An important basis for overcoming risks in Ericsson Nikola Tesla Group is the process of an integrated business risk management system (Enterprise Risk Management), which has been an integral part of our management system for many years. The focus on all forms of compliance remains a continuous priority for our Group. The driving force behind our organizational culture are high ethical standards in business, ensuring that all decisions are made transparently and with integrity.

In the domestic market, at the end of May, the Croatian Network Regulatory Agency (HAKOM) launched the long-awaited public auction procedure for issuing licenses for the use of RF spectrum for the fifth generation (5G) mobile communications networks, and allocation of licenses are expected soon. With our partners HT and A1 Hrvatska, we have continued the activities on the implementation of strategic projects, in order for them to be able to offer their users real gigabit 5G network of high quality, capacity and low latency. In the ICT segment for Industry and Society, we have been working intensively on innovative solutions in the field of e-health, e-business and public safety, which strengthened our overall business results. With the State Geodetic Administration and the Ministry of Justice and Public Administration, we have signed a two-year framework agreement related to the maintenance services of the Joint Information System of Land Registry and Cadaster (JIS). We are proud of our team of experts, who developed and tested the upgrades of the CEZIH system in an extremely short time and, in cooperation with the Ministry of Health and the Ministry of the Interior and partners, integrated it into a complete solution for the EU digital COVID certificate. In this way they contributed to positioning Croatia as the first EU member that secured prerequisites, tested and implemented the system for issuing and border control of COVID certificate. Regarding export markets, I would like to highlight the contract with the operator HT Eronet, which includes the implementation of the latest technological version of the IP Multimedia Subsystem (IMS), which continues our successful long-term cooperation.

The delivery of services to Ericsson has been continuously growing, and all activities and deliveries are ongoing as planned. I would like to highlight the contribution of many of our experts, who consciously and productively work for the global organization on research and development, and other expert activities. Their contribution to Group's results has been stable and significant.

Our employees and their health have been and remain our priority. During the COVID-19 pandemic we have approached to solving many challenges strategically and responsibly, and in the moment when it was possible, we have organized the vaccination of Ericsson Nikola Tesla Group's employees at the Company's premises. A team of doctors vaccinated approximately 700 employees, and many employees have been vaccinated in the meantime in accordance with the national program of vaccination. With the desire to act timely and long-term, and take a comprehensive approach to employees' health, the company had decided to take a step further, and launched a program PreveNTion. The program includes a series of activities aimed at preventing and improving mental and physical health and increasing the balance between private life and work.

The results achieved in the first six months, as well as a large number of important and complex projects on which we work on, as well as the knowledge, motivation and commitment of our employees, strengthen our belief in achieving the Group's targets for 2021. More than ever before, the strategic role of ICT industry for the development of society as a whole and the acceleration of reforms through digital transformation has been recognized which makes us optimistic about new business opportunities. We continue to invest in 5G and new technologies, Industry 4.0 in the field of health, land registry and cadaster, transport, agriculture, environment, smart cities, etc., the Group's digital transformation, retaining key employees and attracting new talents, as well

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as competence development, because only through technological leadership and with excellent and motivated experts we can create and implement modern ICT solutions that accelerate the digital transformation of the society and contribute to the economic recovery and raising the competitiveness of Croatia.”

Financial Highlights for the Group:

- Sales revenue amounted to MHRK 1,014.2 (H1 2020: MHRK 966.3), up by 5% year-over-year. In total sales revenue, domestic market accounted for 44.1%, services to Ericsson accounted for 44.9%, while other export markets accounted for 11.0%.
- Sales in the Networks segment amounted to MHRK 468.3 (H1 2020: MHRK 543.0), Digital Services amounted to MHRK 282.3 (H1 2020: MHRK 213.7), Managed Services amounted to MHRK 260.1 (H1 2020: MHRK 205.4), and Emerging Business and Other amounted to MHRK 3.5 (H1 2020: MHRK 4.2).
- Gross profit was MHRK 154.3 (H1 2020: MHRK 75.2), up by 105.1% year-over-year, due to lower transition and transformation costs, the effect of cost efficiency program and favorable business mix. Gross margin increased to 15.2% (H1 2020: 7.8%).
- Selling and administrative expenses increased by 2.9% year-over-year to MHRK 43.0 (H1 2020: MHRK 41.8). Despite an increased engagement on the presale activities related to 5G radio access and core networks, and projects of broadband network implementation, the share of selling and administrative expenses in sales revenue amounted to 4.2% (H1 2020: 4.3%).
- Operating profit amounted to MHRK 119.3, which is an increase by 179.1% year-over-year (H1 2020: MHRK 42.7), because of a significant gross profit increase.
- Gain from financial activities amounted to MHRK 1.5 (H1 2020: MHRK 0.9) because of positive exchange differences and interest income.
- Profit before tax increased by 176.6% year-over-year to MHRK 120.8 (H1 2020: MHRK 43.7).
- Net profit was MHRK 101.4 (H1 2020: MHRK 35), up by 190% year-over-year. Return on sales (ROS) is 10% (H1 2020: MHRK 3.6%).
- Cash flow from operating activities amounted to MHRK 141.8 (H1 2020: MHRK 157.6) because of good cash collection from certain customers.
- Working Capital Efficiency, expressed in WCD, was 10 days (H1 2020: 42 days), and excluding services to Ericsson, Working Capital Efficiency was 22 days (H1 2020: 87 days). The reduced number of Working Capital Days is the result of finalization of demanding network modernization projects, which until now required a longer and a more intense engagement of material and human resources.
- Cash and cash equivalents, including short term financial assets, as at June 30, 2021 amounted to MHRK 436.3 (34.4% of the total assets), while at the end of 2020, they amounted to MHRK 314.0 (31.6% of the total assets). The increase in the total cash is the result of good cash collection from customers, advanced payments on certain contracts and less investment outflows /activities in the first six months.
- The Group has a solid balance sheet with the total assets of MHRK 1,267.2 as at June 30, 2021, up by 27.4% compared to end of 2020. The increase of balance sheet is mainly contributed by the work-in progress (WIP) due to the dynamics of contract execution, new receivables, as well as a strong growth of

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cash in the observed period. Equity ratio is 26.8% (end of 2020: 34.8%). Decrease in the equity ratio is a result of dividend distribution. Since dividend will be paid out in July 2021, at 30 June 2021 the dividend payable in the amount of MHRK 109.2 is presented in the balance sheet within "Trade and other payables".

- With related parties, the transactions were as follows: sales of products and services amounted to MHRK 455.3 (H1 2020: MHRK 439.1), while procurement of products and services amounted to MHRK 143.1 (H1 2020: MHRK 181.6).
- As at June 30, 2021, balances outstanding with related parties were as follows: receivables amounted to MHRK 105.6 (end of 2020: MHRK 89.0), and payables amounted to MHRK 54.0 (end of 2020: MHRK 10.9).

Business situation in major markets

In the domestic market, sales revenue amounted to MHRK 447.0 (H1 2020: MHRK 421.1), up by 6.2% year-over-year.

With the strategic partner Hrvatski Telekom intensive activities continue on the development of optical access network, i.e. the realization of FTTH connections 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 networks with the planned annual realization even greater than the record 2020, during which more than 75,000 new households were covered by the new optical infrastructure.

The implementation of Ericsson's state-of-the-art technology from radio access network domain and 5G continues through a multi-year cooperation agreement. HT's 5G network, which currently operates on Dynamic Spectrum Sharing (DSS) technology, covers a total of 76 Croatian cities, 11 municipalities and two million of Croatian citizens.

Testing in Zagreb, by connecting the commercial users on the frequency of 3.5 GHz, which Hrvatski Telekom started in March 2021, showed excellent results and reached speeds higher than 1.2 gigabits. Testing continues in a limited scope on the part of commercial users, as well as with the creation of the necessary preconditions for the introduction of 5G in rural and hard-to-reach areas including islands, through deliveries related to the modernization of microwave transmission technologies.

With the strategic partner A1 Croatia, after signing an agreement on multi-year extension of cooperation in the field of radio network including 5G, the implementation of state-of-the-art technological solutions has been intensified, including 5G based on Dynamic Spectrum Sharing (DSS). The first testing of 5G technology in Croatia in the 700 MHz frequency range was achieved with excellent results. Testing continues in the 3.5 GHz frequency band in a limited scope, as part of preparations for the commercial introduction of 5G technology following the allocation of frequencies by the regulator. In the past period, modernization has continued, as well as capacity expansion on LTE technology and microwave transmission systems. The preparations for the introduction of 5G technology are also taking place by introducing new functionalities within the core network.

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

In ICT solutions for Industry and Society, a two-year framework agreement was signed with the State Geodetic Administration and the Ministry of Justice and Public Administration related to the maintenance services of the Joint Information System of Land Registry and Cadaster (JIS). The agreement includes basic, adaptive and perfection maintenance services of JIS, special services, support to the digital geodetic study and import of

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cadastral municipalities into JIS and the establishment of a Land Database. An agreement was also signed with the Ministry of Justice and Public Administration for the establishment of eService for the purpose of connecting JIS with other systems of state administration bodies. In the field of healthcare, we continued to upgrade CEZIH system with the functionalities required for the process of issuing COVID certificates.

In export markets (Ericsson market excluded) sales revenue amounted to MHRK 111.5 (H1 2020: MHRK 105.4), up by 5.7% year-over-year. The execution of regular business activities has been aggravated by the political and economic crisis in certain export markets, primarily in Belarus and Bosnia and Herzegovina, as well as the impact of the COVID-19 pandemic.

In the operator segment, sales revenues decreased, which was offset by an increase in revenues in the Industry and Society segment to a large extent from the Belarusian contract related to healthcare informatization.

With the operator HT Eronet (Bosnia and Herzegovina) we have contracted the implementation of the latest technological version of IP Multimedia Subsystem (IMS). We have also contracted an upgrade of the network performance measurement system, and the implementation of the new Ericsson Diameter Signaling Controller solution. We have continued the activities on the modernization and maintenance of telecommunication networks with the operators Crnogorski Telekom (Montenegro) and IPKO (Kosovo). In Belarus, with caution and focus on risk reduction, we have continued the activities with the operator beCloud on LTE network expansion, and with the operator A1 Belarus on the expansion of transmission network.

In ICT solutions for industry & Society, the most significant activities are related to the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus. During Q2 2021, the first phase of the project was successfully delivered.

In Ericsson market, sales revenue amounted to MHRK 455.7 (H1 2020: MHRK 439.8), up by 3.6% year-over-year.

Ericsson Nikola Tesla's R&D Center has continued its activities on strategic business/projects. All work and deliveries are ongoing as planned. In the business segment Networks, development of significant number of features related to classic and 5G products is ongoing, at the same time new assignments for Radio software development have been agreed. Within the business segment Digital Services in the area Mobile Switching Center, development of the number of features is ongoing. In the area of Home Location Register, transfer of full operational responsibility to our center was formally concluded in April, new features were delivered in several projects and competence development and organizational setup is ongoing. Cloud development activities released new components and verified new features and Centralized User Database delivered all committed features for H1. In Service Area Networks, Wireline and Legacy, the latest Software was deployed in several live networks, number of customer support activities were successfully executed, and several integration projects are ongoing including new, complex features for specific customers.

The experts from the Services and Solutions Center for Networks, in addition to the projects for the customers of Ericsson Nikola Tesla Group, 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, Kenya, India, Pakistan, Japan, Indonesia, Malaysia, Taiwan, Vietnam, Hong Kong, Brazil, South African Republic, 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

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in the United Kingdom, Germany, Sweden, Switzerland, Denmark, Finland, France, Luxembourg, the Netherlands, Ireland, Norway, Lithuania, Italy, Czech Republic, Australia, Tahiti, Pakistan, Mexico, 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 are achieving excellent results on test environment management projects and IT operations for Ericsson corporation, also have a key role in our company's transformation and provide a quality support for a smooth work from home and remote support to customers.

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

Ericsson Nikola Tesla's research teams are working on many projects in the field of Industry 4.0, most of which are partially funded by the EU. Areas of our interest are health, ecology, and business process automation through the application of big data analysis, machine learning and artificial intelligence.

Other information

At Ericsson Nikola Tesla, joint-stock company, Annual General Meeting, held on June 29, 2021, among other decisions, a decision was passed to pay a dividend of HRK 82 per share out of retained earnings from the year 2019 and 2020.

The dividend shall be paid out on July 28, 2021 to all the Company's shareholders who had the Company shares registered on their securities account in the Central Depository & Clearing Company on July 02, 2021.

The Shareholders Annual General Meeting reached a decision to allocate HRK 25,000,000.00 from retained earnings for 2019 to reserves for treasury shares and gave the consent to the Management Board to award up to 25,000 treasury shares to the Company's employees.

Decisions were reached on appointment of Petra Vranjes, Head of Finance and Business Control for Segment Digital Services in Ericsson, and Ana Vrsaljko Metelko, Attorney at Law, as the new members of the Supervisory Board.

Furthermore, the Remuneration Policy for the Management Board, Decision on the Remuneration of the Members of the Supervisory Board, and Remuneration Report for Supervisory Board members and Management Board in 2020, were approved.

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Ericsson Nikola Tesla major shareholders (as at June 30, 2021)

	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
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	46,835	3.52
Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	40,490	3.04
PBZ d.d. / The Bank of New York as Custodian	12,709	0.95
PBZ d.d. / custodian client account	10,241	0.77
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	9,474	0.71
Raiffeisenbank Austria d.d. / Raiffeisen voluntary pension fund	8,094	0.61
Vuleta Ivica	5,080	0.38
PBZ d.d. / Raiffeisen mandatory pension fund, A category	3,668	0.28
Other shareholders	418,072	31.40

Share price information in Q2 2021:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,710.00	1,575.00	1,680.00	2,237.1

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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 until June 30, 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>