

Annual non-financial report 2019

Ericsson Nikola Tesla Group



70

years
connecting
people and technology



ERICSSON



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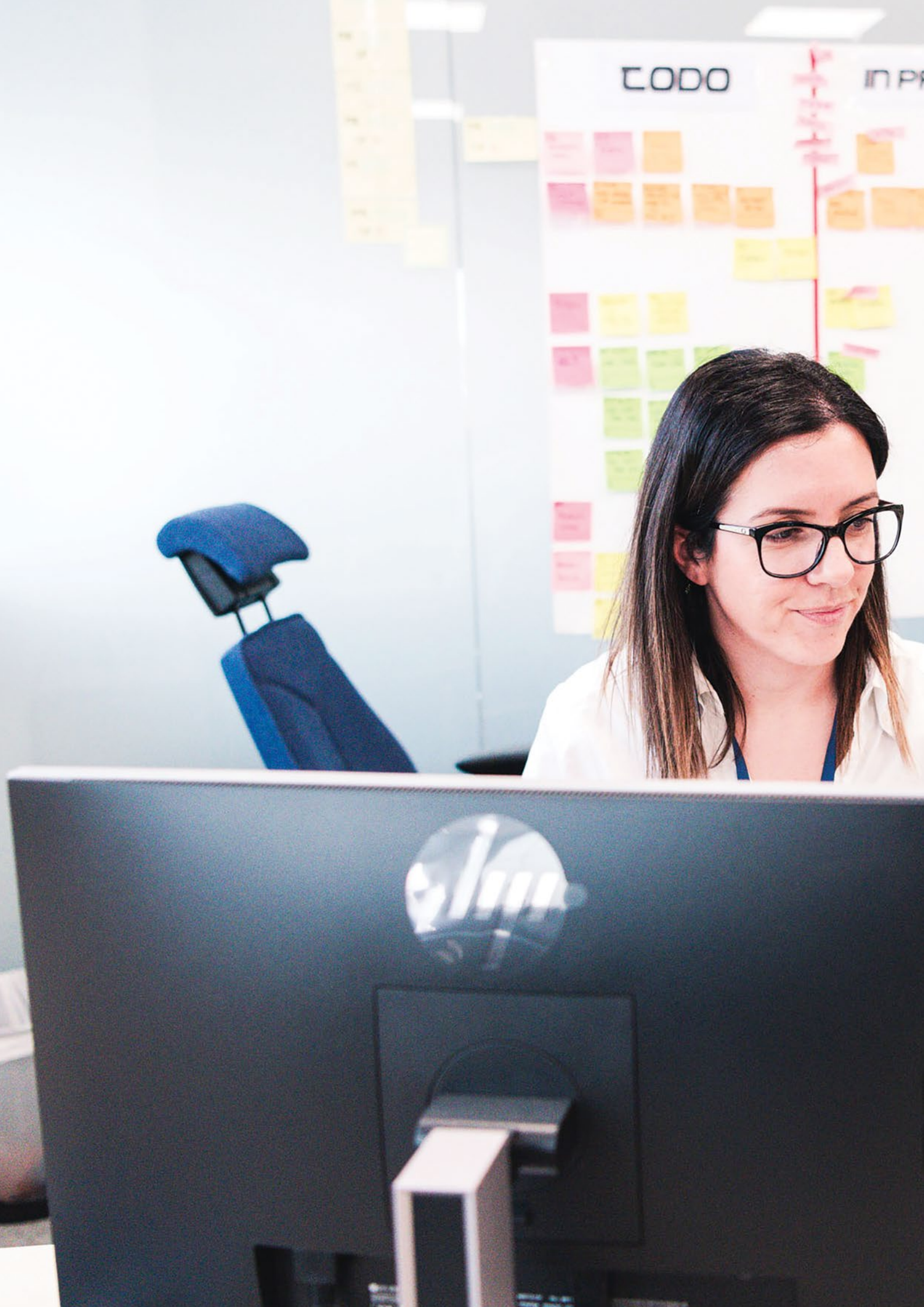
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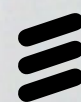
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01 General report

Highlights

- We actively participate in the digital transformation of the society
- We base our business success on technology leadership, our employees' knowledge and partnership with our customers
- In collaboration with leading Croatian operators (HT, A1 HR), we modernize the network and prepare it for the introduction of 5G
- We gain new responsibilities in 4G and 5G
- We continue to create jobs for young and educated experts, predominantly those having STEM degrees
- We successfully collaborate with academia in our country and abroad
- We are focused on cost and operational efficiency, capital efficiency and strategic risk management

Ericsson Nikola Tesla Group in brief

mother company

Ericsson Nikola Tesla d.d.

Core business	Provider of modern information and communications products, solutions, software and services
Address	Krapinska 45, PO Box 93, HR-10 002 Zagreb Poljička cesta 39, HR-21 000 Split Ulica Hrvatske Republike 29, HR-31 000 Osijek
Telephone	Zagreb / +385 1 36 53 535 Split / +385 21 20 58 00 Osijek / +385 1 36 53 535
Fax	Zagreb / +385 1 36 53 156 Split / +385 21 43 58 34 Osijek / +385 1 36 53 156
E-mail	etk.company@ericsson.com
Web	www.ericsson.hr/en/homepage
Personal identification number (OIB)	84214771175
Commercial court registration number (MBS)	080002028
Statistical number (MB)	03272699
Share capital	HRK 133,165,000
Shares	1,331,650 registered shares
Ownership structure	Ericsson 49.07 percent, other shareholders 50.91 percent, treasury shares 0.02 percent (as at 31 December 2019)
Share trading	Ericsson Nikola Tesla shares (ERNT-R-A) are traded in the Regular Market of the Zagreb Stock Exchange (ZSE).
IBAN	RBA HR7624840081100331673 ZABA HR8423600001101235687 PBZ HR2223400091110012058 ERSTE HR8824020061100414168
Management Board / Managing Director	Gordana Kovačević, MSc
Chairperson of the Supervisory Board	Franck Pierre Roland Bouétard

affiliated companies

Ericsson Nikola Tesla Servisi d.o.o.

Core business	Provider of network infrastructure build and maintenance services
Address	Krapinska 45, HR-10 002 Zagreb
Telephone	+385 1 30 38 503
Fax	+385 1 30 38 601
E-mail	ehr.company@ericsson.com
Web	www.ericsson.hr/en/ericsson-nikola-tesla-servisi-doo
Personal identification number (OIB)	47445593925
Commercial court registration number (MBS)	080921748
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	RBA HR2124840081107008882
Director	Dario Runje
Chairperson of the Supervisory Board	Gordana Kovačević, MSc

Ericsson Nikola Tesla BH d.o.o.

Core business	Provider of modern information and communications products, solutions, software and services
Address	Kralja Petra Krešimira IV, Lamela B-bb, Mostar, Bosnia and Herzegovina
Telephone	+387 36 446 492
Fax	+387 36 446 494
Web	https://www.ericsson.hr/en/ericsson-nikola-tesla-bh-en
Unique Identification Number (JIB)	4201717070003
Tax number (VAT id)	201717070003
Registration number	65-01-0996-11
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	UniCredit Bank BA393386904896538387 Raiffeisen Bank BA391611000002324857
Director	Jagoda Barać
Chairperson of the Supervisory Board	Gordana Kovačević, MSc
Branch office Sarajevo	
Address	Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
Telephone	+387 33 252 260
Fax	+387 33 209 419
Unique Identification Number (JIB)	4201717070011
Director	Adnan Halimić

Libratel d.o.o.

Core business	Provider of telecom services; installation, putting into service and upgrading telecom equipment (core and access network)
Address	Selska 93, HR-10 002 Zagreb
Telephone	+385 1 36 54 035
Fax	+385 1 36 54 038
E-mail	libratel@libratel.hr
Web	www.libratel.hr/eng/
Personal identification number (OIB)	97566215530
Commercial court registration number (MBS)	080300404
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
IBAN	ZABA HR7623600001101211096
Director	Branko Dronjić

Ericsson Nikola Tesla d.d. - Branch office Kosovo

Address	Vicianum Arbëria 3 Veranda C2.7 LI.II Lok.5, Pristina, Republic of Kosovo
Telephone	+381 38 749 080
Tax number (VAT id)	600411235
Registration number	70633647
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
Director	Besar Spahija

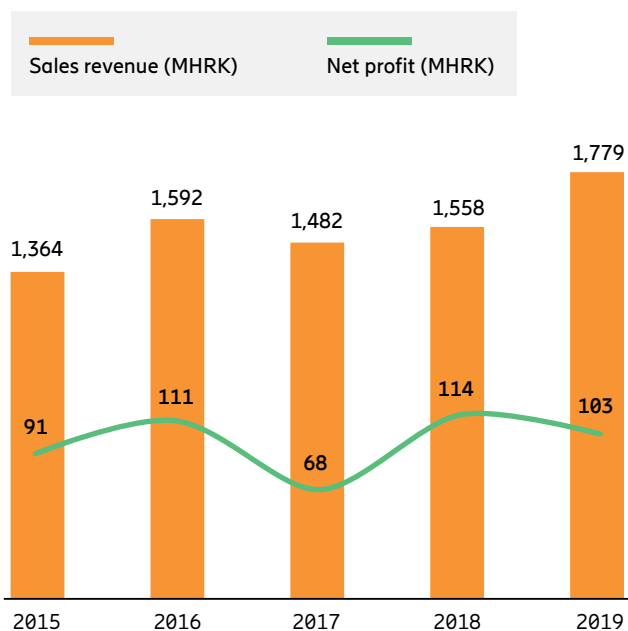
Ericsson Nikola Tesla BY d.o.o.

Address	2 Zybityskaya St., administrative room 17, room 5, 220030 Minsk, Republic of Belarus
Registration number	192753195
Ownership structure	Ericsson Nikola Tesla d.d. 100 percent
Director	Mario Lovreković

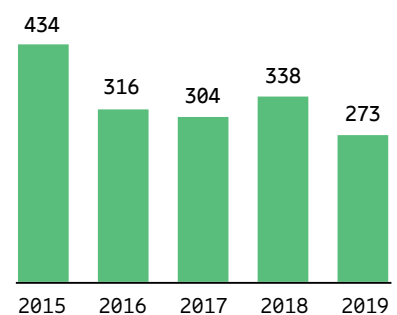
2019 highlights

- Realized sales revenue **MHRK 1,779** (2018: MHRK 1,558)
- Realized gross margin **9.2%** (2018: 9.1%).
- Realized net profit **MHRK 103** (MHRK 114)
- Realized cash flow from operating activities **MHRK 69** (2018: MHRK 75)
- New responsibilities in 4G and 5G
- In collaboration with the leading Croatian operators (HT, A1 HR) - network modernization and preparation for the introduction of 5G network
- Strong market activities in line with our focused strategy
- Further investments in solutions/products/services, testing equipment, development of strategic knowledge and skills
- Focus on cost and operational efficiency, capital efficiency and strategic risk management
- Further employment: **273** new experts employed (mainly highly educated and having STEM degrees)

Sales revenue and net profit (in MHRK)



Newly employed experts



Annual report on Group performance



Gordana Kovačević
president of Ericsson Nikola Tesla d.d.

“We have transformed by timely reacting to the needs of our customers and end users. Teamwork, partnership with our customers and suppliers and care for our employees, were, and remain, the foundations on which we build our future.”

In 2019, Ericsson Nikola Tesla celebrated 70 years of its operations. During this long period, we have always been focusing on the future and creation of new opportunities and we have been continuously investing to integrate our experts into global technological development processes. We have transformed by timely reacting to the needs of our customers and end users. Teamwork, partnership with our customers and suppliers and care for our employees, were, and remain, the foundations on which we build our future. We have been proactively working and have positioned ourselves within the Ericsson Corporation. At our own initiative and in an innovative way, we have also been developing our own solutions that fit into the concept of a connected world. Owing to all the above mentioned, Ericsson Nikola Tesla Group has its place among the renowned Croatian companies and largest Croatian exporters of high value-added products. An important part of our activities takes place in Research and Development Center in Zagreb, Split and Osijek, where our experts participate in the development of 5G technology, among other.

Namely, the leading global operators started intensive activities on 5G networks implementation. The leading operators in the domestic market have been following those global technology trends and are modernizing their networks to be 5G-ready, once the Croatian Regulatory Authority for Network Industries (HAKOM) announces the conditions and allocates the radio-frequency spectrum. With numerous contracts and 5G networks in operation in four continents, Ericsson Corporation is the global leader in 5G implementation, of which we are especially proud.

5G technology will enable high speed data transfer, low latency and better network safety. By implementing 5G, we are creating a new platform for innovations that will improve business and society at large, and enable new revenue streams for our customers, whilst at the same time optimizing their business performance. The technological possibilities of 5G seem like science fiction - data is exchanged in real time among people and connected devices with an increased efficiency and reliability. According to expectations presented in Ericsson Mobility Report from November 2019, digital transformation will significantly increase the number of 5G technology users, and it is expected that in 2025, there will be more than 2.6 billion of 5G subscribers and 5 billion of mobile IoT connections.

Market overview

In 2019, Ericsson Nikola Tesla Group total sales revenue amounted to MHRK 1,779.3, up by 14.2% year-over-year, with sales revenue growth in all markets.

As per requirements of our strategic customer, Hrvatski Telekom (HT), we have successfully modernized their network, which is now fully 5G-ready. The realization of this project improved and evened the quality of mobile services for users of HT's network, in the entire territory of the Republic of Croatia. During project implementation, almost 500 experts worked daily across 40 locations in Croatia. Radio equipment was replaced in 1960 locations, and 1469 rooftop antenna mounts or towers have been replaced or modernized. Our strategic customer A1 Hrvatska, has been cooperating with our company and using Ericsson technology ever since it was founded 20 years ago.

We have continued our long-term successful cooperation with A1 Hrvatska by signing a framework agreement that encompasses additional modernization and expansion of their radio access network by using the latest technology solutions from Ericsson Radio System (ERS) portfolio, which allows A1 Hrvatska to have a flexible 5G-ready solution at their disposal. In the domestic market, in the ICT Industry & Society segment, we have continued to deliver services on projects in the fields of e-Health, e-Business (Land Registry and Cadaster) and Public Safety (State Border Control).

In the export markets, we continued a good cooperation with the operators HT Eronet (Bosnia and Herzegovina), Crnogorski Telekom (Montenegro), Ipko (Kosovo), and beCloud (Belarus), on the modernization, expansion and maintenance of telecommunication networks. I would like to highlight the activities with HT Eronet, our strategic customer, on the expansion of LTE network across the entire territory of Bosnia and Herzegovina. With the operator beCloud, we have continued the activities on the project of LTE network expansion (turn-key) in four Belarus regions. In the segment of ICT solutions for Industry & Society, within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan, we have successfully completed the managed services phase and started the system maintenance phase.

Business in Ericsson market continued to grow in 2019. In addition to new responsibilities for the development of 4G and 5G, our R&D Center was selected as the consolidation point for 2G and 3G radio access network services, and we also gained new responsibilities within Cloud platform. Along with the global projects related to Unified Data Management (UDM), the Center has also been working on development of demo systems for key customers in USA, Japan, and Europe, and worked on virtualization and modernization projects for Mobile Switching Centre (MSC). Networks Services and Solutions Center has been working on complex activities of expert analytics, creation of new innovative solutions, optimization and upgrading of the existing networks, and consultancy services. Experts from Digital Services and Solutions Center have been working on complex projects of introducing 5G technology, Operations and Business Support Systems

(OSS/BSS), as well as numerous projects of introducing core solutions in Cloud. Furthermore, our teams from IT&Engineering Services and Industry and Society achieved good results on projects of Test environment management, IT Operations management, IoT platform and Connected Urban Transport solutions.

Our daughter company, Ericsson Nikola Tesla Servisi d.o.o. successfully provided the services of monitoring, maintenance and build of telecommunication network of Hrvatski Telekom. The goals on optical distribution networks rollout were realized, and during the year optical access for 37,374 new users was enabled.

Key performance indicators

Year-over-year, gross profit increased by 16%, amounting to MHRK 164.5, while gross margin remained almost the same amounting to 9.2%. Operating profit amounted to MHRK 102.6, down by 14.5%, primarily due to lack of incentives based on the Investment Promotion Act, although positive impacts of this Act in 2019 are visible in the decrease of tax liability, i.e. effective tax rate. Operating profit was lower also due to increased selling expenses for activities related to seizing new business opportunities. Net profit amounted to MHRK 102.6, while return on sales (ROS) was 5.8%. We concluded the year with a lean balance sheet and an equity ratio of 33%. A positive cash flow from operating activities was also realized amounting to MHRK 68.9, primarily as a result of quality realization of strategic projects. At the end of 2019, total cash and cash equivalents, including short-term financial assets, amounted to MHRK 135.8. Group's Working Capital efficiency, expressed in Working Capital Days (WCD), was 41 days, and if we exclude services to Ericsson, working capital efficiency was 110 days as a result of increased engagement on network modernization projects, primarily in the domestic market. Cash conversion rate was 36 percent.

Main business risks

COVID-19 pandemic, which spread throughout the world, and is also present in Croatia, could significantly impact the Company's business performance. We estimate that, currently, the biggest

negative impact on our business realization, could come from the reduced possibility of business travels and field work of our employees, including posted workers, who are currently in risk countries. Furthermore, we expect that our customers could slow down or postpone the realization of already signed contracts. Should the COVID-19 pandemic persist, the realization of several export deals could be obstructed due to movement restrictions and care for health of our employees. Nevertheless, with a strong focus on cost and operating efficiency, the Group believes that it has sufficient funds and external financing possibilities and that, combined with the corresponding measures taken by the government to relieve business performance in these circumstances, it can adequately address the challenges and continue its business performance. In addition, the business results can be significantly impacted by managed services, the delivery of which significantly depends on automation and development of software tools, as well as the transformation process of our customers and Ericsson Nikola Tesla Group, and the limited possibility for realization of field services by Ericsson Nikola Tesla Group and our subcontractors related to COVID-19 pandemic in Croatia.

Considering the demanding market environment, some business risks which marked the previous years remain present. The economic environment and the political situation in certain markets remain challenging. The demand for customer financing continues, as well as the exposure to an increased credit and commercial risk, should our customers face adverse financial conditions. A challenging global environment, as well as consolidation among the manufacturers of products and services, and new ICT companies entering the telecommunication markets leads to an increased competition, which impacts the demand and prices of our products and services. Given that a great part of Ericsson Nikola Tesla Group's revenue is export generated in EUR and USD, the exposure to financial impact on foreign exchange differences continues.

Considering the uncertainty of impact that COVID-19 will have on Group's business performance in 2020 as well as other mentioned risks, Management Board and Supervisory Board propose to the Annual

General Meeting to make a decision that the Company's net profit for 2019 is allocated into retained earnings.

Sustainability and corporate responsibility

The sustainable development of our business performance is based on partnership with customers, continuous cooperation with employees, care for health and safety of our employees, customers and partners, excellence in everything we do, and technology leadership. The market has recognized us as an innovative company, whose products, solutions and services have a positive impact on people's lives, business, environment and society development. We strengthen our competitiveness by continuously improving business performance and by good change management, achieved primarily by investment into the development of human resources, innovation culture, and new ways of working and management. Our company culture is implemented throughout the entire organization, and our employees apply the principles of company values and show respect towards colleagues, customers and partners in their daily activities.

Our company is doing business with customers in different markets and wherever we are doing business, we are devoted to developing transparent and long-term relationships. In Croatia, we are the leaders in building a smart, sustainable economy, with a high rate of employment, productivity, social connectivity and inclusion. Here I would like to highlight the energy efficiency project encompassing one part of the Company's plants and buildings at the Company's headquarters in Krapinska 45, Zagreb, co-funded by the EU. We started the project in 2017, and the completion is expected by end of 2020. Once the project is completed, the Company will realize annual energy savings of more than 4.6 million kWh, with the simultaneous reduction of CO₂ emissions by almost 1400 tones. This project is in line with the conclusions of Ericsson Nikola Tesla's Action Plan to reduce its carbon footprint, which was earlier created within the European LIFE Clim'Foot project, in which the Company also participated.

At Ericsson Nikola Tesla Group, we believe that ICT has a great impact on achieving all of 17 UN's Sustainable Development (SDGs), and we are also encouraged by the fact that an increasing number of relevant factors in Croatia share the same opinion.

I am satisfied with our achievements in the area of sustainability and corporate responsibility in 2019. Aiming for excellence, we shall continue to act in all the segments of sustainable business development in the future, as well. Integration of sustainability and corporate social responsibility into our business practice is crucial to our long-term progress and growth. Therefore, I will continue to encourage all employees to contribute to sustainability and corporate responsibility goals as the strategic topics of our business.

The Non-financial report of this Annual Report presents numerous projects realized in the field of corporate social responsibility.

Ethics and compliance

The corporate culture and strategy of Ericsson Nikola Tesla Group are based on responsible business performance. The Group is continuously working on strengthening its business practice in the field of Ethics and Compliance, highlighting trust, transparency and integrity. In order for the Group to continuously do business in line with the highly set goals to conduct business responsibly, the Management Board, the Executive Management and all employees are obliged to act in line with the Code of Conduct for Business Partners and Code of Business Ethics in their everyday activities. This is also a requirement for all other stakeholders who are in a contractual relation with the Group. Pursuant to the Whistleblower Protection Act, the Group has, along with all the previously established systems and ways of reporting irregularities, prepared a Rulebook on internal reporting of irregularities, in order to additionally encourage employees to report, in good faith, any reasonable doubt in breaching the law and Company's policies regarding business performance.

The Management Board and Executive Management have zero tolerance on corruption and promote fair market competition. Such messages, along with a comprehensive set of rules, processes and

targeted trainings, are communicated to all the Group's employees through daily operations and we believe to all other stakeholders.

Conclusion - strategic directions

In line with our strategy, we remain focused on developing solutions and providing services, as well as sales in the field of mobile broadband Internet access (4G/5G mobile solutions), digital transformation, managed services and Industry & Society segment (healthcare, public safety, e-Business, etc.), in the domestic and export markets. We have been intensively working on strategic contracts and have been investing in 5G and new business models, which will impact our margins short term, but should also strengthen our market position in the long term.

Furthermore, we continue to strengthen our position providing services for Ericsson through activities of our R&D Center as well as our expert centers for services and solutions, by focusing on high quality, innovation and cost efficiency. In 2020, we shall continue to implement the Digital Transformation program at Ericsson Nikola Tesla Group level, with the aim to further simplify the Company's key processes and introduce additional automation.

In aggravated conditions to business performance that we expect related to the COVID-19 pandemic, the Management Board and Executive Management are monitoring the situation, analyzing risks and reaching concrete decisions in line with the instructions and recommendations from the competent state authorities, with the aim to ensure the health and safety of employees, customers and partners, and further sustainable development of Ericsson Nikola Tesla Group.

In order to keep the successful business performance in a demanding environment and be competitive, we shall continue to focus on cost efficiency and responsible risk management.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2019 Annual Report, consisting of General Report, Non-financial report, and Consolidated and Non-Consolidated Financial Statements as at December 31, 2019.

Business model

In a constantly changing and diverse business environment, we use an agile and efficient business model to offer our customers leading, high performing and sustainable solutions. Our business model is built to manage changing market requirements and capture new business opportunities. Customer focus and motivated employees drive our business to create new value for our shareholders.

Customer focus

Foundation:

Vision and purpose

Empowering an intelligent, sustainable and connected world

Mission

Enable the full value of connectivity for communication service providers and lead digital transformation in selected industries

Strategy

- high efficiency
- end user experience
- new revenue streams

Motivated employees

Business foundation:

Technology leadership by leading edge Ericsson Nikola Tesla, Ericsson and 3PP portfolio




Innovative I&S solutions

Cost-effectiveness

Highly competent resources & strong local presence

Key values:

- professionalism
- respect
- perseverance

		
<h2>Customer focus</h2> <p>We develop innovative and cost-efficient ICT solutions</p>	<h2>Motivated employees</h2> <p>Motivated and talented employees are key drivers of our business</p>	<h2>Value for stakeholders</h2> <p>We create value for all stakeholders through a stable company in the long term</p>

Value for stakeholders

Key stakeholders and our focus:

Customers enable the full value of connectivity	Society a responsible and relevant driver of positive change
Employees attract, retain and develop top talents	shareholders create new value

Corporate social responsibility:

2022 sustainability goals:

- 30 percent of woman in employee structure
- positive impact on the environment by offering and implementing eco-friendly products, solutions and services
- zero tolerance for corruption
- checking of key supplier in all sustainability areas

Financial goals:

stable business

Focused business strategy

ICT solutions play a key role in the digital transformation of all industries and are essential to society and people. Our company's purpose is in empowering an intelligent, sustainable and connected world by offering innovative ICT solutions that are easy to adopt, use and scale. With communication service providers having a key role in a connected world and where everyone and everything is connected, our mission is to enable the full value of connectivity for service providers and lead digital transformation in the selected industries through ICT experience.

Our focused strategy is based on four pillars – technology leadership by leading Ericsson Nikola Tesla, Ericsson and 3PP portfolio, innovative I&S solutions, cost-effectiveness and highly competent resources and strong local presence.

We will secure a successful implementation of our strategy by being:

- a partner of choice that leads digital transformation in selected I&S verticals and a trusted advisor to our customers;
- among the best performing, most reliable and highly competent R&D and service centers offering highly efficient and innovative services.

Our way of working

Purpose & vision: Empowering an intelligent, sustainable and connected world

Mission: Enabling the full value of connectivity for service providers and lead digital transformation in selected industries

Our customers' needs

Relentless efficiency

End-customer experience

New revenue streams

Our business and operations

Telecom operators

Highly scalable and modular platforms offering based on Ericsson Nikola Tesla, Ericsson and 3PP portfolio; leadership in 5G; digitalize service providers through cloud and automation; lead data-driven Managed Services

Industry & Society

Innovative platform-based offering for Industry&Society that increase efficiency, reduce costs and enable new services

R&D

Top delivery performance, efficiency, agility; permanent focus on innovations, quality and cost

Professional services

Services based on leading edge technical expertise, data analytics, automation, optimization and AI-driven operations

Foundation

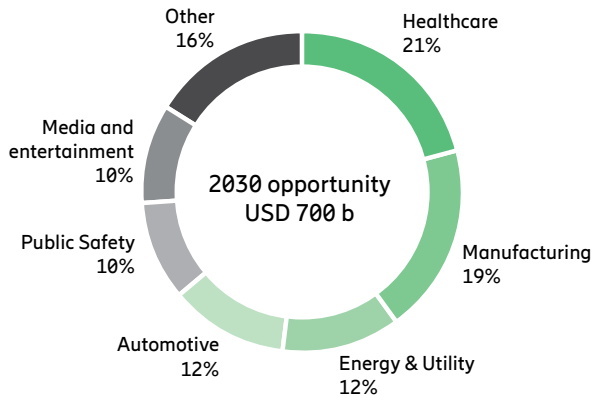
Technology leadership by leading edge Ericsson Nikola Tesla, Ericsson and 3PP portfolio

Innovative I&S solutions

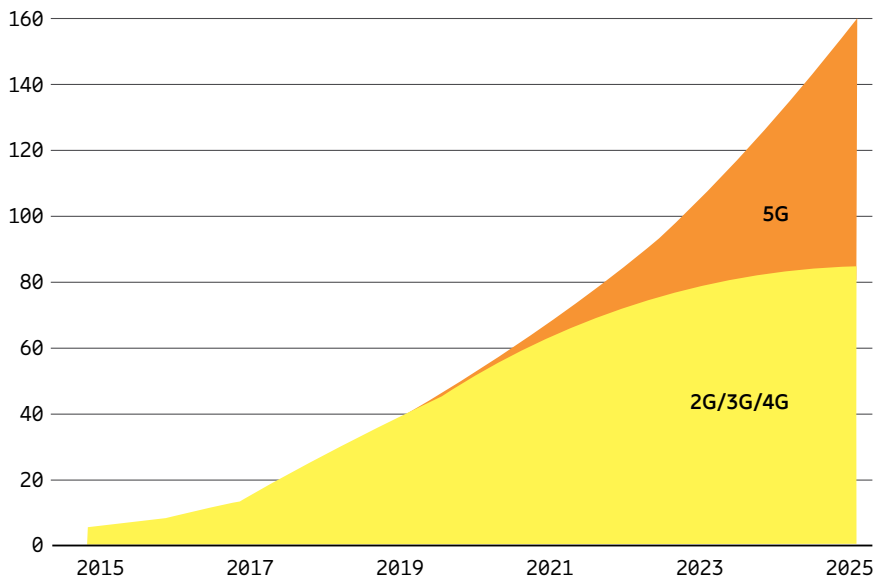
Cost efficiency

Highly competent resources & strong local presence

5G enables digital transformation



Global mobile data traffic (EB per month)



+68%
YoY mobile data growth between Q3/18 and Q3/19

Source: Ericsson Mobility Report

We create new value for our customers

Relentless efficiency

- Virtualization and automation for cost efficiencies
- Serviceability
- Technology and cost leadership
- Smooth network evolution & transformation
- 5G for performance and efficiency
- Smart ICT solutions

End-customer experience

- New approaches using artificial intelligence, cloud, automation and analytics to create a unique customer experience
- Significantly reduce lead-time and increase flexibility in launching service

New revenue streams

- Cellular IoT to extend the value of connectivity
- 5G to enable new use cases
- Digitalization of industries & enterprises

Business responsibilities and activities

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla is the leading provider of communication products and services in the operator segment, as well as a provider of innovative ICT solutions related to health care, national and public safety, state administration, transport, utilities and multimedia communication. Through innovation and leadership, we reflect on and encourage business opportunities and a profitable sales growth. By combining technology leadership, innovative and cost-effective solutions, excellence in services and regional presence, the employees in collaboration with the customers create added value. As an associated member of Ericsson corporation, our company operates in the Market Area Europe and Latin America (MELA).

The company's main activities encompass the following:

- research and development
- creating and implementing e2e communication solutions in the operator segment and ICT solutions for Industry & Society
- local, regional, and global delivery of services
- marketing and sales network.

Ericsson Nikola Tesla:

- creates innovative ICT solutions that strengthen an intelligent, sustainable and connected world

- enables the full value of connectivity for communication service providers and leads transformation in selected industries and areas of human activities
- works with advanced technologies
- is among leading exporters in the country, and number one when it comes to exporting knowledge
- provides a modern test environment with a wide range of innovative solutions that enable the testing of operators' and internal Ericsson's users' networks in a cost-effective and operatively efficient way.

Ericsson Nikola Tesla Servisi d.o.o.

Ericsson Nikola Tesla Servisi's core business is providing services related to the monitoring, build and maintenance of telecommunications network infrastructure.

The company's activities are the following:

- consultancy services, including design, geodetic activities, monitoring and resolving property-legal affairs
- constructing and maintaining telecommunications network
- monitoring and operating telecommunications network
- mounting telecommunications equipment; telecommunications system power and cooling.

With regard to the services portfolio and the experience in managing telecommunications projects, the company can offer a service on a turnkey basis, meeting the most complex market and technology requirements and delivering high-quality services.

Ericsson Nikola Tesla BH d.o.o.

The company operates on the market of Bosnia and Herzegovina and delivers products and services offered by Ericsson Nikola Tesla Group.

Libratel d.o.o.

Libratel's core activity is providing telecom services; installation, putting into service, and telecom equipment upgrade (core and access network).

Ericsson Nikola Tesla d.d. - Branch office Kosovo

The company operates on the market of Kosovo and delivers products and services offered by Ericsson Nikola Tesla Group.

Ericsson Nikola Tesla BY d.o.o.

The company operates on the Belarussian market and delivers products and services offered by Ericsson Nikola Tesla Group.



Products and services

Ericsson Nikola Tesla Group provides its customers and partners with an entire portfolio of both Ericsson's and other selected providers' communication products, solutions and services in the following segments:

- high performance networks
- services focused on network evolution and efficient management
- solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- strong support to a connected world by delivering solutions for selected Industry & Society segments and IoT solutions
- virtualization of telecommunication solutions and transformation of companies' business in the cloud environment
- automation of business processes and IS/IT services ranging from design, implementation and integration to maintenance.



Sales by markets

The domestic market accounted for 28%, services to Ericsson accounted for 57.7% (out of which Managed Services in Croatia accounted for 10.4%) of the total sales revenue, while other export markets accounted for 14.3%.

In the domestic market, sales revenue amounted to MHRK 497.0 (2018: MHRK 372.5), up by 33.4% year-over-year.

Radio Access Network Modernization project, i.e. the replacement of Hrvatski Telekom's (HT) equipment with the latest Ericsson solutions in the segment of mobile telecommunication networks, contracted with HT in H1 2018, was successfully completed within the planned timeline during Q4 2019. The project's key performance indicators include a significantly increased capacity of HT's radio network with better population coverage of the overall HT's 4G network, amounting to 98% in outdoor coverage. The cooperation between Ericsson Nikola Tesla and HT in the field of radio access network continues with the aim to secure further capacity increase. In addition, by completion of this project, the prerequisites have been made in HT's network infrastructure for the commercial introduction of 5G technology once the necessary radio-frequency spectrum has been allocated.

Ericsson Nikola Tesla supported HT in noncommercial testing of 5G network in 3.5 GHz band in Zagreb, Samobor, Krk and Osijek with the aim of analyzing 5G technology operation in live networks. In addition to the mobile telecommunication network, we have continued the long-term successful cooperation in the segments of fixed telecommunication network, as well as delivering services of rollout and maintenance of HT's telecommunication infrastructure.

We have been successfully cooperating with A1 Hrvatska for 20 years now, ever since they entered the Croatian market. A1 Hrvatska crowned their anniversary with a prestigious P3 certificate for the best network in Croatia, relying on Ericsson technology and partnership with Ericsson Nikola Tesla since the beginning of their operation in Croatia. This successful partnership will continue within a multi-year framework agreement (until the end of 2023) for additional modernization and expansion of radio access network signed in September 2019. A1 Hrvatska will have

a flexible 5G - ready solution based on ERS (Ericsson Radio System) portfolio at their disposal.

Furthermore, A1 Hrvatska put into operation NB-IoT (Narrowband Internet of Things) service for business users, based on Ericsson solution in the segment of radio access network. This technology enables secure and reliable wireless connectivity of a large number of devices and is considered 5G technology due to its advanced characteristics.

During 2019, 5G test network, based on commercially available Ericsson products, was also put into operation and integrated with other network elements, which placed A1 Hrvatska among the most advanced operators in Europe and worldwide. Furthermore, we have continued the cooperation in the field of core network and transport telecommunication network, which contributes to an increased network quality and new services for end users.

With the mobile operator Tele2, we have been working on the database capacity increase with 4G user information and upgrade of the entire core network to the latest software release. We have continued to provide support services for voice core network and software solution for data traffic shaping. During 2019, we also delivered the equipment for microwave transport network expansion.

With the company RUNE Crow, the activities are ongoing on preparing project documentation related to the implementation of the ultra-fast broadband

fiberoptic infrastructure for users in Croatian rural areas (Istria County and Primorje-Gorski Kotar County).

In ICT Industry & Society segment, we have delivered a range of new functionalities in the upgrade of the Central Healthcare Information System of the Republic of Croatia (CEZIH). Furthermore, an Annex to the agreement for the project of upgrade of the Central Healthcare Information System of the Republic of Croatia (CEZIH) for 2020 was also signed. We have delivered an IT solution for the exchange of "Patient Summary" within the Connected Europe Facility (CEF) for the Croatian Health Insurance Fund (HZZO). We have continued the upgrade of the Central Information System of Land Registry and Cadaster (JIS). The final phase of the delivery of the project of State Border Control was completed, as well as the delivery of the solution for the integration of 112-192 system, i.e. the improvement in the operations of the Operational and Communications Center (OKC) of the Ministry of the Interior.

In export markets (excluding Ericsson market) sales revenue increased by 10.8% year-over-year to MHRK 254.6 (2018: MHRK 229.8).

In the neighboring market of Bosnia and Herzegovina, 2019 was marked by the issuing of the long-awaited licenses for the introduction of the fourth generation of mobile communications. With the operator HT Eronet, we have been working on the expansion of LTE network across Bosnia

Sales by markets (in MHRK)

	2015	2016	2017	2018	2019
- services to Ericsson	821	873	926	956	1,028
- domestic market	294	269	277	372	497
- export markets	249	450	279	230	254
total sales revenue	1,364	1,592	1,482	1,558	1,779

and Herzegovina. We have continued to cooperate on the modernization and maintenance of telecommunication networks with the operators Crnogorski Telekom (Montenegro) and IPKO (Kosovo). In the market of Belarus, we have continued our cooperation with the operator beCloud on the project of LTE network expansion.

In ICT for Industry & Society segment we signed an agreement on the continuation of healthcare system maintenance for the Ministry of Healthcare of Armenia. Within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan, we successfully completed the managed services phase and started the maintenance of the national information healthcare system.

In Ericsson market, sales revenue amounted to MHRK 1,027.8 (2018: MHRK 955.8), up by 7.5% year-over-year. The contribution of Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to the revenue in this market segment amounts to MHRK 188.5 (2018: MHRK 178.0).

Ericsson Nikola Tesla's R&D Center was focused on expansion of responsibilities for the development of 5G network systems, competence strengthening and technology transfer. The major part of activities concerns radio development within the business segment Networks. It should be noted that the Center is especially recognized within Ericsson's global R&D community for its end2end competencies and advanced knowledge in software

development on Multi Standard Ericsson Radio Base Station. In addition, the Center has responsibilities for some of Ericsson's key R&D projects. Ericsson Nikola Tesla's R&D Center realized a range of significant functionalities for 5G and the evolution of 4G systems, which were implemented in Ericsson's global customers' networks. Furthermore, our experts have been working on virtualization and modernization projects for Mobile Switching Centre (MSC). In addition to global projects related to Unified Data Management (UDM) systems, we note the development of demo systems for multiple operators. For the development unit Cloud, we have been working on verification and quality control of new platform solutions. Along with all these activities, the focus on the quality of the deliveries continued, which led to another important achievement: the year was concluded with excellent results and evaluations of our R&D Center.

Experts from Services and Solutions Center for Networks, along with projects for the customers of Ericsson Nikola Tesla Group, have worked on projects for Ericsson customers in Germany, Switzerland, the United Kingdom, France, Qatar, Saudi Arabia, Pakistan, Egypt, the Republic of South Africa, Brazil, Mexico and elsewhere. There is still a great demand for Ericsson Nikola Tesla's experts by Ericsson global/regional organizations. Our experts are included in activities of integration and optimization of various technologies, with an increasing focus on 5G in key markets (USA, Japan, China). We have continued to work on the development and

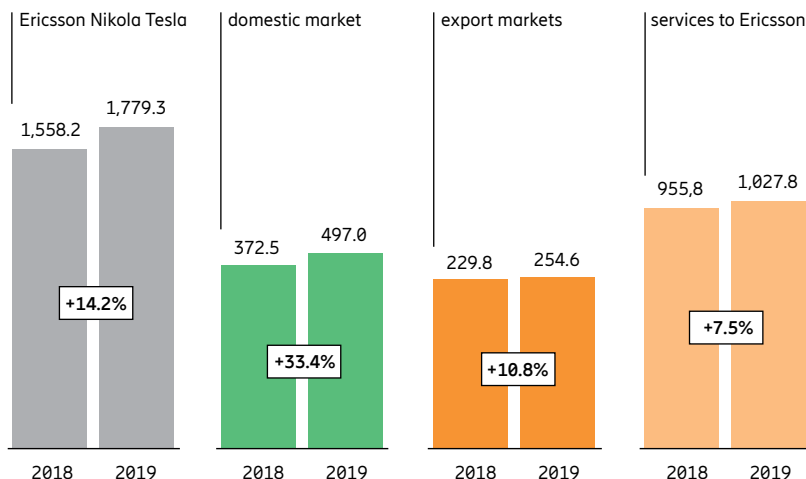
implementation of software tools for mobile networks management and optimization.

Experts from Services and Solutions Center for Digital Services and Operations (including Media), along with working on projects for our customers, were engaged on projects for Ericsson customers in Austria, Germany, Sweden, Switzerland, the United Kingdom, the Netherlands, Belgium, Denmark, France, Ireland, Norway, Greece, Italy, Luxembourg, Slovenia, Czech Republic, Moldova, Albania, Serbia, Qatar, Libya, Mexico, USA and elsewhere. Their activities include complex projects of 5G technology introduction, operational and business support systems, as well as projects of introduction of core solutions in Cloud.

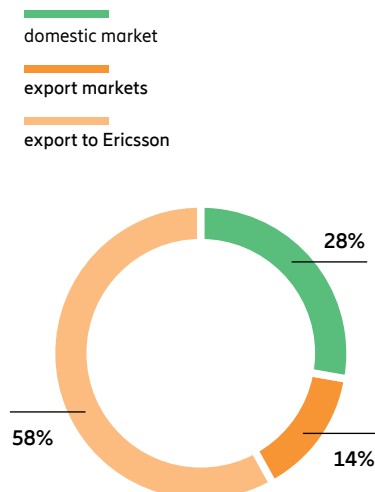
Teams working in the unit for IT& Engineering Services have achieved excellent results on projects of test environment management and IT operations management and have been recognized within Ericsson for the quality of services delivered. Industry & Society segment records good results on projects in the fields of IoT platforms and Connected Urban Traffic.

Ericsson Nikola Tesla Servisi have been successfully realizing the services of monitoring, maintenance and rollout of telecommunication network of Hrvatski Telekom. The planned targets for optical distribution networks rollout have been realized and optical access for 37,374 users was enabled. Modernization of mobile infrastructure comprised nearly 1,500 locations that are enabled for new technology introduction.

Sales revenue (in MHRK; YoY)



Sales structure



Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are in line with long-term strategic goals of business development. They are based on applied research for the development of new products, research of new processes and technologies, as well as the application of new functionalities of our products.

The driving force behind scientific and research activities in our company is Ericsson Nikola Tesla's Research Unit. Moreover, this unit is responsible for Ericsson Nikola Tesla's Institute which virtually connects all the scientists in the company. Research work implies collaboration on joint projects with R&D centers in the corporation as well as universities, institutes and companies in Croatia and abroad.

A very important part of research activities refers to participating in projects funded by the European Union. In 2018, the implementation of LIVING INNOVATIONS project began, as part of Horizon 2020 – the biggest EU Research and Innovation program ever – in which we participate as an industry partner. The project aims at developing methods for the implementation of responsible research and development with the purpose of improving people's lives by applying technology. The project's duration is three years, and all the activities are being carried out as planned.

The activities on the URBAN INNO project from HORIZON 2020 - REGPOT program were completed mid-2019. The aim of these activities was to improve the creation of innovation systems in the regions of the European Union. We cooperate in the ERASMUS++ BENEFIT project, which aims at improving telecommunication study programs in the region. Mid-2019, we started a new HORIZON 2020 project called INSULAE, which will last for four years. The purpose of this project is to apply technology to improve lives on the European islands. Our company participates particularly in the case for the island Unije in Croatia. At the end of 2019, we started another 4-year HORIZON 2020 project called PHArA-ON, which aims to test and consolidate

platforms that can make life easier for the elderly and infirm. Our role in the project is to ensure the integration of various solutions for providing services, as well as to support various pilot projects in Europe.

The company continued its very successful collaboration in the field of research with the Faculty of Electrical Engineering and Computing (University of Zagreb) in the field of research. A prominent position was given to the project of researching into the communication between different devices in the overall machine communication.

The research of the system for the optimization of radio signal transmission was continued. Special focus was placed on research of new radio elements in the build of antenna systems for multiple sending and receiving of signal, as well as the elaboration of support for radio signal arraying. With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (University of Split), we worked on the project of optimum service positioning in complex networks. There was research in the project of defining access networks reliability to connecting a large number of nodes for the Internet of Things, with special attention being paid to communication-critical use cases and decision-making, as well as multiple sensors application.

Traffic and Logistics Data Science Lab at the Faculty of Transport and Traffic Science (University of Zagreb) was founded.

The research team continued with analyzing Big Data and continued with a great number of projects in the field of machine learning and artificial intelligence. Activities were resumed on the analysis and creation of systems for automated recognition of events that may cause irregularities in industrial plant operations by applying a robot hand

model. We continued with activities in IoT application in the domain of environment control with a specific case of testing drinking water. Collaboration with educational institutions was continued through the joint organization of the 19th Ericsson Nikola Tesla's Summer Camp, in which 54 students and 28 mentors from our company and universities participated. This student activity was organized in collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb (FER), the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split (FESB), the Faculty of Electrical Engineering, Computer Science and Information Technology, Josip Juraj Strossmayer University of Osijek (FERIT), the Faculty of Electrical Engineering in Podgorica, University of Montenegro, the Faculty of Humanities and Social Sciences, University of Zagreb (FFZG), the Faculty of Mechanical Engineering and Computing, University of Mostar (FSRE), the Faculty of Transport and Traffic Sciences, University of Zagreb (FPZ), the Faculty of Science, University of Split (PMFST), the Faculty of Organization and Informatics, University of Zagreb (FOI), and through cooperation with the faculties from the region on the ERASMUS+ project BENEFIT. Participants from neighboring countries in the project were: Faculty of Electrical Engineering, University of Tuzla, Faculty of Electrical Engineering, University of Sarajevo, Faculty of Electrical Engineering, University of Banja Luka, University of Belgrade, Faculty of Electrical Engineering, University of Niš, and Faculty of Electrical Engineering, University of Novi Sad. During the Summer Camp, the students worked on the company's premises in Zagreb and the premises equipped with computers

at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split.

Students' activities were aimed at:

- studying selected research issues that are important to Ericsson Nikola Tesla and developing prototype applications
- working on apps and demo models for customers
- internal tools intended for future needs
- extended activities related to proposed solutions and ideas obtained through innovation process.

During the year, we continued to collaborate with our partners in the framework of Scientific Center for Data Science and Cooperative Systems, whose

member is our company. We participated in preparing projects that aim at encouraging research, development and innovations in the Republic of Croatia: in one project as the holder and in two projects as partners.

Furthermore, we supported presentations of the solution that was realized through a garage project "Smart Habits" for the application of non-invasive analytics in taking care of elderly and infirm people living alone. This analyzes the changes in the situations of standard behavior and reports to people who are taking care of them. In addition, we used the results of our research project to estimate environmental parameters in a prototype for predicting fires, as a use case for commercial presentations.

We have continued the project from the "garage" in Split. The project researched analytics methods for connecting various types of data with the aim of better prediction and creation of artificial intelligence in the field of enriching available sensor data, with the aim to be more precise and faster in concluding and reducing the number of required physical sensors. New methods for data correlation and a prototype new platform for fast searching and reaching conclusions from various available data types were also researched into.



Important events

2019

January-March

- An all employee meeting was held in Split and – as part of the meeting – a mini version of Innovation Day was held. An overview of the 20-year long innovation process at Ericsson Nikola Tesla as well as of the most significant achievements of the company's team working in Split was presented.
- Ericsson Nikola Tesla's modernized lab was opened at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, in cooperation with Ericsson Nikola Tesla.



- Ericsson Nikola Tesla Group business results in 2018 as well as the outlook and business expectations in 2019 were presented at a press conference held on the Company's premises.
- At MWC Barcelona, leading global event in the world of mobile communications, president of the company Gordana Kovačević, along with the company's delegation, had a series of meetings with customers and partners.
- Croatian Minister of Economy, Entrepreneurship and Crafts Darko Horvat, accompanied by high-level officials of the Ministry, paid an official visit to our company. At the meeting with the president of the company Gordana Kovačević and her associates, the minister got acquainted with the Group's business results and most important projects. Moreover, current digital transformation of the society, the strengthening of R&D activities in Croatia as well as possible areas of cooperation between the economy and state administration were discussed.
- In its mobile network, our customer Crnogorski Telekom achieved for the first time a speed of 925 Mbps. This speed is twice the speed of the ones previously measured in this operator's network. This was achieved in LTE network on which our experts worked in cooperation with local Ericsson teams.

April-June

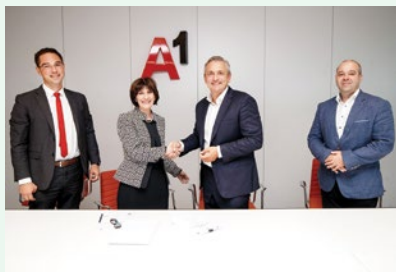
- Ericsson Nikola Tesla experts took part in International Economy Fair – Mostar 2019. Numerous visitors were attracted by the content and visual appearance of the Company's exhibition stand. At the fair, our customer HT ERONET launched 4G in a symbolic way.



- Ericsson Nikola Tesla and RUNE Crow company signed a contract for the implementation of broadband optical network access in rural areas in Istria County and Primorje-Gorski Kotar County. Rural Network Project (RUNE) is the first and currently the only international project at the European level which aims to connect the territory of several member states by a unique cross-border optical network. This project will be financed by Connecting Europe Broadband Fund (CEBF), as a first investment platform for the support of broadband infrastructure within the European Fund for Strategic Investment (EFSI), the central pillar of the investment plan for Europe.
- A new contract was signed with HT Mostar for the expansion and modernization of the system for mobile network monitoring as well as expansion of the IMS system and radio access network. Realization of this contract will provide our customer with a higher quality of monitoring mobile network elements as well as new business opportunities; moreover, users of LTE technologies will be provided with greater rates and a better user experience.
- The signing of contracts with selected contractors in the project "Improvement of energy efficiency and the use of renewable energy sources at Ericsson Nikola Tesla d.d." marked the completion of the first phase of the project.
- In the project of swapping our customer Hrvatski Telekom's base stations with Ericsson's equipment, the thousandth swapped base station was put into operation at St John's Fortress in Šibenik.
- Following the world premiere of the latest Ericsson research and development achievements in the field of 5G technology at the Mobile World Congress in Barcelona, a presentation of the technology under the title Barcelona Unboxed was held on the company's premises in Zagreb.
- The second international ICT Society Forum, organized by the Institute for European and Globalization Studies in collaboration with the French institute *Laboratoire d'Ingénierie des Systèmes de Versailles* (LISV), was held on Ericsson Nikola Tesla's premises in Osijek. The theme "Robots Are Coming. The Influence of Robotization on Economy and Social Changes" gathered numerous businessmen and experts, representatives from the academia and public administration.
- The Faculty of Transport and Traffic Sciences of the University of Zagreb, the Faculty of Maritime Studies of the University of Rijeka, University North, Ericsson Nikola Tesla and Orbico signed in Zagreb a Partnership Agreement related to a three-year ProLog project. The project aims to develop higher education standards of the profession, qualification standards and study programs on the basis of the Croatian Qualifications Framework in transport and logistics. The project is financed from the European Social Fund, Operational Programme Efficient Human Resources 2014-2020.
- The Ministry of Justice of the Republic of Croatia, State Geodetic Administration and Ericsson Nikola Tesla signed a two-year frame agreement on providing services of maintaining the Joint Information System of Land Registry and Cadaster (JIS). The agreement includes the following services: basic maintenance, adaptive and perfective maintenance, special services and support of digital geodetic technical report.
- Portal katastar.hr was officially launched in the State Geodetic Administration. Ericsson Nikola Tesla's experts worked on the development of the portal. The main purpose of the new portal is to provide in a simple and intuitive way information to all citizens about spatial data of the State Geodetic Administration.
- On the company's premises in Zagreb, Ericsson Nikola Tesla joint-stock company held its Annual General Meeting, at which all the proposed decisions were adopted.

July-September

- Ministry of the Interior of the Republic of Croatia and a group of economic operators headed by Ericsson Nikola Tesla d.d., whose members are Securitas Hrvatska d.o.o. and Hidraulika Promet d.o.o., signed a supply contract with the aim to implement the project "Strengthening surveillance of the state border through the procurement of a thermovision camera on a trailer with a field vehicle". The purpose of the project is to protect the state border, that is, to establish surveillance of the state border in accordance with Schengen standards.
- Ericsson Nikola Tesla and HT Eronet signed a frame agreement on the expansion of LTE network in the whole Bosnia and Herzegovina. The contracted work relates to LTE network (800MHz and 1800MHz), project management services, integration of new nodes into the network as well as training.
- Central management system for the management of healthcare system organizational structure, supplied by Ericsson Nikola Tesla, was officially launched in Zadar.
- Ericsson Nikola Tesla and its long-term customer A1 Hrvatska signed a Frame agreement on further development of radio access network of this Croatian operator until 2023. The agreement covers modernization and expansion of the network by using the latest solutions from Ericsson Radio System (ERS) portfolio.



- A consortium consisting of Ericsson Nikola Tesla and KING ICT signed with the Ministry of the Interior of the Republic of Croatia a Frame Agreement for a three-year period and a supply agreement for the year 2019 for the integration of the 112-192 system.

October-December

- The closing ceremony marked the completion of the 19th Ericsson Nikola Tesla Summer Camp, in which participated graduate students of technical faculties from Croatia and the region. The students worked under the mentorship of the company's experts as well as members of academia on projects related to 5G – radio access networks, 5G augmented and virtual reality (AR/VR), IoT and machine learning.
- At the Faculty of Transport and Traffic Science (FPZ), University of Zagreb, a new joint Traffic and Logistics Data Science Lab was officially opened. Within the framework of this cooperation, Ericsson Nikola Tesla will lead the processes for data gathering, preprocessing, processing and visualization; FPZ students and teachers will analyze obtained data from a traffic and logistics perspective and use them in teaching as well as for expert and science research.



- Ericsson Nikola Tesla celebrated 70 years of successful business. The unforgettable event in Arena Zagreb was attended by over 4000 guests, famous people from public life and scientific community, customers, business partners, employees and retired employees. On the occasion of the anniversary, a monograph "Ericsson Nikola Tesla – 70 godina" was published. It gives an overview of the most important events and activities of the company during the 70 years of its existence.



- On the company's premises in Osijek, Ericsson Nikola Tesla Day in Osijek was held. It was attended by numerous guests from the city administration, academia and the media.
- Gordana Kovačević, president of Ericsson Nikola Tesla, was elected by the Supervisory Board for another term of office which began on January 1, 2020.
- In the year when it marked the 70th anniversary of its successful business, Ericsson Nikola Tesla donated HRK 361,140 for the needs of pediatric oncology patients in Zagreb, Split and Osijek, as well as soup kitchen in Zagreb, Split, Osijek and Vukovar. The company's employees joined the action by donating food, toiletries and holiday presents to the users of St Joseph's Church soup kitchen.



Membership in associations

The Group is recognized in the wider community for its advanced practices and knowledge, and very often it is perceived as a point of reference for particular areas and activities. Being aware of our own values and responsibilities as well as driven by the desire to contribute to the growth and development of the society in which we operate, with our own involvement in numerous professional associations, and sharing our knowledge and experience, we initiate positive changes in society and the economy. Through memberships in various professional organizations, associations, bodies of scientific institutions, etc., the Group and its experts make their valuable contributions, while expanding their own competences and potential.

In addition to compulsory memberships in umbrella institutions prescribed by law, such as the Croatian Chamber of Economy and its bodies (Croatian International Chamber of Commerce – ICC Croatia, etc.), the Group is also a regular member of the following organizations:

- Croatian Employers' Association (HUP)
- Croatian Managers' and Entrepreneurs' Association (CROMA)
- Croatian Exporters
- *Lider's* Club of Exporters
- Croatian Competitiveness Cluster for ICT Industry
- Croatian Business Council for Sustainable Development (HR PSOR)
- Croatian Standards Institute
- IEEE Institute (Institute of Electrical and Electronics Engineers)
- Croatian Society for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
- Croatian Chamber of Electrical Engineers
- AMAC – FER
- World PMI Association
- PMI Croatia
- Agile Croatia
- Croatian Chamber of Traffic and Transport Technology MPPI
- Croatian Association of Railway Engineers
- Croatian Chamber of Chartered Geodetic Engineers
- Croatian Chamber of Civil Engineers
- HL7 Croatia
- Croatian Society for Medical Informatics
- Croatian Java User Association
- Croatian Oracle User Group
- Croatian Service Managers Association
- Croatian Association of Safety Managers
- Croatian Association of Purchasing
- Croatian Association for Health at Work
- Croatian Public Relations Association
- Association of Corporate Lawyers
- Croatian Competition Law and Policy Association
- and many other.

Initiatives

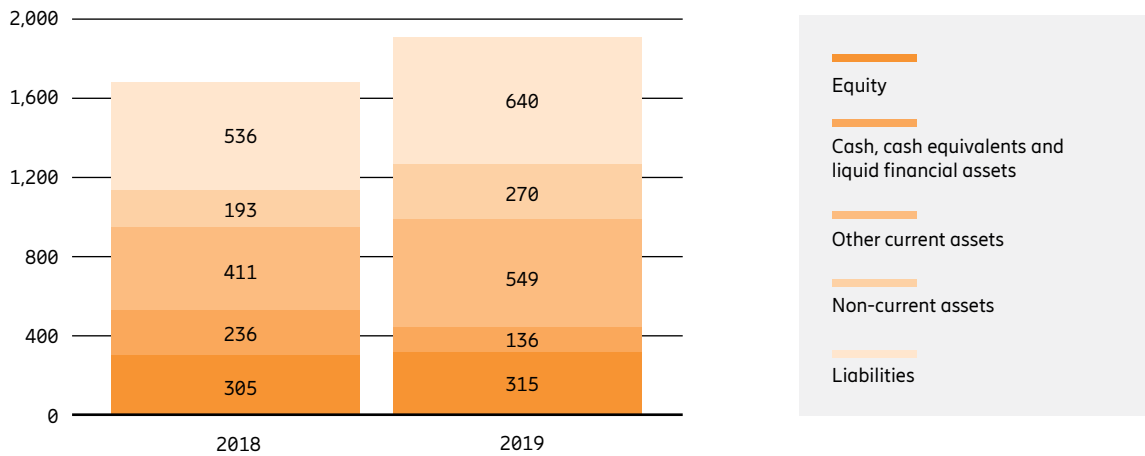
Ericsson Nikola Tesla participates in the following socially important initiatives and platforms:

- Innovation Council of Industry of the Republic of Croatia
- National Digital Economy Council
- HR PSOR Diversity Charter
- UNICEF's Think Tank on Children's rights and CSR
- The 30% Club – Croatia

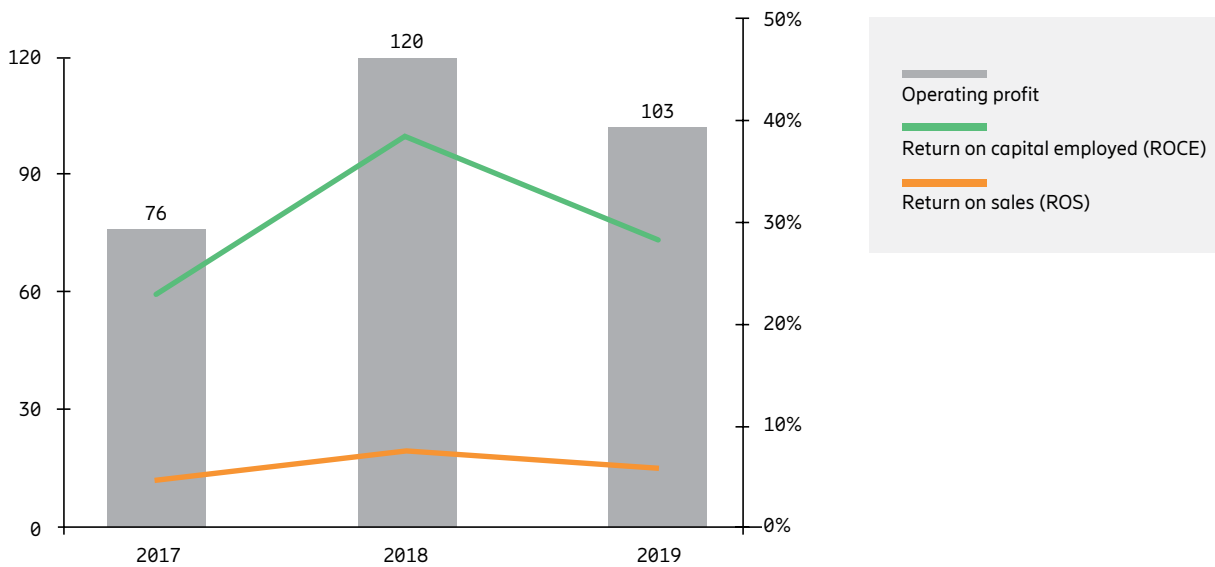
Financial highlights in 2019

	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2019	2018	2017	2019	2018	2017
Income statement and cash flow items (in MHRK)						
Sales revenue	1,779	1,558	1,482	1,545	1,374	1,465
Selling and Administration expenses	-82	-73	-80	-75	-66	-78
Operating profit	103	120	76	94	117	71
Profit for the year	103	114	68	96	112	64
Operating cash flow	69	75	108	40	81	103
Year-end position (in MHRK)						
Total assets	955	840	822	897	819	795
Cash, cash equivalents and liquid financial assets	136	236	244	121	231	230
Capital employed	395	326	266	352	305	244
Equity	315	305	236	294	291	223
Per share indicators						
Earnings per share (EPS) (in HRK)	77	85	51	72	84	48
Dividend per share		70.6	32.5		70.6	32.5
Number of shares outstanding, average (in millions)	1,331	1,332	1,330	1,331	1,331	1,330
Other information (in MHRK)						
Additions to property, plant and equipment	68	40	26	65	39	26
Depreciation of property, plant and equipment	36	34	40	37	29	36
Alternative Performance Measures (APMs)						
Gross margin	9.2%	9.1%	10.2%	10%	10%	9.9%
Operating margin	5.8%	7.7%	5.1%	6.1%	9%	4.8%
EBITDA margin	9.0%	9.9%	7.9%	8.7%	10.7%	7.3%
Cash conversion	35.9%	38.9%	68.2%	25%	44%	69.4%
Return on equity (ROE)	33.1%	42.0%	26.0%	32.7%	43.5%	25.5%
Return on capital employed (ROCE)	28.5%	38.4%	22.9%	29.1%	40.7%	23.4%
Return on sales (ROS)	5.8%	7.3%	4.6%	6.2%	8.1%	4.4%
Equity ratio	33.0%	36.3%	28.7%	32.8%	35.5%	28.1%
Capital turnover	4.9	5.3	5.0	4.7	5.0	5.4
Current ratio	1.2	1.3	1.1	1.2	1.2	1.1
P/E ratio	18.2	11.8	23.6	19.5	12.0	24.9

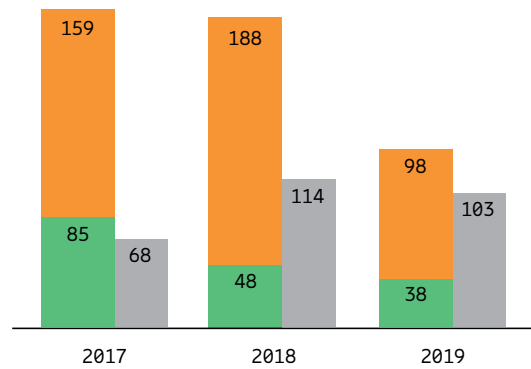
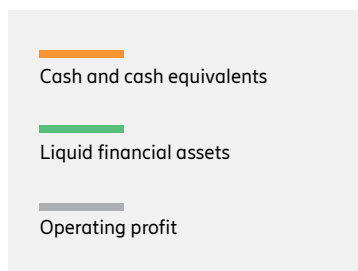
Balance sheet structure (in MHRK)



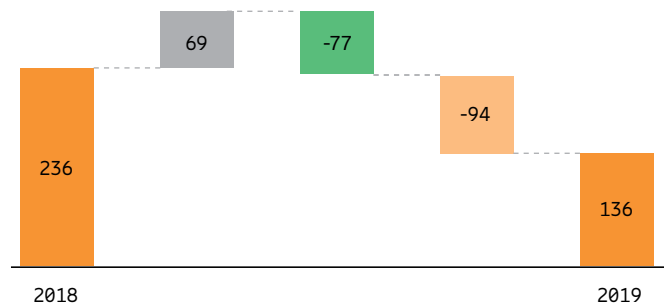
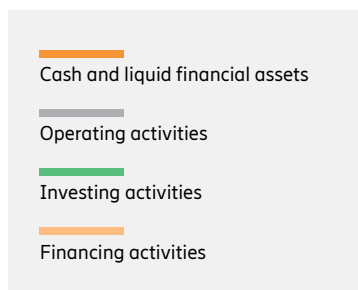
Operating profit (in MHRK), ROCE and ROS (in percentages)



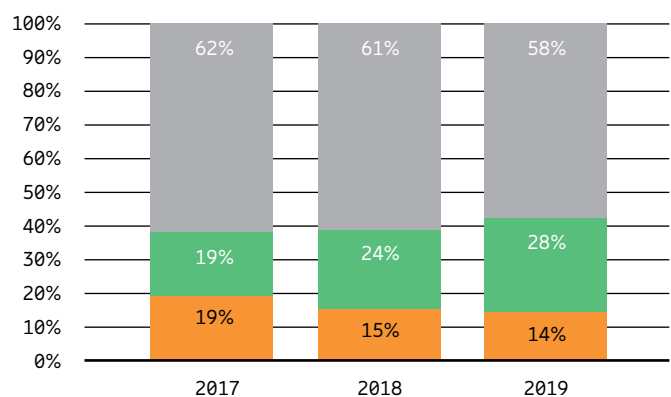
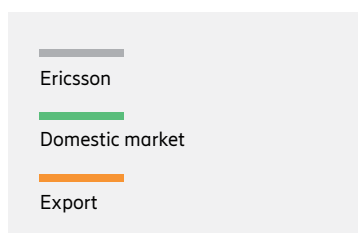
Development of liquid assets and operating profit (in MHRK)



Change in liquid assets (in MHRK)



Sales revenue by market (in percentages)



Financial performance in 2019



Damir Bušić
Director, Finance, Sourcing and
Commercial Management

“In 2019, we have justified the position of a recognizable brand in ICT area and a technology leader in Croatia and in our export markets.”

Business results for 2019 are the result of the Company's focus on several key areas: network modernization for our customers in Croatia and abroad; research and development with a special focus on 5G technology, and activities in the Industry & Society segment. In 2019, we have justified the position of a recognizable brand in ICT area and a technology leader in Croatia and in our export markets. The start of 5G networks implementation by the leading European and global operators opens a new chapter in ICT industry worldwide, and Ericsson Nikola Tesla Group is a part of a success story of Ericsson as a global leader in 5G technology.

In 2019, the business in Ericsson market continued to grow and support the Group's overall financial stability. Such position in Ericsson market is a result of our strong focus on high quality, innovativeness and cost efficiency of our Research and Development Center, and Services and Solutions Expert Centers. The domestic and foreign customers carefully monitor industry trends. The result of such interest is an increasing number of requests for operators' networks modernization as the preparation for the introduction of 5G, and the development of new solutions in numerous ICT areas. Such market development led to a total increase of sales by 14% compared to 2018, and growth in all markets: Croatian, export, and Ericsson.

Once again, we concluded the year with a lean balance sheet which was at the same level as the previous year. In order to successfully balance an increased pressure on material assets and human resources, the Company continued to invest additional efforts in cost and operating efficiency, capital efficiency, and especially

managing risks, with the ultimate goal to keep the balance sheet lean, the result positive, and all the stakeholders satisfied.

The level of effort and complexity of modernization projects is visible in the Group's balance sheet in the increased amounts of working capital engagement during 2019, and thus the focus remains on keeping high performance, quality and savings in the areas where this is optimal and necessary.

In line with the improvement of its own business performance, the Group started the Digital Transformation program with the aim to simplify the company's key processes, especially targeting the sales process, monitoring production and services processes, and business reporting. In line with the above, we continue to invest in the Group's assets and development of strategic knowledge and skills required for quality work in all areas.

Despite long, complex, and financially demanding investments in projects, as well as increased investments in its own assets and resources, the Company managed to maintain a satisfying level of cash and cash equivalents for further business with minimum borrowing for the needs of the project for increasing energy efficiency of a part of the Company's plants and buildings.

Increasing the value of assets in the balance sheet is significantly impacted by the effects of adopting IFRS 16 - Accounting of operating leases used by the Group for a significant number of immovable assets and vehicles, and the application of which started on January 1, 2019.

Along with all the activities undertaken, the Company is ready for new and different challenges that 2020 brings, along with the announced new chapter in the development of ICT industry.

Information for shareholders

Shares of Ericsson Nikola Tesla d.d. are traded in the Regular Market of the Zagreb Stock Exchange under the ticker symbol ERNT-R-A.

Share trading and price trend

In 2019, share price increased by 38.61%. At the end of 2019, Ericsson Nikola Tesla's market capitalization was MHRK 1,864.3 (end of 2018: MHRK 1,345.0). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked ninth on the Zagreb Stock Exchange, with MHRK 949.1, representing 2.7 percent of the total free float market capitalization. At the end of 2019, Ericsson Nikola Tesla's share weight in CROBEX Index was 9.1 percent.

At the Zagreb Stock Exchange, 2019 was marked by mainly volatile trade statistics, with the second half of 2019 mostly showing a positive trend.

All trade indicators recorded positive movements: turnover within the orderbook was up by +9%, with share turnover increasing by 38%. To conclude - total turnover in 2019 was almost up by +5% compared to 2018.

Market value, measured in market capitalization, increased by 13% in total, while the share market capitalization increased by 11.5%. Some of the indices

were corrected (CROBEXkonstrukt, CROBEXturst and CROBEXtransport), however other indices grew by double digits: the highest growth was recorded by CROBEXnutris (+38.18), followed by CROBEXtr (+19.42%), followed by CROBEX10 (+18%), CROBEXplus (+17%), CROBEXprime (+16.42%), and CROBEX (+15.36%). As well as in the previous years, liquidity was mostly concentrated in a smaller number of shares; approximately 75% of the total turnover is creditable to 10 shares with the biggest turnover.

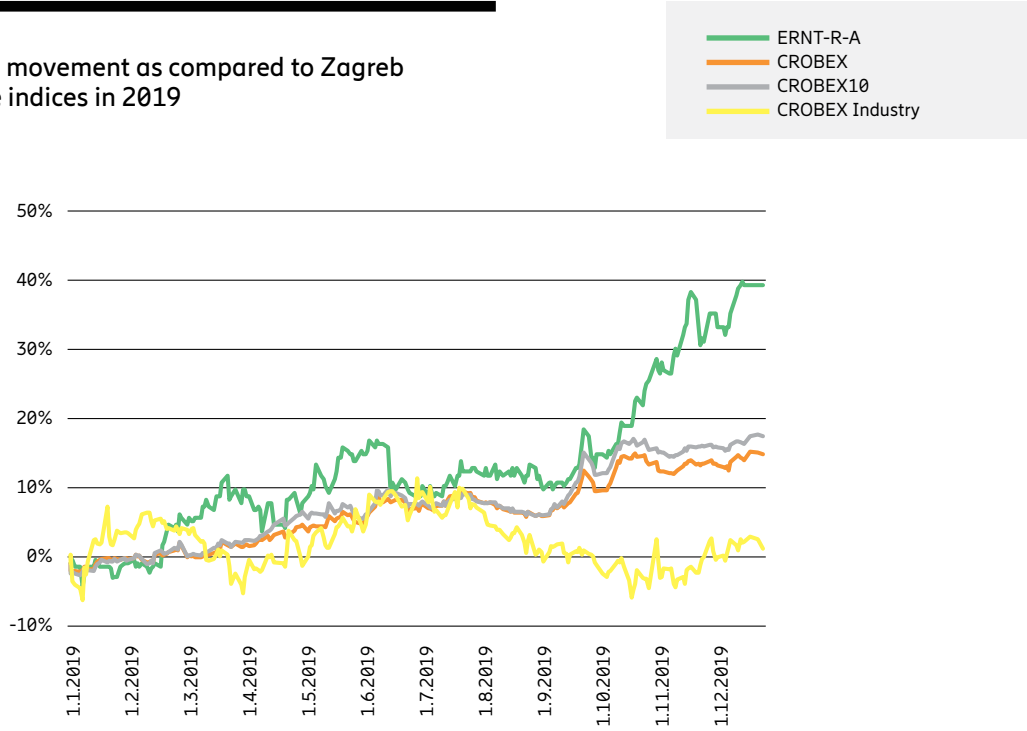
Average ERNT-R-A share price trend 2015-2019 (in HRK)



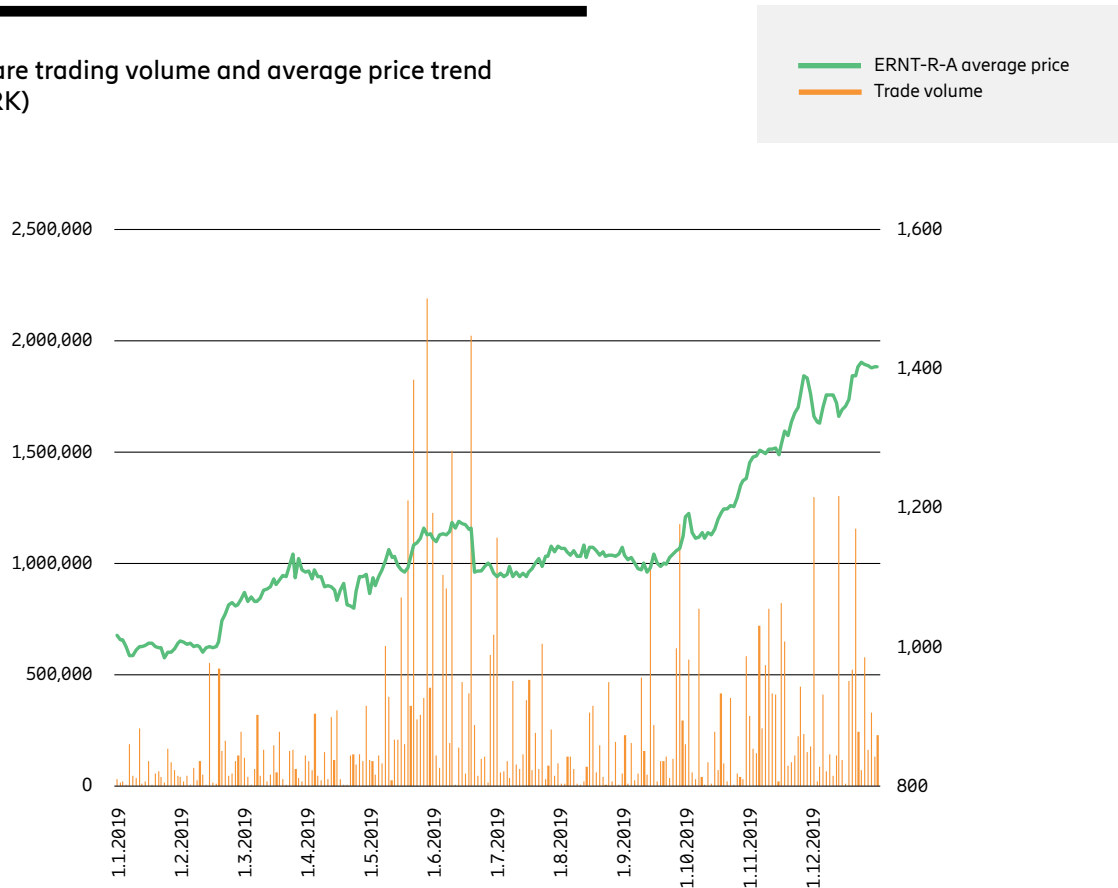
Share price and turnover	2015	2016	2017	2018	2019
Highest (HRK)	1,390	1,177.99	1,444.00	1,240	1,415
Lowest (HRK)	930	940	1,066.51	976	972
Last - end of the year (HRK)	1,045	1,164	1,203.99	1,010	1,400
Turnover (in MHRK)	79.4	53.2	55.1	39.3	58.0
Trade volume	68,888	49,628	43,312	36,116	49,652
Dividend per share (HRK)					
- regular	20	20	32.5	70.6	0*
- extraordinary	80	70	-	-	

* proposal of the decision to the Annual General Meeting to allocate the Company's net profit for 2019 to retained earnings.

ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indices in 2019



ERNT-R-A share trading volume and average price trend in 2019 (in HRK)



Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2019

Shareholders	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 osiguranje mandatory pension fund, B category	16,810	1.26%
PBZ d.d. / The Bank of New York as custodian	12,728	0.96%
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	9,827	0.74%
PBZ d.d. / custodian client account	9,736	0.73%
Zagrebačka banka d.d. / Harding Loevner Frontier Emerging markets portfolio	9,318	0.70%
Zagrebačka banka d.d. / State Street Bank and Trust Company, Boston	8,630	0.65%
Addiko Bank d.d. / Raiffeisen voluntary pension fund	8,094	0.60%
Other shareholders	423,507	31.80%

Share capital

As at 31 December 2019, Ericsson Nikola Tesla joint-stock company had share capital amounting to HRK 133,165,000 distributed in 1,331,650 ordinary registered Class A shares. Each share carries one vote at the Annual General Meeting. The total number of treasury shares at the end of 2019 was 211, representing 0.016% of the share capital. The shares were owned by 6,639 shareholders.



Public lighting

Traffic lights

Controlled 1: AUTO [GET] [SET]

Controlled 2: AUTO [GET] [SET]

Controlled 3: AUTO [GET] [SET]

Controlled 4: AUTO [GET] [SET]

Public lighting

Light Circuit 1: OFF [GET] [SET]

Light Circuit 2: OFF [GET] [SET]

Light Circuit 3: OFF [GET] [SET]

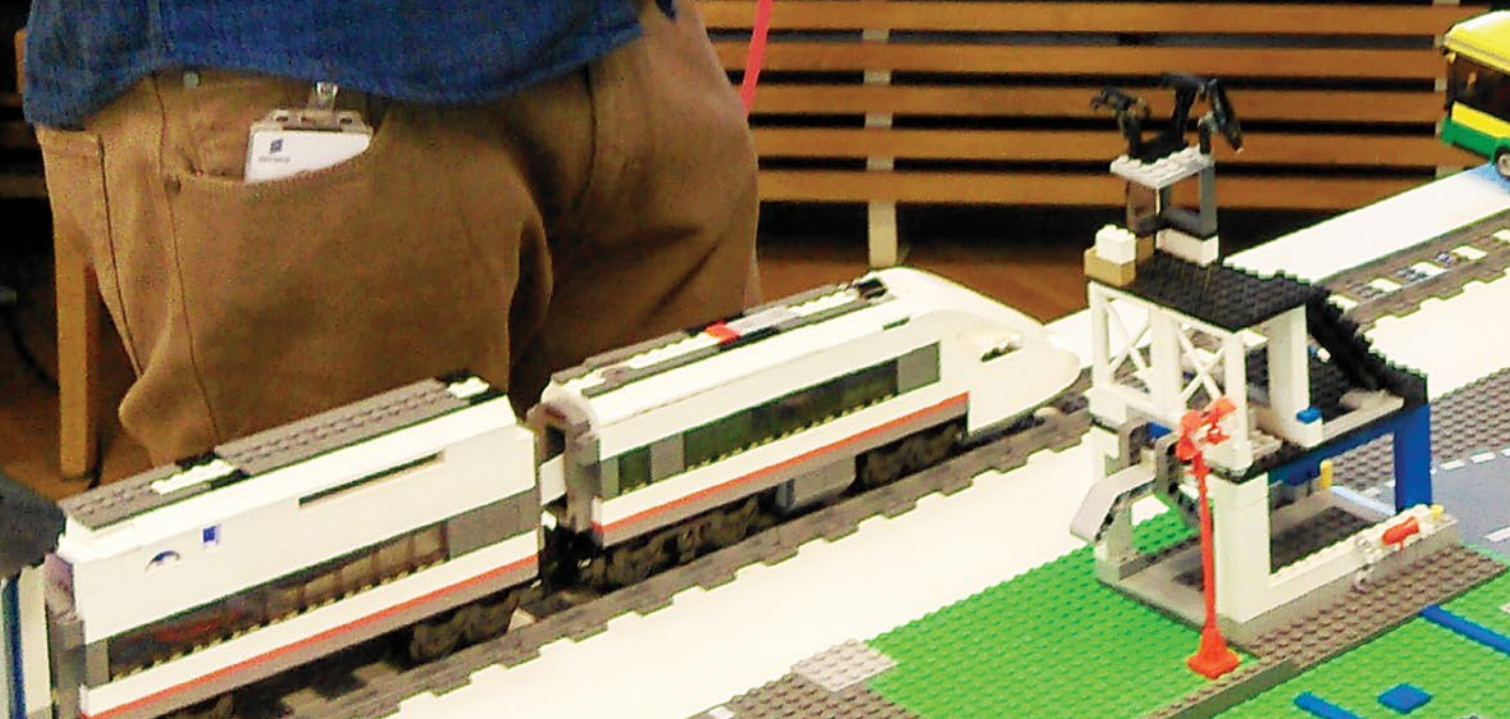
Sensors

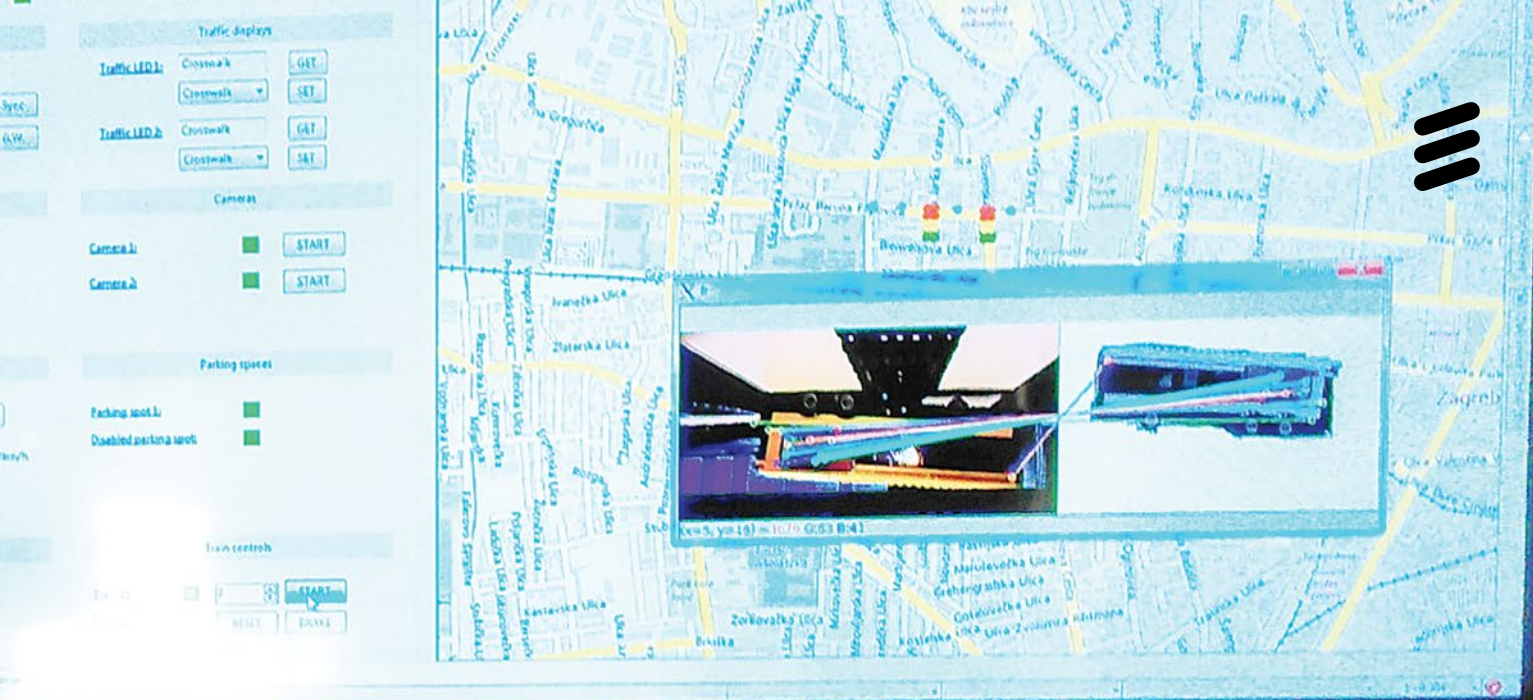
Sensor 1:	Operational	Turn On
Temp sensor:	23.5°C	<input type="checkbox"/> Rain
Humid. %:	32%	<input type="checkbox"/> Speed
Pressure:	1006.21 Pa	<input type="checkbox"/>
Gas sensor:	10 ppm	<input type="checkbox"/>
UV Index:	0	<input type="checkbox"/>

Traffic lights

Traffic light 1:

Note providers





02 Non-financial report

Highlights

- ICT industry is the key driver of economic growth, innovativeness and equal opportunities for all
- CSR principles have been embedded in all the segments of our business and our relationship to all stakeholders
- the market has recognized us as innovators whose products, solutions and services have a positive impact on people's lives, business and the environment
- all our employees have a strong sense of purpose which is connected to our commitment to sustainability and social responsibility

About the non-financial report

This non-financial report describes Ericsson Nikola Tesla Group's CSR activities in 2019. The report and additional information are available on the website of the Ericsson Nikola Tesla Group's mother company and subsidiaries. For more than 20 years, the Group has been reporting on its corporate social responsibility in a regular, true and documentary manner.

Sustainability and corporate social responsibility are embedded in all our activities and processes and are an integral part of our Long-Term Development Strategy. All our employees are fully focused on implementing the triple bottom line of responsibility: financial, environmental and social. Our goal is to create positive impacts on our business, and all our stakeholders, striving at the same time to successfully manage all types of business risks, in particular environmental, social and ethical. Our key

priority is to be an example of responsible and transparent business in a society in which we operate in order to encourage other business entities in our business environment to follow positive examples in their business operations and thereby always consider the full perspective of the overall business value chain.

Our long-term experience shows us that such a responsible approach to business brings new business opportunities, increased efficiency, reduces risks, increases brand value and strengthens market position, strengthens the Group's position as the employer of choice and encourages long-term competitiveness.

Report boundaries

All the information and data specified in the report, unless stated otherwise, relate

to activities and projects undertaken from 1 January 2019 to 31 December 2019. The report encompasses the activities undertaken by Ericsson Nikola Tesla d.d., as the mother company, and all its affiliated companies in Croatia and abroad. 2019 Annual Report provides information about the structure, the nature of ownership, legal form, affiliated companies, as well as changes in the size, structure and financial results of the Group. The previous report was published in April 2019 and it comprised the data for 2018. This non-financial report has not been subject to an external verification.

Reporting principles

Sustainability and social responsibility principles are applied in all segments of our business operations. The Group reports on its sustainability and the

We have been improving your life for more than 70 years

The timeline features a central horizontal line with circular nodes for each year. Above the line are images of products and milestones, and below are images of the products themselves. The milestones are: 1949 (Manual exchanges), 1955 (Crossbar systems), 1963 (Research & Development Center), 1965 (Traffic road signaling), 1974 (Semi-electronic SPC exchanges), 1981 (AXE systems), and 1990 (NMT).

Year	Product / Milestone
1949	Manual exchanges
1955	Crossbar systems
1963	Research & Development Center
1965	Traffic road signaling
1974	Semi-electronic SPC exchanges
1981	AXE systems
1990	NMT

effect of corporate responsibility in line with globally recognized standards and principles in order to provide stakeholders with all the required information about the Group's activities in this area. This report has been prepared in line with GRI Standards (Global Reporting Initiative).

The Group also reports on its progress in the field of human rights, environment and anti-corruption in line with UN Global Compact principles. The principles of stakeholder engagement, sustainability context, materiality and completeness, as well as response and impact, help the Group to define the content of sustainability and social responsibility report. In order to ensure the quality of reporting, the Group applies principles of accuracy, balance, clarity and timeliness.

Additional information about the Group and its social responsibility is available

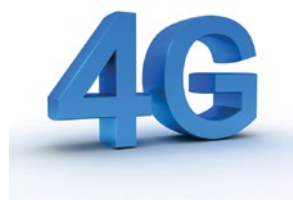
at www.ericsson.hr/en/homepage. The entire Annual Report is publicly available on Ericsson Nikola Tesla's website.

Statements about the future

Certain topics that are explored in this report and include statements relating to the future are subject to risks and uncertainty. Those who read this content should note that such statements have no guarantee and future actions and developments may fundamentally differ from the described or implied ones. We expressly deny the responsibility to update the statements relating to the future after publishing the report.



UMTS



1st demo of 5G network in Croatia

1999

The 1st agreement on GSM signed



2005

2007

e-Health



2012

2014

Joint Information System for Land Registry and Cadaster (JIS)



2018

We are committed to achieving global goals

United Nations Sustainable Development Goals (SDGs) call for global action by 2030 in three important areas: eradicating poverty, fighting climate change, and fighting injustice and inequality. We believe ICT is a key area for achieving all 17 goals. Even though there are big challenges in achieving such ambitious goals, these examples of the way our products, services and solutions are implemented with our customers across the world, along with business effects, show ICT's significant opportunity to accelerate the realization of SDGs. Moreover, all our business activities contain elements that are important for achieving SDGs.



No poverty
Regular and transparent payment of all taxes and contributions to the state budget and local government, ensuring thereby functioning and development of all activities which are important to the community, including taking care of the socially most vulnerable groups.



Zero hunger
Our employees volunteered to collect food and personal hygiene products for the needs of soup kitchen clients, and the company financed the supply of food for the most vulnerable groups in the society in Zagreb, Split, Osijek and Vukovar.



Good health and well-being
We have continued our cooperation with the Ministry of Healthcare of the Republic of Kazakhstan by providing warranty services for the implemented national e-Health platform, including Electronic Health Record, for 18 million citizens. Moreover, we provide support services to the operator managing the implemented "Integrated Health Information System" in Armenia, which is a platform used by nearly 3 million Armenian citizens.



Quality education
At Ericsson Nikola Tesla Summer Camp, students in STEM, as well as other fields, worked in a real business environment on real projects. At the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (University of Split), and at the Faculty of Transport and Traffic Science (University of Zagreb), laboratories were opened, focusing on the development on the state-of-the-art technologies. With the company's open-door program, we show the students the benefits of STEM schooling.



Gender equality
We undertake activities in all segments of the society with the aim of eliminating prejudice and stereotypes, encouraging interest in STEM jobs, promoting at the same time the importance of balanced participation of women in ICT.



Clean water and sanitation
In the framework of LIFE program, the company and its partners submitted a project proposal which enables the promptly monitoring of physical and chemical parameters of local springs, small waterfalls and wells by using IoT and mobile communication network.



Affordable and clean energy
In our business operations, we use ZelEn (green) energy from renewable energy sources.



Decent work and economic growth
We provide our employees with a pleasant working environment. We encourage them to participate in lifelong learning for them to stay competitive on the labor market during their entire career and give them rightful, regular and competitive salaries.



Industry, innovation and infrastructure

The company modernizes its customers' mobile networks with latest Ericsson solutions which enable an even better coverage, higher speeds and network capacity and, accordingly, a better user experience.



Reduced inequalities

Features of Ericsson Nikola Tesla's app EVA were additionally improved. EVA enables people with visual impairments and motor activity impairments to control touch screen devices in Croatian with their voices.



Sustainable cities and communities

By implementing a series of IoT based solutions, the company actively sets the foundation for smart and sustainable cities.



Responsible consumption and production

A considerable part of our services is delivered remotely, primarily in the segment of network design and optimization, network integration and software upgrade and we continuously work on their development.



Climate action

With an aim to reduce energy consumption and CO2 emissions, we have continued a large project "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.", co-financed by the European Union from the European Structural and Investment Funds within the Operational Program "Competitiveness and Cohesion" 2014 – 2020.



Life below water

With systemic activities in which we include our suppliers, we reduce the use of single-use plastics. Moreover, we teach not only our employees but also the wider public how to contribute to the reduction of river and sea pollution.



Life on land

In the framework of LIFE program, the company and its partners submitted a project proposal "Smart Nature". The project analyzes biological indicators from national parks and nature parks, collected by advanced eDNA methods, and by using ICT tools contributes to the protection and preservation of freshwater ecosystems.



Peace, justice and strong institutions

By implementing Joint Information System for Land Registry and Cadaster in all cadastral offices and land registry departments in the Republic of Croatia, prerequisites have been made for the development of new e-services and the empowering of institutions as well as for providing a better, more quality and safer service to the citizens.



Partnerships for the goals

We play one of the leading roles and actively participate in national umbrella institutions that encourage corporate social responsibility – Croatian Business Council for Sustainable Development (HRPSOR), Croatian Employers' Association (CEA), Croatian Chamber of Economy (HGK), etc.



Our approach to corporate social responsibility

At Ericsson Nikola Tesla Group, we believe that communication is a basic human need and that technology is the key driver of positive change which is, in turn, important for society's sustainable development. In our business environment, we have been recognized over many years as a relevant and responsible driver of society's digital transformation process.

Sustainability and Corporate Social Responsibility Strategy is an important part of our business strategy which is systematically and fully implemented in both the mother company and all the Group's affiliated companies. United Nations Sustainable Development Goals are a framework that we use to define and measure our impact on the society in which we operate.

Our Sustainability and Corporate Social Responsibility Strategy implies the following:

- use the trust we created with our stakeholders as a business advantage
- assume leadership in energy efficiency

- establish circular economy in all elements of our business
- develop and deliver solutions that have a positive impact on climate change.

Strategy implementation and harmonization

ICT industry plays an important role in the process of implementing UN Sustainable Development Goals and fulfilling the obligations outlined in the Paris Agreement on Climate Change. As a responsible and relevant driver of positive changes in the society, our Group uses UN SDGs

as a platform for the implementation of concrete activities in order to use technology, knowledge and experience of our experts to contribute as much as possible to achieving set goals, bringing thereby benefits to society at large.

Doing business responsibly

Our long-term business development strategy is based on the idea of being a reliable partner. Agreed rules and guidelines are applied on the Group level, and all our employees work on their implementation daily.

Foundations of our sustainability and social responsibility strategy



<p>■ doing business responsibly</p> <p>Be the leader in the implementation of legal compliance and proactive projects, enabling the Group to maintain the position of a reliable partner.</p>	<p>■ energy, the environment and climate impact</p> <p>Through a circular economy enable solutions and services that will contribute to the creation of a new value in business and positioning of the Group on the market.</p>	<p>■ Internet for all</p> <p>Implement innovative solutions that enhance the availability of mobile broadband for all people.</p>
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We form partnerships with all target groups and do business with integrity and transparency on all the markets where we operate.

Energy, the environment and climate

ICT has a transforming role in providing support to other economy sectors by harmonizing business growth with a rational use of resources; moreover, it can greatly contribute to the reduction of carbon dioxide emissions as well as to the preservation of clean air, drinking water and other natural resources.

Commitment to circular economy

In order to increase our positive impact on the society, we are dedicated to circular economy, the focus being on three key areas:

- 1 Leadership in energy efficiency and environmental characteristics of products
- 2 Ecologically responsible use of materials, waste and water
- 3 Reduction of carbon footprint in our activities.

Performance evaluation: Internet for all

Key part of our Strategy is to enable every person to use the Internet and mobile communications anywhere and anytime.

Along with providing global connectivity, we use our technology daily, we play the leading role and are innovative in ICT – a key area of our business activities.

Setting goals

Aligning our goals with the UN Sustainable Development Goals is nowadays necessary more than ever, as it is an integral part of a successful transformation of the society. We use a framework and methodology for evaluating and describing the positive impact we have on the society, for setting further goals and monitoring progress.

Impact and risk assessment

In order to support the sustainability of business and social responsibility strategy, we measure yearly and long-term goals of positive impacts and risk management. There are two main ways in which we measure our positive impact:

- activities and projects by which we contribute to sustainable development
- reduction of greenhouse gas emissions in the society.

We measure risk mitigation in the following areas:

- responsible sourcing
- anti-corruption

- adhering to the rules of responsible sales
- occupational health and safety.

The way in which we implement our Strategy is described in three sections of this report: business, environmental, and social responsibility.

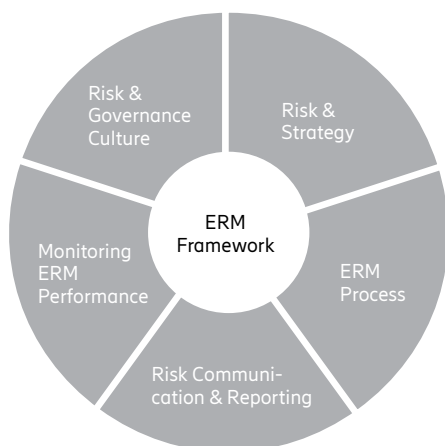
Business integration

Sustainability and social responsibility are integrated into the implementation of our business strategy, goal setting and managing business risks. Sustainability and social responsibility policy, as well as our Code of Business Ethics and Code of Conduct, are part of our management system and are applied in the entire Group.

Monitoring the performance

Every year, we report from the perspective of achieving progress in key activities of the business chain and meeting the most important goals and achievements related to key material issues in our business. We will continue to be the leader in sustainable development, both in the society and on the markets where we operate. We will also continue to strengthen the impact of our technology in accelerating activities for achieving global sustainable development goals.

Risk management



Risks

Intellectual Property Rights	Quality	Competition
People	Internal compliance	External compliance
Accounting	Treasury	Technology
Mergers & Acquisitions	Cyber & Information Security	Security, safety & continuity
Communication & marketing	Geopolitical	Customers
Supply & sourcing	Product & service	Project execution

The 10 Hot Consumer Trends for 2030

It is expected that in the future the Internet of Senses will be enabled by technologies such as Artificial Intelligence (AI), Virtual Reality (VR), Augmented Reality (AR), 5G and automation. According to Ericsson latest research, consumers predict that by 2030 screen-based experiences will increasingly compete with multi-sensory ones that will be almost inseparable from reality. With the human brain as the user interface, consumers expect devices to respond to thoughts, creating a new interaction paradigm. Consumers expect an array of beneficial services from connected technology interacting with our senses of sight, sound, taste, smell and touch to be a common reality. Main drivers for the Internet of Senses include immersive entertainment and online shopping, the climate crisis and the corresponding need to minimize climate impact.



01. Your brain is the user interface

Fifty-nine percent of consumers believe that we will be able to see map routes on VR glasses by simply thinking of a destination.



02. Sounds like me

Using a microphone, 67 percent believe they will be able to take on anyone's voice realistically enough to fool even family members.



03. Any flavor you want

Forty-five percent predict a device for your mouth that digitally enhances anything you eat, so that any food can taste like your favorite treat.



04. Digital aroma

Around 6 in 10 expect to be able to digitally visit forests or the countryside, including experiencing all the natural smells of those places.



05. Total touch

More than 6 in 10 expect smartphones with screens that convey the shape and texture of the digital icons and buttons they're pressing.



– The Internet of Senses



06. Merged reality

VR game worlds are predicted by 7 in 10 to be indistinguishable from physical reality by 2030.



07. Verified as real

"Fake news" could be finished – half of respondents say news reporting services that feature extensive fact checks will be popular by 2030.



08. Post-privacy consumers

Half of respondents are "post-privacy consumers" – they expect privacy issues to be fully resolved so they can safely reap the benefits of a data-driven world.



09. Connected sustainability

Internet of senses-based services will make society more environmentally sustainable, according to 6 in 10.



10. Sensational services

Forty-five percent of consumers anticipate digital malls allowing them to use all five senses when shopping.



Engagement of all our stakeholders

Through a continuous two-way communication with all our stakeholders, we wish to create a meaningful dialog and build relationships that can contribute to the achievement of our joint goals which are important for a sustainable development of the society.

By including stakeholders and engaging in a dialog with them about the topics of common interest, we build mutual trust and gain insight into topics that are important to our business, we encourage innovativeness and build relationships that improve our vision of the digital society. Our stakeholders are divided into four main categories: customers, shareholders, employees, and the society. The society comprises suppliers, public administration, civil society, non-governmental organizations (NGO), industry partners, media, the academia and the public.

Being in regular contact with our stakeholders, we are continuously involved in discussions and agree on numerous joint topics in various ways. We communicate through numerous activities undertaken by our employees, joint projects and initiatives, meetings with customers, meetings

with investors, surveys, participation at industry meetings, activities in decision-making bodies, as well as academic research. Moreover, we gain insight into our stakeholders' opinions in other ways, such as individual meetings, consultations, research collaboration with the academia, institutions, associations' members, and others. In order to increase contact and dialog with the public, the Company uses social media.

We include our stakeholders in a wide range of topics, including supply chain management, energy efficiency, assessment of human rights impact, impact of our technology on the quality of life, access to health care, education, state administration and discussions on other important sustainable development goals. Our committed approach helps us to determine the stakeholders, topics and the way of inclusion with the aim of

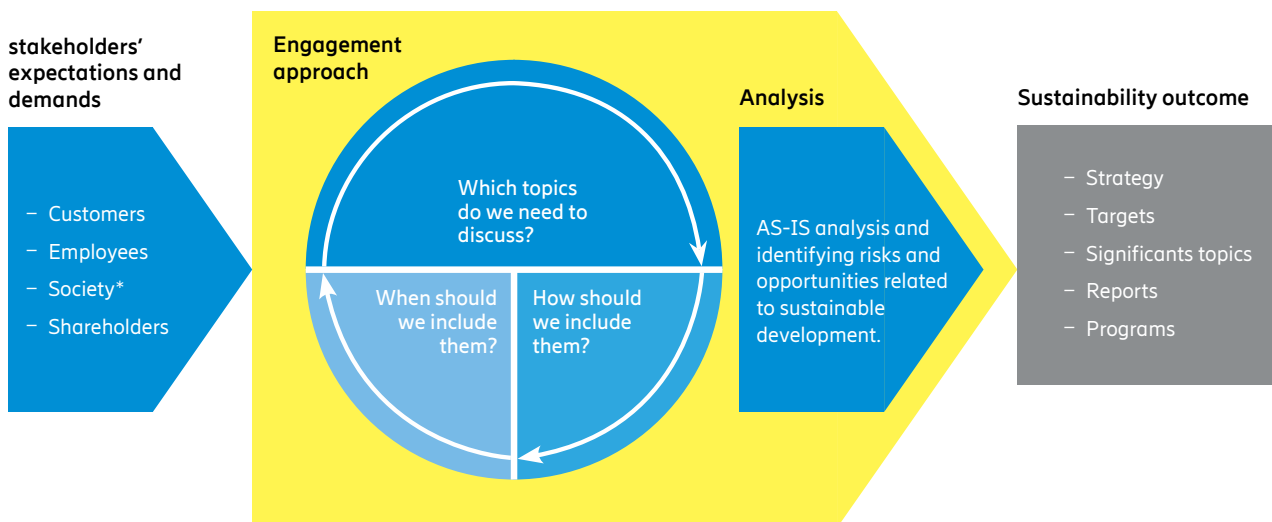
obtaining feedback, which is important for the current and future development of both us and the society.

Open dialog

We include different stakeholders, such as NGOs, and the public administration bodies, in the consultation about human rights. We are aware that we can address the challenges and complex issues regarding human rights more properly and adequately if we identify the topics and start a constructive and inclusive dialog on time.

As an associated member of Ericsson Corporation, we respect all internationally proclaimed human rights, including the International Bill of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

Our approach to stakeholder engagement



* The society comprises suppliers, partners, business and expert associations, government bodies, the academia, the union, the public and the community.

Our key stakeholders

Key stakeholders	Our way of working
Customers	<ul style="list-style-type: none"> - Professionalism - Partnership in finding the best solutions - Innovativeness in providing comprehensive ICT solutions, with positive impact on business, people’s lives and the environment, including the climate changes - Measuring Customer satisfaction
Employees	<ul style="list-style-type: none"> - Lifelong learning and training - Attractive jobs in ICT sector - Equal development and work opportunities for all employees - Performance-based salary system - Motivating work environment - High-quality equipped workplace and care for OHS - Monitoring employee satisfaction
Shareholders and Investors	<ul style="list-style-type: none"> - Applying the principles of corporate governance - Timely and objectively informing on the most significant activities and achieved business results
Suppliers and Partners	<ul style="list-style-type: none"> - Joint efforts to improve and enhance the supplier chain - Knowledge transfer - Regular inspection of Quality and Environmental Management Systems
Unions	<ul style="list-style-type: none"> - Partnership - Consulting and involving in the decision-making process - Support to union work, including care for the interests of its members
Business and professional associations	<ul style="list-style-type: none"> - Participating in activities
Government bodies	<ul style="list-style-type: none"> - Participating in the passing of legislation - Exchanging ideas - Encouraging favorable business environment
Educational institutions	<ul style="list-style-type: none"> - Support to educational initiatives - Transfer of knowledge about the latest technologies - Working on joint projects
Community	<ul style="list-style-type: none"> - Knowledge exchange - Support and collaboration in local initiatives - Working on joint projects

Our material topics

Ericsson Nikola Tesla Group regularly evaluates its important economic, ecological and social topics, so as to ensure a solid foundation of a sustainable corporate social responsibility. This is the central component of the situation analysis, which is essential for the development of strategy, goal setting, risk management and reporting.

The evaluation is carried out at an annual level, with the purpose to:

- determine the Group's impact on economic, ecological and social topics
- examine stakeholders' feedback which significantly affects views and decisions.

In 2019, we continued developing the evaluation process by focusing on determining important topics that have a long-term significance for our business.

Setting priorities

When assessing materiality, we strive to focus on our most significant material topics. Some of the topics, such as privacy and security, will be important for business long-term, while others may be relevant in the short and medium term.

We assess the lifecycle of our products in order to determine and measure our impact

on the environment as well as to define possibilities for increasing positive impacts throughout the whole value chain. Every material topic as well as its limits, i.e. where in the value chain the impact appears, are described in this report.

Our approach

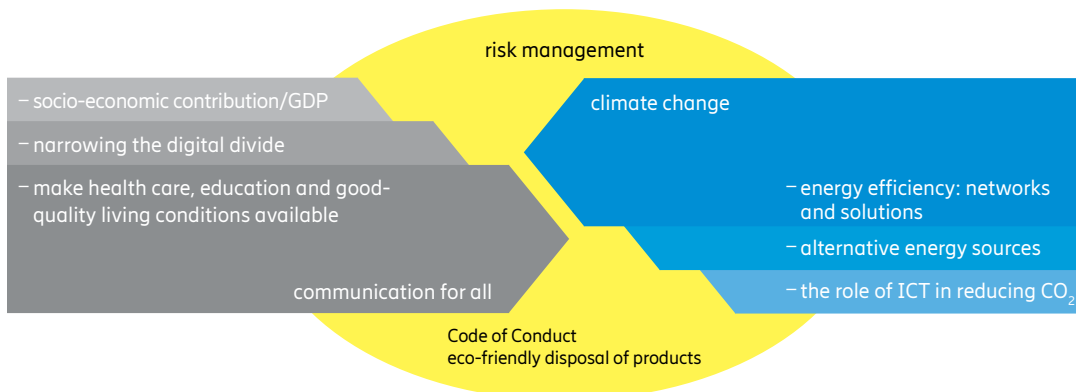
Our material topics matrix consists of the following quadrants:

- **We have recognized and actively participate in:** These are the topics which are identified as the most significant for the Group and our stakeholders, so we actively participate in them. Where necessary, we look into and adapt ourselves and/or use new management procedures to ensure business sustainability and responsibility. We actively include stakeholders in these topics to discuss and mitigate possible

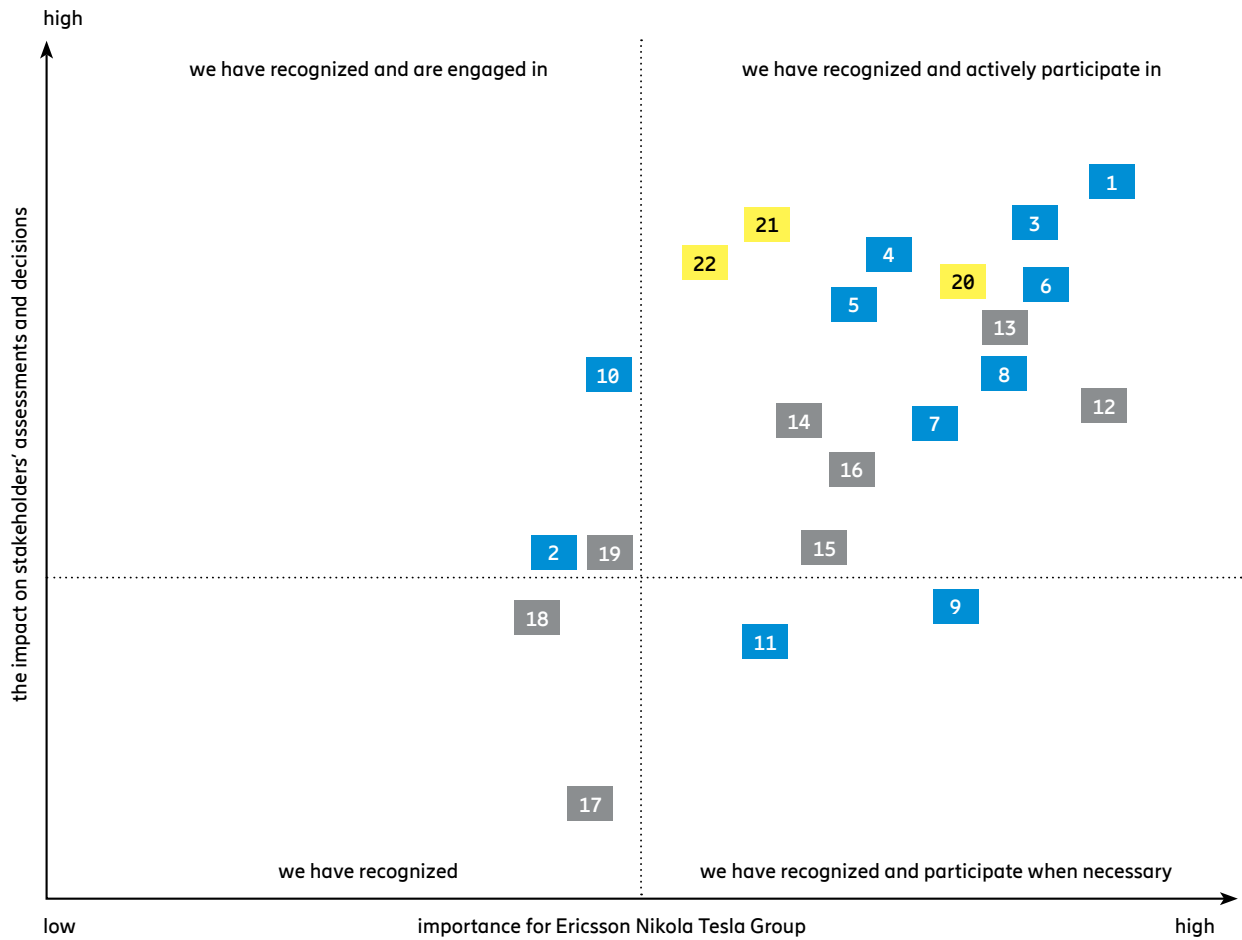
risks, as well as to improve the positive socioeconomic and environmental impacts of mobility, broadband Internet access and cloud computing.

- **We have assessed and are engaged in:** These are the topics in which our stakeholders have specific interest. We monitor these topics, report on our results in these areas and continue with the dialog when necessary.
- **We have assessed/recognized and participate when necessary:** These are the areas which we work on with selected stakeholders when necessary, but we do not necessarily report on them. We have established procedures by which we strive to ensure that, in relation to specific topics, we operate in accordance with our stakeholders' expectations.

Key activity areas



Material topics matrix



Material topics

business responsibility*

- 1 anti-corruption
- 2 radio waves and public health
- 3 responsible sourcing
- 4 respecting human rights
- 5 looking after health and OHS
- 6 IT security and the right to privacy
- 7 diversity and inclusion
- 8 risk management
- 9 employee engagement
- 10 labor standards
- 11 tax transparency

environmental responsibility*

- 12 energy consumption
- 13 ICT contribution to low-carbon economy
- 14 impact on the environment and climate change
- 15 supplier environmental responsibility
- 16 electronic waste management
- 17 energy efficiency of a product
- 18 efficiency in the use of materials
- 19 water consumption

social responsibility*

- 20 partnerships for socioeconomic development
- 21 responsibility towards the community
- 22 access to health via technology

* the number next to the material topic does not match the importance of the topic





Business responsibility

Highlights

- we owe our business success and growth to employees' innovativeness, knowledge and skills
- integrity and ethics are an integral part of the company's culture and an essential characteristic of our everyday Way of Working and doing business
- our Way of Working implies zero tolerance for bribery and corruption
- we take care of our employees' health and safety at work continuously and systematically
- our fundamental values are respect, professionalism and perseverance

Doing business responsibly

Ericsson Nikola Tesla Group and all its employees share with their colleagues from global Ericsson a joint responsibility and commitment to the highest level of integrity and ethics in doing business. Integrity and ethics are an integral part of the company’s culture and an essential characteristic of our everyday Way of Working and doing business. Operating with a strong sense of honesty is crucial to maintain credibility and preserve the trust of customers, partners, employees, shareholders and all other stakeholders.

All stakeholders that have a contractual relationship with the Group, as well as all employees, are required to adhere to the Code of Conduct for Business Partners and Code of Business Ethics in their daily operations <https://www.ericsson.hr/en/sustainability-and-corporate-responsibility>.

Our management system is the foundation of our Way of Working. We approach our business activities on the highest levels in the company responsibly, starting with the Supervisory Board, the Management Board and all the members of the Executive Management.

Our Compliance Board is responsible for the overall management of compliance in the Group. The Supervisory Board, the Management Board and the Executive Management are regularly notified on sustainability and corporate and social responsibility issues.

Our Way of Working

Ericsson Nikola Tesla Group’s policies, directives and processes cover the following topics: responsible sourcing, occupational health and safety (OHS), environmental management, anti-corruption, human rights, trade and sales compliance. Code of Business Ethics, Code of Conduct, Trade Compliance Policy, Occupational Health and Safety Policy and Sustainability Policy are part of Ericsson Nikola Tesla Group’s Management System. In this way, we ensure the integration of sustainability and corporate responsibility into every aspect of our business activities, wherever we do business.

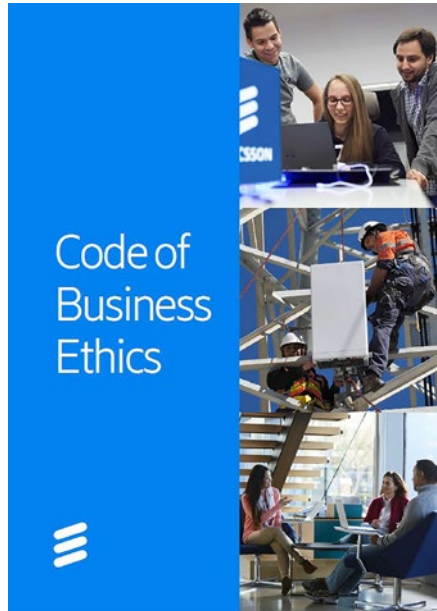
Independent certification institutes and Ericsson Nikola Tesla Group’s team for operational excellence and quality regularly verify the way in which we implement the policies and directives, manage risks and achieve our goals.

Code of Business Ethics

The Group considers creating a transparent environment in managing business to be a top priority. We use our Code of Business Ethics to show our commitment to acting honestly and truthfully in our business activities and our communication with the market. We expect the company to be managed in line with the principles outlined in this Code. These standards should be met by everyone: members of the Supervisory Board, the Management Board and the Executive Management, as well as every individual working for Ericsson Nikola Tesla Group.

The Code of Business Ethics reflects the company’s commitment to responsible business management, including:

- the commitments we have as responsible citizens
- respect for human rights in all segments of our business
- occupational health and safety
- promoting sustainable development
- support to the United Nations Global Initiative, as stated in the Code of Conduct for Business Partners.
- resolving potential conflicts of interests adequately
- protecting and using assets appropriately.



The Code of Business Ethics also comprises rules for all individuals working at Ericsson Nikola Tesla and for Ericsson Nikola Tesla, including the following:

- ensuring absolute compliance with all applicable laws, rules and regulations
- promoting complete, fair, accurate, timely and comprehensible publication of data in financial reports and other public statements

Code of Conduct for Business Partners

Our Code of Conduct for Business Partners has been drawn up with the purpose of protecting human rights and promoting fair employment conditions, safety at work, responsible environmental



management and high ethical standards. The Code of Conduct applies to all the employees, contractors and suppliers. Our suppliers and their subcontractors are also required to adhere to the Code of Conduct or similar standards as well as to confirm such adherence.

The Code is based on ten principles set out in the United Nations Global Compact on human rights, labor, environment and anti-corruption. Moreover, it emphasizes our intention to apply the United Nations Guiding Principles in our business activities.

The Code of Conduct has been updated primarily to increase the responsibility we have in relation to anti-corruption, the use of conflict minerals and forced labor.

Compliance Officer

In order to intensify the monitoring of compliance on the Group level, especially when it comes to anti-corruption and applying effective competition principles, we have established a new function – Compliance Officer. This is a person who reports and participates in the work of Compliance Board.

Reporting non-compliance

Employees, suppliers, customers and other partners associated with Ericsson Nikola Tesla can report a suspected breach of a law or the Code of Conduct to the local executive manager. A special compliance office was founded where any irregularities can be reported directly via e-mail to compliance.etk@ericsson.com or anonymously by using the Compliance Line at <https://www.ericsson.hr/en/company-governance>.

The Compliance Line is operated by a third party and is available 24/7/365. It is possible to communicate in Croatian, Bosnian, Serbian, Montenegrin, English, and Russian language. Reports can be made via a user-friendly reporting system. After a report has been made, the third party will deliver it to Ericsson Nikola Tesla Group, which will not have access to the IP address of the sender.

Compliance Officer receives the reports and informs the Compliance Board and Audit Board of them.

In 2019, there were no confirmed incidents of corruption.

Education for employees and suppliers

We organize various types of trainings to ensure that our employees and business partners adhere to all the aspects of our Code of Business Ethics and Code of Conduct.

- **Anti-corruption**
In 2019, all active Ericsson Nikola Tesla Group employees completed the new anti-corruption course via the e-learning application. With providing continuous education, we aim to increase risk awareness among all attendants, solve all possible dilemmas and encourage them to act properly. Furthermore, we also held additional anti-corruption trainings for key personnel in sales and other relevant positions. The purpose of these trainings was to raise awareness of risks, dilemmas and corresponding actions.
- **Human rights**
As of December 2015, we have been providing all our employees with e-learning courses on human rights and business.
- **Compliance**
Our compliance course is focused on anti-corruption, competition and trade compliance.
- **Education for suppliers**
We regularly organize free online courses for all suppliers and other stakeholders, covering four key areas: Code of Conduct, anti-corruption, occupational health and safety, and conflict minerals.

Ethics & Compliance program



Corporate governance

Corporate governance describes the way in which the rights and responsibilities are shared between the management bodies in accordance with the applicable laws, rules and internal procedures. Corporate governance also describes the system of reaching decisions and the structure through which the shareholders can directly or indirectly control the way the Company is managed. Its long-term purpose is to continuously create economic value for shareholders.

Management Board and Supervisory Board of Ericsson Nikola Tesla d.d. encourage the respect of corporate governance main principles by striving to ensure transparent business, protection of rights and equal treatment of all shareholders, as well as to strengthen the responsibility towards all stakeholders.

The Company's experts continuously, timely and objectively inform the public about all important business activities and results, thus strengthening the public perception of a Company that fully implements the Code of Business Ethics.

Good governance of the Company strengthens trust of all stakeholders, credibility towards customers, partners, employees, shareholders, and others; it also represents a significant factor in attracting investments into the Company.

Regulation and compliance

Ericsson Nikola Tesla is a joint-stock company with shares listed on the Regular

Market of the Zagreb Stock Exchange, and accordingly, is subjected to various laws and regulations that affect the management of the Company. The most significant external regulations are:

- the Companies Act
- the Capital Market Act
- Zagreb Stock Exchange rules
- National Code of Corporate Governance
- Applicable rulebooks of the Croatian Financial Services Supervisory Agency (HANFA)
- EU applicable regulations.

Internal rules

Furthermore, with the aim to ensure compliance with legal and regulatory requirements and high standards we set, Ericsson Nikola Tesla Group adopted internal rules, which include:

- Code of Business Ethics
- the Group's steering documents, including the Group's rules and

directives, instructions and business processes for control and risk management

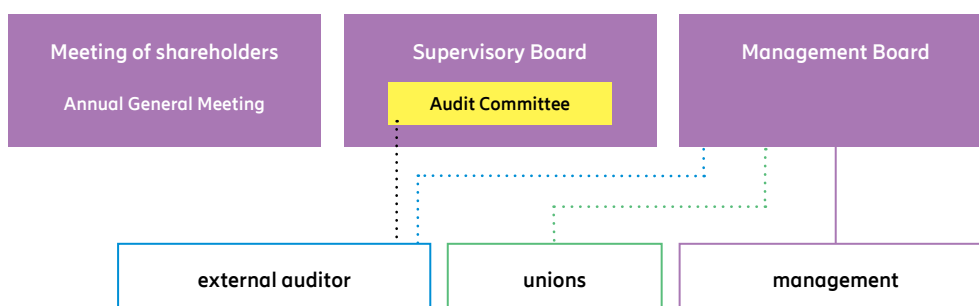
- Code of Conduct for Business Partners
- Corporate Governance Principles of Ericsson Nikola Tesla
- Articles of Association and work procedures of the management bodies.

Code of Business Ethics

Our Code of Business Ethics summarizes Group's main policies and directives and contains rules which ensure business with a strong sense of integrity. This is of key importance for maintaining trust and credibility towards our customers, partners, employees, shareholders and all other stakeholders. Everyone who works for Ericsson Nikola Tesla has an individual responsibility to ensure that business activities are performed in accordance with the Code of Business Ethics.

After they are employed, the employees confirm that they are aware of the principles

Management structure



of the Code of Business Ethics. This procedure is periodically repeated during their employment.

In addition to the above, Ericsson Nikola Tesla is a signatory of the Code of Ethics in Business, initiated by the Croatian Chamber of Economy. The above-mentioned Code defines the guidelines of ethical behavior of business entities in Croatia.

Management structure

The Annual General Meeting is a place where shareholders exercise their legally established rights.

In addition to the Supervisory Board members, elected by shareholders, the Supervisory Board has an employees' representative, elected by the Company's employees. The Supervisory Board supervises business activities of the Company. The Management Board of the Company consists of one member, appointed by the Supervisory Board. The Management Board is responsible for the management of the Company's business with the support of Ericsson Nikola Tesla's Executive Management. Annual General Meeting selects Ericsson Nikola Tesla's external auditors.

The person in charge of Operational Excellence and Quality, and the person in

charge of Compliance regularly report on their work to the Audit Committee of the Supervisory Board.

Annual General Meeting

Annual General Meeting decides on the election and recall of the Supervisory Board members, profit allocation, discharge from liability of the Management Board and the Supervisory Board, appointment of an independent auditor of annual financial statements, amendments to the Company's Articles of Association as well as other issues explicitly defined in the Companies Act and the Company's Articles of Association.

At Annual General Meeting the decisions are reached by majority of votes cast (simple majority), unless otherwise prescribed by law or the Articles of Association. For example, the Companies Act defines that the decisions reached at the Annual General Meeting related to amendments of the Articles of Association, and increase or reduction of the share capital are to be reached by the votes which represent at least three quarters of the share capital represented at the Annual General Meeting. Ericsson Nikola Tesla's Annual General Meeting is held in Zagreb, at the Company's headquarters. The date, time and place of the Annual General Meeting, as well

as the respective agenda, are published on Ericsson Nikola Tesla's web page no later than a month before the Annual General Meeting is going to be held, with the extension for the days defined for the application for participation.

The shareholders who cannot participate in person at the Annual General Meeting, can exercise their right to vote by proxies. All documentation related to the Annual General Meeting is available in Croatian and English.

The shareholders attending the Annual General Meeting are entitled to ask questions regarding the Group's business performance. Normally, the majority of the Supervisory Board, Management Board and Executive Management members is present at the Annual General Meeting to answer such questions.

External auditor attends the Annual General Meeting.

Ericsson Nikola Tesla's Annual General Meeting in 2019

The Annual General Meeting of the joint stock company Ericsson Nikola Tesla was held on June 13, 2019. The share capital was represented in the amount of HRK 89,100,300.00, which accounts for 66.92 percent of the Company's total share capital.

Ericsson Nikola Tesla d.d. Annual General Meeting



The Annual General Meeting was presided by Snježana Bahtijari, Director of Marketing and Communications (incl. CSR). The major shareholder, LM Ericsson, was represented by Mats Andrén.

- At the Annual General Meeting, the decision was adopted to allocate the Company's net income for the financial year 2018, amounting to HRK 111,848,079.75, into retained earnings.
- A decision was adopted on dividend payment to Company's shareholders, amounting to HRK 70.6 per share from retained earnings from 2017 and 2018. The dividend payment was made on July 12, 2019 to the Company's shareholders who had the Company's shares registered on their securities account in the Central Depository & Clearing Company on June 19, 2019.
- Supervisory Board's report on the supervision performed in 2018 was adopted.
- The Company's Managing Director,

Gordana Kovačević, as well as the Chairman and the members of the Supervisory Board were discharged from liability for exercising their duties in the year 2018.

- A decision was reached on the election of Olgica Spevec for the member of the Supervisory Board instead of a date member and Vice-Chairman of the Supervisory Board Ignac Lovrek.
- Vidar Mohammar, a member of the Supervisory Board, was re-elected for another term.
- It was decided that KPMG Croatia d.o.o. is appointed as the auditor for the Company's business performance in 2019.

Ericsson Nikola Tesla's Annual General Meeting shall be held on June 26, 2020 at the Company's headquarters, Krapinska 45, Zagreb. Additional information is available on Ericsson Nikola Tesla's web page.

Supervisory Board

The main task of the Supervisory Board is to supervise the Management Board in managing business. Ericsson Nikola Tesla's Supervisory Board consists of five members, appointed for a four-year term with the possibility of re-election. In its work, the Supervisory Board shall apply high ethical standards and take into account the interests of the Company and its shareholders.

The Company's Management Board regularly informs the Supervisory Board on all important business events and course of business operations.

The Supervisory Board reports to the Annual General Meeting on the supervision of business operations, presents its opinion on the Management Board proposal on the profit allocation and proposes the appointment of the Company's Auditor to the Annual General Meeting.

In line with the decision of the Annual General Meeting, the members of the Supervisory Board receive a monthly remuneration amounting to half of the



Supervisory Board and Management Board of Ericsson Nikola Tesla
from left to right: Dubravko Radošević (Member); Ignac Lovrek (Member and Vice-Chairman until June 13, 2019), Gordana Kovačević (Management Board), Franck Pierre Roland Bouétard (Chairman), Olgica Spevec (Member as of June 13, 2019), Vladimir Filipović (Member and employees' representative), Vidar Mohammar (Member).

average monthly gross salary of the Company's employees. The representatives of the largest shareholder Ericsson do not receive the remuneration in accordance with the corporate policy. Additional information on remuneration is available in Note 29.b. "Key management compensation" in the Audited consolidated and non-consolidated financial statements 2019.

Work of the Supervisory Board in 2019

Pursuant to provisions of the Companies Act and Ericsson Nikola Tesla d.d. Articles of Association, Ericsson Nikola Tesla d.d. Supervisory Board monitored Company's business operations, reaching decisions and conclusions at four regular and two extraordinary meetings held during 2019.

In 2019, members of the Supervisory Board were:

- Franck Pierre Roland Bouétard (Chairman)
- Dubravko Radošević (appointed Vice-Chairman on June 14, 2019)
- Ignac Lovrek (Member and Vice-Chairman until June 2, 2019)

- Vidar Mohammar (Member)
- Olgica Spevec (Member since June 13, 2019)
- Vladimir Filipović (Member and employees' representative).

At the meetings, the Supervisory Board discussed financial results, business situation in the domestic and export markets and ICT industry trends. Further topics of discussion encompassed business risks, strategic projects, investments, innovation management, compliance issues, and issues regarding human resources and shareholders. Moreover, the Supervisory Board continuously monitored business development and responsibilities of Research & Development Center, Digital Services & Customer Operations Center, Networks Center, ICT for Industry and Society Center, IT & Engineering Services Unit and a daughter company Ericsson Nikola Tesla Servisi d.o.o.

The Supervisory Board reviewed and approved Ericsson Nikola Tesla Group's Business Strategy 2019 – 2023, as well as

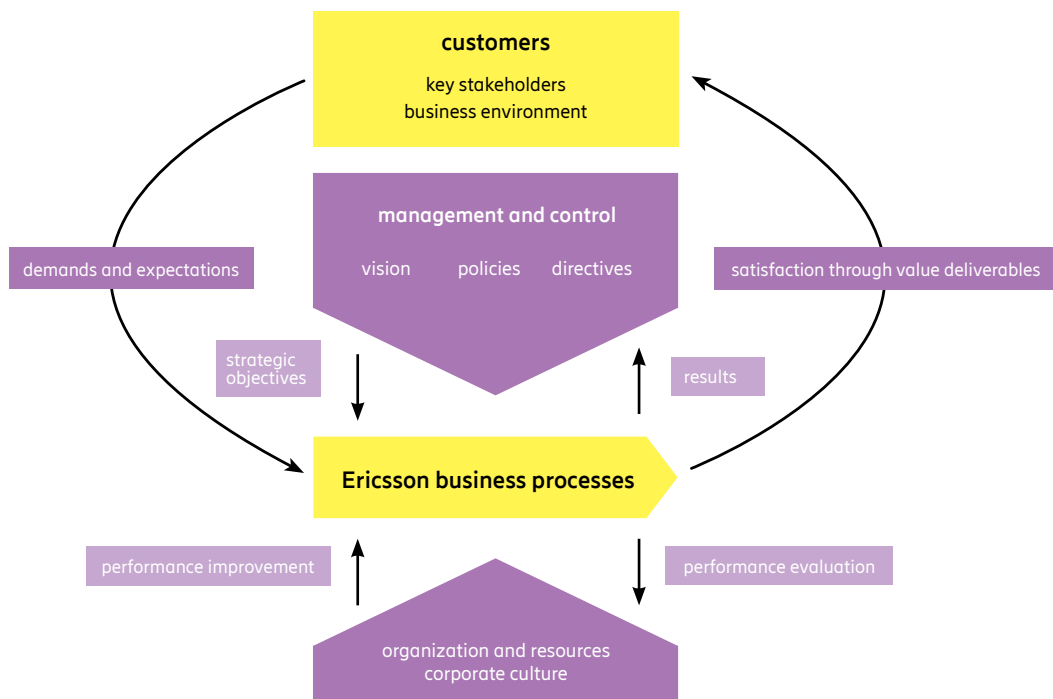
financial plans, including sales ambition and strategic priorities for each business segment. The Supervisory Board also supported the Digital Transformation program at Ericsson Nikola Tesla Group level, with the aim to additionally simplify the Company's key processes and automation.

Moreover, the Supervisory Board strongly encourages further activities on strengthening ethics and compliance business practice to ensure that the Company lives up to the highest standards.

At extraordinary Supervisory Board meetings, the members discussed 2018 annual financial reports, 2018 dividend proposal, defining 2019 targets, Group's business strategy, and the proposal for taking over the full responsibility for Managed Services for Hrvatski Telekom.

At the meeting held on December 17, 2019, the Supervisory Board re-appointed the Managing Director, Gordana Kovačević, for a new term in office, effective January 1, 2020.

Management system



Work of the Audit Committee

The Audit Committee is a specialized subcommittee of the Supervisory Board. In 2019, the Audit Committee acted in the following composition: Dubravko Radošević (member and Chairman since April 26, 2019), Ignac Lovrek (member and Chairman until April 26, 2019), Vidar Mohammar (Member) and Vesna Vašiček (Member).

Audit Committee held four meetings in 2019. The topics of discussion included financial performance during the year and related annual financial statements, 2019 audit plan, audit findings, quality control and risk management systems, security and compliance issues.

The Audit Committee regularly met with external auditors to discuss the audit plan and audit report on annual financial statements and approved non-audit services performed by external auditors. In addition, the Committee had regular meetings with members of the team for operational excellence and quality to discuss the internal audit plan and reports, as well as risk and

security management system. The Audit Committee followed up the compliance calibration process of Ericsson Nikola Tesla Group and participated in the handling and decision making on the reported potential compliance concerns.

The Audit Committee regularly presented its conclusions and recommendations to members of the Supervisory Board.

Management Board

The role of the Management Board in the management of Company's business is defined by the Companies Act, Articles of Association and Ericsson Nikola Tesla's internal rule books. The Management Board is obliged to consciously perform its duties, taking into account the Company's and its shareholders' interests. Ericsson Nikola Tesla has a one-member Management Board, a Managing Director appointed by the Supervisory Board for a five-year term, with the possibility of re-election. Gordana Kovačević, Managing Director of

the Company since January 1, 2005, was reappointed at the end of 2019 for another, fourth term in office.

The Management Board has the following non-transferable rights and obligations:

- to develop, discuss and approve the Company's strategy and business plan and to ensure its application;
- to regularly inform the Supervisory Board on financial and business results, strategy and business plans as well as other issues which are important for the Company's business and position.
- to ensure the basis for management of Ericsson Nikola Tesla's business and for that purpose adopt appropriate acts and standard business procedures;
- to organize consistent accounting and financial control in accordance with the applicable regulations and financial planning;
- to define business organization, appoint and recall management to establish effective organizational structure, as well



Company's Management Board and Executive Management in 2019 (missing: Patrick Gerard Martin)

Standing, from left to right: Ivan Barać, Miroslav Kantolić, Goran Ožbolt, Branko Dronjić, Damir Bušić, Hrvoje Benčić, Milan Živković, Dragan Fratrić, Vjeran Buća, Dario Runje, Darko Huljenić

Sitting, from left to right: Branka Vučemilo Elezović, Marijana Đuzel, Gordana Kovačević (Management Board), Snježana Bahtijari, Jagoda Barać

as define principles for remuneration to management;

- to monitor whether the work of the management is in accordance with the current laws, Ericsson Nikola Tesla's Articles of Association, Management Board's decisions and acts of general application, as well as business plan;
- to evaluate first line managers and ensure succession and development plan;
- to prepare, in accordance with the Croatian Companies Act as well as other current regulations, the report on business performance, and to point the deviations in the actual business development compared to previously defined plans and goals and to state the reasons for this;
- to organize the Annual General Meeting of the joint stock company Ericsson Nikola Tesla and execute the adopted decisions.

The Management Board is obliged to take into account the best interest of the Company and may not, while making decisions, be driven by personal interests or use Company's business opportunities for itself. The Management Board is obliged to immediately inform the Supervisory Board on the conflict of interest.

The salary and other compensations of the Management Board are defined by the Supervisory Board and they depend on the Company's business results. Additional information on remuneration is available in Note 29.b. "Key management compensation" in the Audited consolidated and non-consolidated financial statements 2019.

Executive Management

Ericsson Nikola Tesla's Executive Management consists of the Managing Director and the directors of the main organizational units.

The Managing Director is responsible for managing daily business operations, and in her work is supported by other members of the Executive Management.

Executive Management:

- defines the Group's strategy and policy and establishes a strong corporate culture.
- defines goals for operational units, allocates resources and monitors the performance of particular units.
- ensures operational excellence and achieves synergy through efficient organization of the Group.

Additional information on the members of the Executive Management and their remunerations can be found in the chapter under the title Profile of the parent company and its subsidiaries and Note 29.b. "Key management compensation" in the Audited consolidated and non-consolidated financial statements 2019.

Ericsson Nikola Tesla Group - Management system

Ericsson Nikola Tesla Group's management system encourages corporate culture and ensures management of business operations:

- to meet the goals of Ericsson Nikola Tesla's stakeholders (customers, shareholders, employees);
- within defined risk limits and with reliable internal control;
- in accordance with relevant laws, Code of Corporate Governance and stock exchange rules.

Ericsson Nikola Tesla Group management system is a framework consisting of rules and requests related to Group's business performance, defined by described processes and organization, policies, guidelines and instructions. The management system is based on ISO 9001:2015 (international standard for quality management), ISO 14001:2015 (international environmental management standard), OHSAS 18001:2007 (international occupational health and safety management standard) and ISO 27001:2013 (international information security management standard), but it is designed as a dynamic system which enables the Group to adapt the system to varying requirements and expectations, including the new legislation as well as customers' and other stakeholders' requests.

Members of the operational excellence/development and quality team perform an internal control of processes and activities. The focus is on improving integrated management system, strategy execution, managing business processes, reporting and managing performance.

In implementing its strategy and achieving business goals, the company is faced with various risks daily. The Management System takes these risks into consideration and enables their timely identification, analysis and assessment, as well as taking appropriate preventive measures to eliminate or mitigate them. Risk management is incorporated into all business segments

and all operative processes through the Management System, with the aim to ensure:

- responsibility
- effectiveness
- efficiency
- uninterrupted business
- compliance with corporate governance, legal and other requirements.

Managers of all Group's organizational units, together with the employees, actively participate in the risk management process.

Ericsson Nikola Tesla d.d. regularly certifies its Management System through independent certification authorities, and holds the following certificates:

- ISO 9001:2015 - Certificate for Quality Management System, including Marketing, Sales and Delivery of ICT Solutions, Products and Services (EY CertifyPoint, The Netherlands)
- ISO 9001:2015 - Certificate for Quality Management System, including Research and Development in ICT Software (SIQ, Slovenia)
- ISO 14001:2015 - Certificate for Environmental Management System, including Marketing, Sales and Delivery of ICT Solutions, Products and Services (EY CertifyPoint, The Netherlands)
- OHSAS 18001:2007 - Certificate for Occupational Health and Safety Management System, including Marketing, Sales and Delivery of ICT Solutions, Products and Services (EY CertifyPoint, The Netherlands)
- ISO 27001:2013 - Certificate for Information Security Management Systems, including Marketing, Sales, Development and Delivery of ICT and Telecommunication Products, Solutions and Services (EY CertifyPoint, The Netherlands)

External auditors

External independent auditors, appointed by the Annual General Meeting, perform the annual audit of the financial statements and business reports to ensure independent, objective view on the way the financial statements are prepared and presented. The independent auditor's report to the Annual General Meeting is an integral part of the Annual Report.

KPMG Croatia d.o.o. was chosen as the Company's auditor for 2019.

We respect human rights

Ericsson Corporation has been a signatory of the UN Global Compact declaration since 2000. In 2012, the corporation took on additional commitment by signing the UN Guiding Principles on Business and Human Rights (UNGPs). As an associated company of Ericsson Corporation, Ericsson Nikola Tesla Group also follows these principles and has developed specific best practices.

Complying with the Code of Business Ethics is mandatory for everyone working for the Group, under the guidance of the company's executive management or on its premises, whether they are an employee, a subcontractor or a private contractor. The Code gives behavior guidelines, whose intention is to safeguard human rights and ensure a dignified life for every person.

Every couple of years, we re-adopt the rules, particularly if some areas have been revised. At Ericsson Academy website, there is an e-learning app where our employees can regularly take courses on safeguarding human rights.

Moreover, all the concerned policies and directives are available on the company's intranet and Internet site.

Activities in 2019

Children's rights as part of corporate social responsibility

Ericsson Nikola Tesla is an invited member of the UNICEF Think Thank on children's rights and social responsibility. Through joint work of all the involved stakeholders on detecting issues and proposing constructive solutions, the aim is to improve the companies' relation towards parents, contribute to a better work-life balance, improve conditions in which young generations grow up, as well as help

companies to contribute to sustainable development and respect of human rights by doing business in a quality and responsible manner.

In line with this, a research on this topic was conducted last year in Croatia for the first time. The UNICEF's "Better Business for Children" conference presented the results of the first national research on the impact of the business sector on children's rights. At the conference, companies were invited to develop and implement positive practices in their organizations. Apart from this active support to the realization of a quality life of children and parents, it is important to mention that the Group has for years been applying the ban of working of minors in all the Group's business activities, thus additionally positioning itself as an employer taking particular care of this especially sensitive group.



Right to privacy

Privacy is very important to us because it is one of basic human rights, as stated in Article 12 of the United Nations Universal Declaration of Human Rights. Ericsson Nikola Tesla Group is therefore fully committed to ensuring the right to privacy, all the more so as we participate in and/or lead digital transformation of industries and society in various segments. We believe that if systems, networks and services protect information and safeguard our right to privacy, ICT has a huge potential to transform all aspects of life, work and communication between people.

Our business ethics is focused on strictly complying with the right to privacy of every individual we communicate with in any way and on any ground. In general, we do not process special categories of personal data which reveals race or ethnic origin, political views, religious beliefs and philosophical views or union membership. Furthermore, we do not process genetic and/or biometric data in order for unique identification of a person, personal data about health, or personal data about a person's sex life or sexual orientation. Exceptions may be made when expressly required by law or when the processing is based on an individual's explicit consent or when it is necessary to protect individuals' vital interests, in case when it is not possible to obtain consent.

Depending on the category, sensitivity and purpose, personal data at Ericsson Nikola Tesla is available to managers and employees of specific units, such as: human resources, IT, security, marketing and communications, sales and sourcing. Moreover, it is available to suppliers who are entrusted with the processing of personal data under a contract; to clients in case they need the company employees' contact information and to others who have a valid legal basis for processing personal data, e.g. courts.

We would like to highlight that personal data of the readers of our company's magazine "Komunikacije" is available to a strictly limited number of employees involved in the collection, processing and distribution of dedicated information for the public, customers and shareholders. The same applies to potential guests who are occasionally invited to specific business events. Following the start of the obligation to directly apply the General Data Protection Regulation (GDPR), all previously gathered personal data was deleted. Since then, the company has been using a new database,

containing exclusively data gathered with the owner's consent. The data was received along with a clear reminder that every individual can withdraw his or her consent at any time, as well as with a clear and simple explanation on how to do this. Furthermore, every person whose data we keep and use in the mentioned database, received a precise piece of information that their data will be stored in the period during which the consent is active and after the consent is revoked, all personal data will be permanently deleted. The notification also contained an instruction on how to revoke the consent.

At Ericsson Nikola Tesla joint-stock company's website, rules on the protection of privacy are available via the link at the bottom of every page (in the footer), regardless of its content, or directly at <https://www.ericsson.hr/en/privacy>. In line with positive global practice and the fact that the website is one of the most important communication channels through which the company easily and effectively communicates with the general public, along with information about general queries and cookies, the article also provides instructions regarding possible surveys, orders, tenders, third-party services and special networks, as well as instructions on how to connect to other web pages, as well as how to subscribe to and unsubscribe from the list of recipients of the company's printed materials.

Ericsson Nikola Tesla has a Data Protection Officer. Any question or complaint regarding personal data handling may be sent to the Data Protection Officer by regular mail or via email to sluzbenik.za.zastitu.osobnih.podataka@ericsson.com. Detailed information on the process is available via the above link, i.e. the article.

Due to the nature of our business, we have additional responsibility to efficiently address privacy. For example, analysis of the enormous amount of data generated by



today's communication networks may create permanent benefits for the society. The most efficient way to realize this potential is to combine freedom of innovation and creation of positive impacts with strong principles of privacy, which ensure transparency, integrity, and corresponding levels of data anonymization, while the result brings benefits for all stakeholders.

Controlling the entry and processing of personal data in line with GDPR requirements is a mandatory part of operating practice. It is carried out via a special monitoring system which includes strict protection of personal data as well as specific audits of key processes.

All our employees have taken education courses on the need and significance of respecting the right to privacy, which is included in the Code of Business Ethics, a basic document defining behavior we expect from all our employees. We encourage our employees to report any behavior for which they believe in good faith that infringes the Code of Business Ethics. Every person who is likely to submit a report, whether internally or externally, is provided with the protection of personal data, i.e. anonymity and confidentiality, via the Compliance Line which was specially developed for this purpose.

Sales compliance protects against risks in international business

Ericsson Nikola Tesla is a large exporter doing business on almost all markets and is therefore exposed to various kinds of risks. The best protection against these risks is to be well informed, to apply legislation of every individual market and to follow current situations in the concerned country. Regardless of whether it concerns import and export, transfer of technology, solutions, providing services both at home and abroad etc., the Group, i.e. its employees, has a deep understanding of the commitment to respect the laws of own country as well as all other countries in which the Group operates, and especially take care of potential sanctions and/or embargo. As sanctions and embargoes are often the result of human rights violations, threats to the safety of people and property, unethical practices, etc., the Group finds violations of these measures in any segment to be completely unacceptable.

Focused on sales compliance

In a demanding market environment and against stiff competition as it is nowadays, business entities are more prone to tolerate breaches of the legal framework in order to reach their goals. This kind of behavior is unacceptable for multiple

reasons and requires additional caution. Therefore, Ericsson Nikola Tesla Group has a comprehensive approach of carrying out Sales Compliance. It considers all aspects and relations in order to protect the brand and stakeholders' interests as well as to ensure responsible behavior, and especially to protect human rights in countries where it does business.

The approach is based on Sales Compliance policy and process, which regulates actions in all parts of the sales process, direct or indirect sale and business connections. Sales Compliance process enables a good assessment, prevention and mitigation, i.e. neutralization of potential negative impacts in the field of human rights and brand, preventing in such manner any harmful, inappropriate or unauthorized use of our products, solutions and services by customers, i.e. end users.

The assessment is carried out according to the following criteria: portfolio (are these products, services or knowledge sensitive); purpose for the use of products; profile and structure of the customers as well as their country: is it a low-, medium- or high-risk country when it comes to limiting human rights, corruption, freedom of expression, the right to privacy and other parameters, based on global analyses and assessments.

Regulatory framework and clear obligations

Complex geopolitical relations additionally increase risks and require additional measures and instruments against misuse. This is Trade Compliance, which comprises specific laws, rules and regulations, both on national and international level. As a legal entity registered in Croatia and the European Union, we are obliged to apply all the regulations as well as apply all processes as part of a multinational corporation in an international business environment, especially when exporting products and services to countries under trade embargo.

Ericsson Nikola Tesla Group's employees must be familiarized with and are obliged to comply with all the applicable national and foreign laws, rules and regulations, such as export and import regulations, anti-boycott provisions, trade embargo and sanctions that are in force. Employees can address all their questions to experts in charge of the processes and their implementation.

Activities in 2019

During the year, 14 requests for a sales compliance check for our customers were initiated and all 14 met all the necessary criteria.

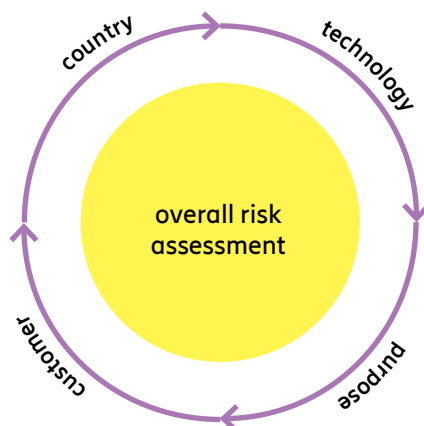
Sales compliance risk methodology

country classification

- Sales Compliance team classifies every country according to the risk level: low; medium; high.

customer classification

- Customers are classified as: civil customers or government and defense customers.
- Civil customers are connected to the country classification according to risk level.



technology risk

- Sales Compliance team classifies products and services risk level as low, medium, high.

purpose of use

- Sales Compliance Board will evaluate the customer purpose with the project and make a decision: approved, approved with conditions or rejected.

Anti-corruption

Strengthening a zero-tolerance culture

Ericsson Nikola Tesla Group has zero tolerance for bribery and corruption. Corruption entails serious legal and reputational risks; it hinders business growth; it harms relationships with the employees, customers, shareholders, suppliers and the society as a whole; and it represents a significant obstacle to the economic and social development in countries across the world.

We have embedded zero tolerance for corruption as the leading principle on the highest levels of the company. Moreover, we have implemented it throughout the entire organization, along with a comprehensive set of rules and processes that the employees must adhere to. Our Compliance Board is responsible for the overall management of compliance aspects in the Group.

Our approach

Even though we have made significant progress in the field of compliance and anti-corruption in recent years, we continue to strengthen rules and processes through which we set our own expectations high and ensure the ability of meeting strict anti-corruption regulations on all our markets. Code of Business Ethics and Code of

Conduct for Business Partners are two main policies that describe our commitment to anti-corruption. We continuously encourage our approach to anti-corruption operations, and this is an important topic at employee and Executive Management meetings. The person in charge of compliance also continuously carries out corruption risk assessments. All the Group's employees are regularly educated and pass the knowledge test regarding anti-corruption, and newly hired employees, after completing education programs and knowledge tests, certify with their signature that they agree to adhere to the Company's Anti-corruption Policy. Anti-corruption is one of the important components of internal audits.

Ericsson Nikola Tesla Group does business in a responsible and legal way and requires its subcontractors and suppliers to do the same. We reduce corruption risks in a way that we expressly state our commitment to anti-corruption to our suppliers and other business partners through our Code of Conduct for Business Partners and anti-corruption e-learning.

Suppliers and business partners

With our suppliers and business partners we build long-term relationships which imply dialog, knowledge sharing and

application of modern-day working models. The suppliers and their subcontractors are required to comply with high quality standards, the Code of Conduct for Business Partners and the Code of Business Ethics. In 2019 we continued to introduce anti-corruption tools, in order to perform due diligence of suppliers and business partners. Every year, the Company's auditors carry out an external assessment of major domestic suppliers' quality using a survey drawn up in line with standards.

We screen our suppliers and business partners by using the Suppliers Screening Tool (SST), to check their possible connection and involvement in corruption affairs or any kind of unethical behavior, operations, etc. By continuously monitoring relevant databases, and through weekly reports on the discovered information on suppliers, according to set negative risks screening, the tool shows a possible connection of an individual business entity, or persons connected to a business entity, with some sort of risk. The risk itself may be of financial nature; it may refer to political exposure of the Managing Board members, directors and owners connected to a business entity; and it may show whether the entity is listed on any sanctions or a similar negative list.

Our anti-corruption tools

- Code of Business Ethics
- Code of Conduct for Business Partners
- Compliance Line
- Anti-corruption program
- tools for screening suppliers and partners
- education
- raising awareness.

Key elements of the anti-corruption program

- leadership and culture
- policies and processes
- compliance organization
- risk assessment
- education and communication
- awards and sanctions
- managing third parties
- allegations and investigations
- monitoring and examination
- due diligence in mergers and acquisitions.

Key data for 2019

- all active employees have passed the new e-learning anti-corruption course
- We continued with organizing anti-corruption courses. Compliance and anti-corruption workshops were held for the Supervisory Board, Management Board, and other managers.
- anti-corruption was brought to attention during the Group's Executive Management meetings.
- Bylaw on Internal Reporting of Irregularities was adopted.

Responsible sourcing

The responsible sourcing program ensures high standards in the supply chain in relation to Ericsson Nikola Tesla Group's requirements in areas related to labor, the environment, human rights protection, fight against corruption, and these standards are applied to all suppliers.

The program uses an approach based on risk assessment to ensure efficient management of environmental and social impacts by conducting a risk assessment for suppliers, regular supplier audits, evaluations, comparisons of performance and other activities which ensure compliance with the Code of Conduct and the Code of Business Ethics. The Code of Conduct is based on the United Nations Global Compact Principles.

Comprehensive information and developed process lead to good results

The Group's Suppliers are familiar with the conditions of cooperation with the Group and accept regular reviews.

It must be noted that requirements from the Code of Conduct for Business Partners are an integral part of all Ericsson Nikola Tesla's General Purchase Agreements. By signing these agreements, the suppliers fully accept them and shall:

- ensure that their employees and subcontractors are notified of the Code of Conduct and that they comply with it
- on request, by providing information to Ericsson Nikola Tesla or its representative and/or by enabling access to its premises, confirm that both the supplier and its subcontractors are compliant with the Code of Conduct
- notify Ericsson Nikola Tesla Group if they detect there has been any violation of the Code of Conduct in their business.

This Code of Conduct encompasses, when necessary, specific requirements for the suppliers related to occupational health and safety as well as environmental protection, which can be found in the following documents:

- Ericsson General Supplier Occupational Health and Safety Standards
- Ericsson Specific Supplier Occupational Health and Safety Standards
- Business Partner Environmental Requirements.

At the beginning of cooperation, and afterwards if necessary, Ericsson Nikola Tesla provides a Self-Assessment Questionnaire for suppliers, which includes specific questions from the Supplier Code of Conduct, followed by risk assessment procedures. A general rule is in effect which regulates that during the entire business cooperation Ericsson Nikola Tesla Group monitors the effectiveness of key suppliers according to the criteria contained in the Supplier efficiency monitoring form.

Activities in 2019

A large number of new business responsibilities and demanding projects in 2019 has reflected on the volume of performed risk assessments:

- following the proposal of an expert team, risk assessment procedure was performed for 56 suppliers.

Suppliers Screening Tool – additional support to experts

In 2019, we continued using the Suppliers Screening Tool – SST, to check their possible connection and involvement in corruption affairs, or any kind of unethical behavior, operations, etc. The tool provides local and global data on the quality of business entities.

In 2019, the list of screened business entities (suppliers and partners) contained a total of 1315 suppliers with whom active business cooperation was achieved during this period. Additionally, all the persons connected to these legal entities were additionally screened (owners, directors and members of management boards), and thus the total number of performed checks increased to 3945. Except for these business entities, potential suppliers and

partners were also screened, so the total number of performed checks was 1600, that is 4800 counting the related persons.

Continuous use of this tool enables a continuous approach to relevant information and their interpretation, evaluation and understanding. This is necessary for us so that we can reach business decisions and optimize potential risks regarding the choice of suppliers and business partners.

Ericsson Nikola Tesla's experts responsible to check the credibility of this information determine whether any information is important for the realization or continuation of business cooperation and determine further steps in line with the valid procedures.



- Based on the assessment, the plan was prepared to evaluate suppliers at their locations. The result: 11 evaluations performed during the year.
- The assessment results concluded 19 findings and 16 observations. The suppliers have been informed of these through reports, and most of them were solved.

Reporting non-compliance

Employees, suppliers, customers and other partners associated with Ericsson Nikola Tesla can report suspected infringements of the law or the Code of Conduct for Business Partners to the local executive manager or in a manner in accordance with the locally established procedure.

Any irregularity can be reported via e-mail: compliance.etk@ericsson.com, or anonymously by using the Compliance Line at <https://www.ericsson.hr/en/company-governance>. The Compliance Line is operated by a third party and is available 24/7/365. Reports can be made in the following languages: Croatian, Bosnian, Serbian, Montenegrin, English, and Russian. Reports can be made via



We advocate the development of the profession

Ericsson Nikola Tesla has been a member of Croatian Association of Purchasing (HUND) for many years. The association actively promotes sourcing as a profession in Croatian market and, through exchange of best ethic practices in sourcing, impacts its further development. Recently, we have been particularly advocating the adoption of corporate social responsibility and sustainability standards in this profession, especially by participating in conferences dedicated to this profession.

a user-friendly reporting system. After a report has been made, the third party will deliver it to Ericsson Nikola Tesla Group, which will not have access to the IP address of the sender.



Occupational Health and Safety



suppliers perform their work in line with the rules.

Taking care of employees' health

Ericsson Nikola Tesla recognized very early the importance of taking care of employees' health. By organizing public health care initiative workshops, along with fulfilling all other conditions foreseen by the project, the company rightfully acquired the title of a "Health-friendly company", assigned to it by the Croatian Institute for Public Health.

As part of the "Živjeti zdravo" ("Healthy Life") project, public health care initiative educational workshops have been held in Zagreb and Split for our employees. The participants learned about the possibility to change and improve their own habits through group education sessions, as well as individual measuring and by receiving expert advice and educational materials. Several professional lectures have been held: lectures regarding mental health risks in the work place, lectures about the importance of proper diet, education on smoking and psycho-social aspects of nicotine dependence, and exercises for eliminating the consequences of long hours of sitting in the workplace were demonstrated. By actively encouraging employees to change bad habits and pointing out to the risk factors which they themselves can influence, diseases can be prevented or postponed. By checking blood pressure and sugar levels, as well as by regular preventive checkups, the already existing diseases can be discovered in an early stage when the treatment is more successful, and complications occur less often.



Ericsson Safety Day

Every year on October 10, Ericsson marks Ericsson Safety Day. We wanted to use this opportunity in the best way possible and actively include our employees, associates,

suppliers and contractors. In cooperation with the Company's restaurant, we created a healthier menu - "Think green, eat healthy." A healthy diet was also promoted at our location in Osijek, where employees took a short break to eat an apple while their site manager briefly shared a few remarks on safety.

Zero tolerance safety rules

- Always wear seat belt 
- While driving, do not use your phone and do not exceed speed limits 
- Use correct lifesaving PPE whenever required 
- No alcohol or drugs while working or driving 
- Protect yourself against falling from height 
- Do not walk within a drop zone 
- Verify energy isolation before work 

In order to remind of the importance of safety, we placed educational posters listing the 10 rules of workplace safety at all our locations. Moreover, on our intranet pages we published a brief overview of OHS in which we invited all employees to be responsible towards themselves and their health, adhere to the rules and give their best in order to make our work environment pleasant and safe for themselves and others. We highlighted that each of us is obliged to report the observed irregularities or not adhering to regulations, as in this way we can act to prevent incidents which can lead to injuries. As a company that almost has no injuries in the workplace, we believed that it is important to highlight that injuries do not only happen while we perform our work tasks, but very often in traffic, where the possibility to injure does not depend only on us, but also other participants, which requires paying additional attention and respecting traffic rules. Since our communication with our employees is always in our focus, we wanted to hear their side of the story, i.e. how they perceive OHS. While interviewing them, we received important feedback and a personal experience about the importance of OHS that we shared with all our employees.

Work environment

The majority of our colleagues in Zagreb, Split and Osijek perform their work tasks in the office. Therefore, it is important that work premises are ergonomically designed and adapted to every employee. Regular testing of the workplace environment parameters, risk assessment of working in the office, and equipping offices with new office desks whose height can be electrically adjusted, as well as regular evacuation and life-saving exercises are only some of the measures that impact the quality of our employees' workspace.

Furthermore, by trying to deliver an excellent service to a customer, many of our employees perform their tasks on site, where they are faced with high risk works on a daily basis (working on height, working with electricity, unfavorable weather conditions, etc.). Such tasks require our continuous preparation, dedication and focus on executing work tasks in line with OHS rules in order for the risks and danger from injuries to be minimized. We achieve this through regular medical checkups, quality protection equipment, continuous education and field supervision.

In addition to having supervised our employees, our OHS experts audit teams performed audits of suppliers, paying special attention to compliance with OHS rules on high-risk projects. Situation on site has shown that in the majority of cases,



Education of employees and external associates

All new employees, as well as students, working for the Group, have passed the theoretical and practical part of training for working in a safe way. The newly appointed OHS authorized persons and employees' commissioners elected also passed the OHS training prescribed by

law. Expert trainings of employees for the tasks with special working conditions, as well as for providing first aid and evacuation and rescue, are held when necessary and corresponding to job requirements.

With the aim to preserve health, working abilities and optimal efficiency, the employees receive educational materials

on various topics regarding OHS areas, such as working in unfavorable microclimate conditions, driving safely, reporting safety incidents and news in regulations regarding safety.

In addition to holding workshops for our employees, OHS experts also hold workshops and expert lectures for our external contractors in various projects.



Improving the energy efficiency

Within the project related to improving the energy efficiency, co-funded by the EU funds from the European Structural and Investment Funds, our location in Zagreb has been turned into a big construction site. The project was in full swing in 2019, which called for us to make certain adjustments. Working in conditions where movement is limited has its challenges; however, sometimes sacrifices are needed in order to reach one's goal - saving electricity and reducing CO₂. Daily expert supervision over performing works resulted in an excellent cooperation of all participants in construction and respect of regulations regarding OHS, and so we concluded the year without any injuries at work site.

Our employees

Ericsson Nikola Tesla Group is a successful Croatian company that operates globally within Ericsson Corporation. Our most valuable assets are our people, our intellectual capital, and this is precisely what makes us recognizable in the markets in which we operate.

A strong team of more than 3,200 experts stands behind our success; their knowledge, expertise and experience are built in all our projects and activities in the domestic and many foreign markets. Our employees are highly educated experts, mostly in STEM, who professionally and with full responsibility work on the realization of Group’s strategic directions and goals, and continuously develop and create new products, solutions and services of high added value, important for implementing processes of society’s digital transformation.

The strategy of managing people

One of the Group’s strategic business goals is to be one of the best employers in our environment. Therefore, we pay special attention to planning the development of human resources and attracting and retaining experts who have the capacity and the quality to, through their work

and efforts, contribute to a successful realization of complex business and activities in a dynamic and fast growing ICT industry in which we operate. Bearing in mind that employer branding represents one of the key components of successful organization management, we have defined in detail the necessary knowledge, skills and characteristics that talented candidates must possess, as well as the activities and incentive measures to attract, motivate, and retain top experts. We have clearly defined areas of our excellence, and all our employees are governed by the principles of corporate culture in their everyday work. Our fundamental values – respect, professionalism and perseverance – define our corporate culture and guide us in our everyday work and the way we do business. With colleagues from global Ericsson, we share joint obligation and commitment to the highest level of integrity, ethics and transparency in managing business. We strongly promote the principle of equal opportunities for

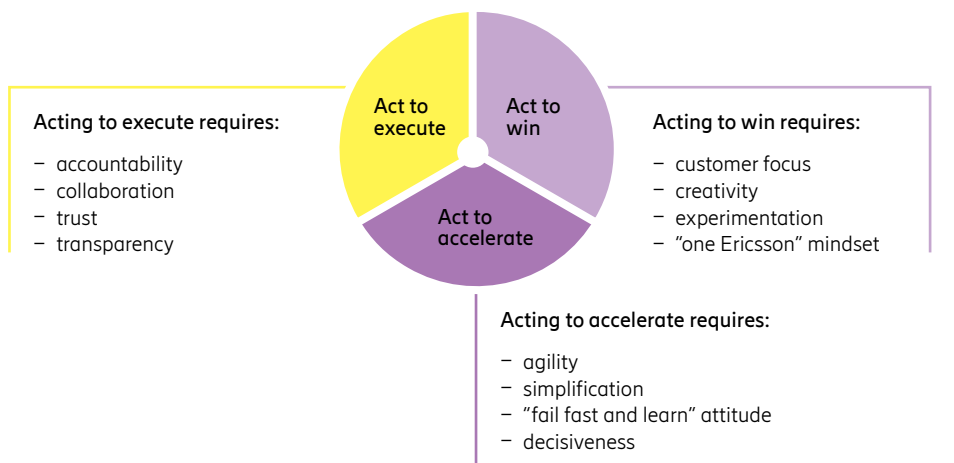
every individual, and constantly work on this bearing in mind the zero tolerance for unfair discrimination on grounds of age, gender, race, national or ethnic origin, language, religion, political views, sexual orientation, physical abilities, etc. With their way of working, attitude, and behavior, our employees represent our best ambassadors, who strengthen the Group’s reputation and attract top talents and experts.

Motivating work environment

Ericsson Nikola Tesla Group continuously works on creating and improving a motivating work environment for employees, namely by:

- ensuring attractive jobs and giving clear roles to each employee, in order to achieve common goals
- giving the possibility of lifelong learning and specialization, as well as career development

Our cultural sweet spot



- ensuring equal conditions of work and development to all employees
- encouraging innovativeness in all work segments
- giving the possibility to work in global teams
- recognizing and visualizing individuals and teams who achieve the best results
- a reward system based on the principle of equally awarding equal work results
- modern equipped workplace with all the tools necessary for work
- a motivating company culture
- flexible work hours
- taking care of the employees' health and providing a high level of occupational health care
- a high level of occupational safety
- the possibility of saving in Ericsson Nikola Tesla's closed voluntary pension fund
- the possibility of recreation and socializing in sport and culture associations
- using the benefits of the Bonus club.

Awarding system

In Ericsson Nikola Tesla, awarding system is a unique system of salaries and benefits by which the employees are encouraged to use and develop their knowledge and capabilities, expand their area of responsibilities and jurisdictions, and are awarded in line with the achieved results and realized new values in their work. The system is based on the principle of equal award for equal results, the correlation between the goals set and the results achieved, as well as the possibility to differentiate employees by considering their work accomplishments.

The awarding system encompasses the following elements:

- contracted salary
- variable pay compensation
- addition to the salary
- benefits.

Each of the listed elements of the awarding system is regulated by the founding documents in Collective Agreement, Salary Rulebook, as well as corresponding policies.

In line with the general goals of salaries system, the employees are additionally awarded for the results, the volume

and importance of which exceeds the expectation of their organizational unit or the company.

Variable pay compensation:

- Company's award/ all employee award, paid in line with the realization of previously planned business targets and conditions, defined at the beginning of the year
- Variable pay compensation for target realization (STV/SIP), paid out in line with the realization of previously planned business targets and conditions, defined at the beginning of the year, and in line with the rules defined by the Salary Rulebook and the Agreement about Salary Policy for the concrete year.

Individual awards:

- awards for exceeding expectations
- award based on previously opened internal competition for the achievement

of previously defined and important goals for the organizational unit/ company (awards per competition)

- awards for innovations, i.e. innovative solutions developed while working or work-related are awarded in line with the Rulebook on awarding innovation solutions.

Additions to salary:

- paying a compensation for a hot meal
- paying expenses for commuting to/from work
- single addition to the salary for annual leave (vacation allowance).

Benefits

Employees have many benefits at their disposal, and here we would like to highlight a few: employer's payment and the possibility to have a more favorable saving



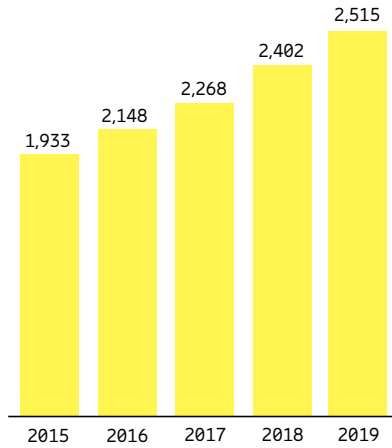
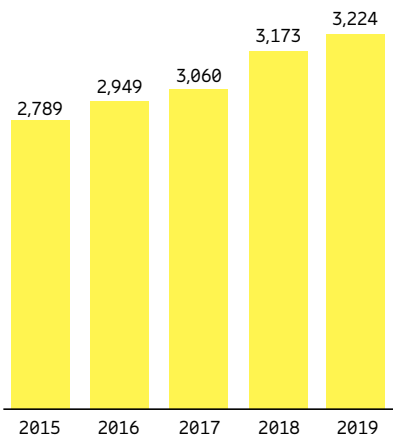
Ericsson Nikola Tesla's Closed Voluntary Pension Fund

In cooperation with the Raiffeisen pension fund, in the beginning of 2005, Ericsson Nikola Tesla founded ETK's Closed Voluntary Pension Fund (ETK ZDMF). In such a way, as the sponsor of the Fund, the Company wanted to offer its employees, primarily the younger ones, a chance to realize maximum benefit from a long-term saving in a closed pension fund.

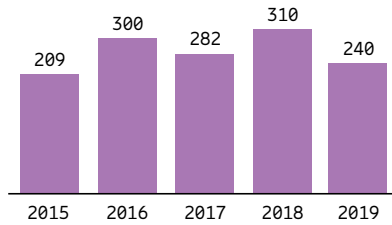
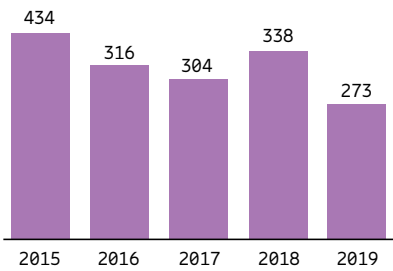
As the sponsor of the Closed Voluntary Pension Fund, in 2019 Ericsson Nikola Tesla decided to additionally motivate employees to save in the Fund by paying each employee who is a member of the Fund a single deposit of HRK 1,000 on their personal account in the Fund.

End of 2019, in Zagreb, Split and Osijek, in cooperation with the Raiffeisen pension fund, numerous activities were organized with the aim of introducing employees with the conditions, membership and work of the Fund, with the option of joining. The employees showed a great interest, and 1,000 new members joined during the campaign; end of 2019, the Fund had over 1500 members. Fund's average annual return is 7.21 percent, and in 2019 the return amounted to 8.03 percent.

Employee turnover



total number of employees

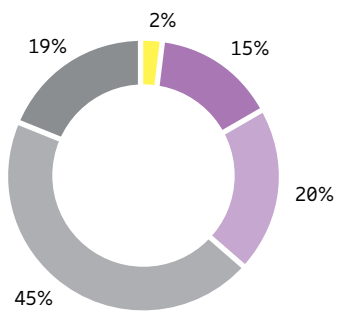


the number of new employees in the year

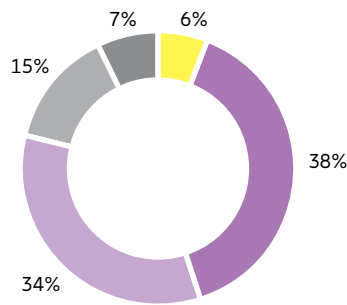
Ericsson Nikola Tesla Group

Ericsson Nikola Tesla d.d.

Employee structure by age (as at 31 December 2019)



affiliated companies
(EHR, TBA, Libratel, TXK, TBY)



Ericsson Nikola Tesla d.d.

younger than 25
26-35 years old
36-45 years old
46-55 years old
older than 55

conditions in the Closed Voluntary Pension Fund of Ericsson Nikola Tesla, organized health checkups, shares for employees, IT equipment, continuous education, using a credit card, favorable credit terms, parking lots for cars and bicycles, using the services of the Company's restaurant, possibility to join cultural and sport sections, using the benefits of the Bonus Club.

Benefits for working parents

More than 38 percent of Group's employees are younger than 35, and we know this is a period in life when most people decide to have their own family. In order to help our young employees in this demanding period of their life, we have created numerous measures to achieve balance between their professional and private life. For example, young parents have the right to support for each newborn baby amounting to HRK 10,000. The parents of children with special needs have the right to receive an annual aid amounting to HRK 20,000 gross and 2 additional days of annual leave. Young parents can bring their children to work whenever there is a need for that, flexible working hours, a free day for a prenatal checkup, breastfeeding pauses, equal right of fathers for parental leave, and other benefits. The children of our employees up to the age of 15 are entitled to receive a gift in value of HRK 600 per year, and their parents have the right to have two to six days of annual leave, depending on the age and the number of children, regardless of to whom

the children are registered to. The children of our employees who passed away are entitled to receive a scholarship during their regular education.

Mentoring

For the entire Group that has been intensively hiring many young experts without work experience over the last few years, a developed and elaborated process of introducing trainees into the work processes is important. For this purpose, many quality mentors were trained in order to provide their expert assistance in everyday work, monitor personal and professional development of young employees, and participate in the process of their career planning. Good mentor relationship has its true value if it is based on quality connection, trust and focus on gaining new knowledge and developing new competences. A well thought process enables the mentor to perform a high-quality assessment of the trainee during the trainee period, for example trainees' progress, development, necessary knowledge and skills as well as additional recommendations. Regularly, once a year, we conduct an employee satisfaction survey among newly hired employees. The aim is to hear their opinion on the organization, work conditions and the work environment, the level of knowledge about strategic objectives and tasks, opportunities for education and career advancement, mentoring, etc. The results are used to create corrective measures with the objective of improving this important process.

Monitoring employee engagement and satisfaction

Employee engagement and satisfaction is monitored through Voice - a survey that is annually conducted in all Ericsson companies worldwide. The survey represents an important tool to measure organization climate and gain an insight into employee opinion on various areas of operations. In this way, the employees, together with their managers, take part in proposing changes and improvements in all segments of working and doing business. The survey was conducted via web and mobile application during April 2019. Based on a detailed analysis of the survey, areas for improvement on all Group's levels have been identified.

Cooperation with the Union

We continuously work on harmonizing our organization with market requirements and needs, with the purpose of ensuring and strengthening competitiveness. Our cost-efficiency program continued in 2019. Sharing information and consultation with the Union regarding all the important topics has been performed in line with the law and as foreseen by the Collective Agreement. All the Collective Agreement provisions are applied to all the Group's employees.



Diversity and inclusion

Diversity and inclusion are an integral part of Ericsson Nikola Tesla Group’s vision, strategy, and adopted values. In all the processes and business activities, we aim to build a culture of diversity and inclusion, i.e. respecting mutual differences, and accepting values that each individual brings to the work environment. By connecting people of various characteristics and talents and giving each person a chance to give the best he/she can in his/her work, we create prerequisites for long-term sustainable development of our business.

Our Way of Working implies the implementation of Diversity and Inclusion Policy in all segments of our business and activities, and this policy is incorporated in all other company policies, such as employment policy, managing human resources, etc.

Implementation of diversity and inclusion is encouraged and supervised by the organization’s highest management bodies. We have developed and continuously invest in the company culture, where managers act so as to set an example and have an active role in putting together teams and creating a stimulating working environment, where every individual feels included, appreciated and is ready to give his/her best.

Such company culture is implemented in the entire organization and it includes each and every one of our employees who every day in their work show respect for the colleagues they work with, customers, partners, and all other people they interact with. We have a big customer base, and wherever we do business, we are devoted to the development of mutual and long-term relationships with different groups of stakeholders.

We have zero tolerance towards discrimination, which means no individual in the organization shall be discriminated based on race, color, sex, sexual orientation, gender, marital or parental status, pregnancy, religion, political opinion, nationality, ethnicity, social origin, social status, disability, age, union membership or any other characteristic protected by law.

The application of diversity and inclusion principles helps us to:

- reach good decisions on how to organize and optimize resources, as well as to overcome structural and cultural obstacles standing in the way of effective work
- protect and improve our business by respecting and taking into account the needs and interests of different stakeholders
- reach targets and growth through the ability of attracting, developing and retaining different talents
- develop innovations that result from different types of knowledge, skills,






perspectives and experiences our employees and other stakeholders possess.

Ericsson Nikola Tesla Group encourages all its employees to point out and report any behavior which is not in accordance with our values and company culture.

An integrating organization

Our goal is to encourage a gender-integrated organization which recognizes and values the contribution made by persons of diverse personalities and characteristics. By 2022, we want to achieve our goal for women to make 30 percent of all employees. Currently, 24 percent of women works in the Group, while at the level of Ericsson Nikola Tesla d.d., the percentage of women is higher and amounts to 27 percent. The percentage of women is not at a satisfying level; however, we are satisfied as we are moving in the right direction. One of the biggest obstacles on our way to achieving gender balance is the fact that for a longer period of time there has not been not enough women with STEM education in the labor market.

We respect diversity

<p>Gender diversity </p> <p>We advocate equal possibilities for women and men in being promoted and in performing leading functions regardless of gender.</p>	<p>Age diversity </p> <p>We encourage intergeneration understanding and complementing.</p>	<p>Cultural diversity </p> <p>We empower a multicultural environment where people feel included and can do their job in a successful way.</p>	<p>LGBT </p> <p>We have ensured an inclusive work environment where every individual feels appreciated and welcome.</p>	<p>People with disabilities </p> <p>We offer equal opportunities for advancement to all the employees, and people with disabilities feel appreciated and equal to every other person.</p>
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Our approach to learning

For Ericsson Nikola Tesla Group, an important part of the long-term development strategy is to develop employees' professional, business and personal competences. Coordinating employees' knowledge, skills and competences with the requirements of the digital society, agile ways of working in ICT segment and modern ways of project management represent the focus of Group's development strategy.

Continuous investment in employees' knowledge and skills

The Education Center of Ericsson Nikola Tesla d.d. operates as a flexible organization focused on providing a wide range of educational services for the needs of employees, customers and partners. The Education Center coordinates the work of internal trainers' network and cooperates with renowned educational institutions in Croatia and abroad, as well as with Ericsson Academy, that globally via internet provides a wide range of training for all the Corporation employees.

Moreover, the employees can develop their competences by taking e-courses, using internal corporation software tools for exchange of expert knowledge, by attending seminars, conferences, taking postgraduate studies, and during their work on regional and global projects. The Group is included in the Talent Management Program and Innovation Program. These are Ericsson corporation global programs where special attention is paid to experts with relevant knowledge and skills, as

well as top intellectual potential. With desire to additionally empower young managers, newLDP program was launched. This is a comprehensive development program based on Ericsson leadership framework. newLDP is a one-year program which includes various learning methods (modular courses, coaching and mentoring, e-learning, learning by exchanging knowledge and experience, etc.) and places considerable emphasis on applying acquired knowledge and skills in the work environment.

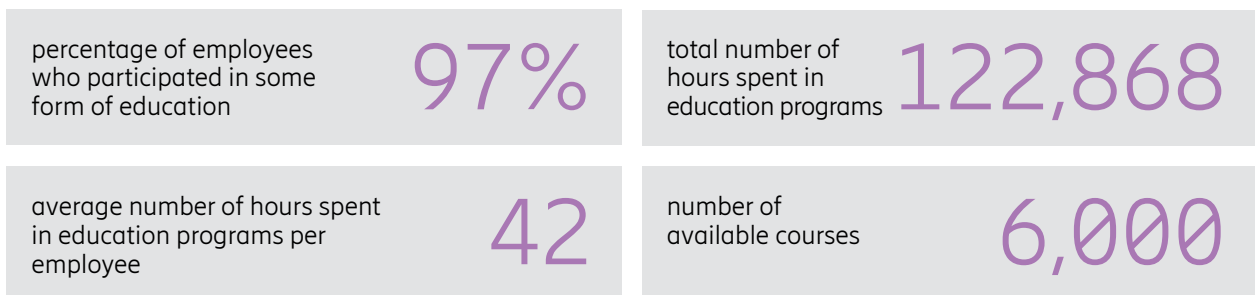
More often, the employees use Ericsson Play channel which offers learning through video which is available on the mobile phone screen. Virtual forms of learning not only save time and money, but are also ecologically acceptable that we, as a leader of positive changes in the society, strongly support.

Lifelong learning

Plan for development of business and technical knowledge, as well as

social skills of our employees, is agreed with their line managers during the established process which is a part of the annual planning (Individual Performance Management - IPM), and in line with the needs of the business strategy and set goals. Every employee has clearly defined development goals, the realization of which is continuously monitored throughout the year, and the employees receive regular feedback from their managers. For several years now, we have been hiring a lot of young people without work experience and have been continually investing in their knowledge and skills, encouraging them to lifelong learning, which enables them to be competitive in the labor market throughout their entire carrier. For the employees who left the company during the year, we did not organize an education program for the easier finding of a new job, as there was no need for this. Namely, the majority of those employees retired and the rest of them continued to work at another company.

Ericsson Nikola Tesla Group – an organization that learns



Facts and figures

* as at 31 December 2019

Number of employees in Ericsson Nikola Tesla Group

	2015	2016	2017	2018	2019
Ericsson Nikola Tesla (ETK)	1,933	2,148	2,268	2,402	2,515
Libratel	26	25	25	33	29
Ericsson Nikola Tesla BH (TBA)	17	17	16	18	19
Ericsson Nikola Tesla Servisi (EHR)	812	758	743	711	651
Ericsson Nikola Tesla - Branch office Kosovo (TXK)	1	1	1	1	1
Ericsson Nikola Tesla - Belarus (TBY)	-	-	7	9	9
Total Ericsson Nikola Tesla Group	2,789	2,949	3,060	3,174	3,224

Number of new employees hires in Ericsson Nikola Tesla Group

	2015	2016	2017	2018	2019
Ericsson Nikola Tesla (ETK)	209	300	282	310	240
Libratel	2	1	1	10	14
Ericsson Nikola Tesla BH (TBA)	0	0	0	4	1
Ericsson Nikola Tesla Servisi (EHR)	222	15	20	12	18
Ericsson Nikola Tesla - Branch office Kosovo (TXK)	1	0	0	0	0
Ericsson Nikola Tesla - Belarus (TBY)	-	-	1	2	0
Total Ericsson Nikola Tesla Group	434	316	304	338	273

Employee turnover in Ericsson Nikola Tesla Group

	2015	2016	2017	2018	2019
Total number of employees	2,789	2,949	3,060	3,173	3,224
The number of new employees per year	434	316	304	338	273
Total % of increase in the number of employees	12.0 %	5.7 %	3.7 %	3.6 %	3.6 %
Employee turnover – ETK					
Total number of employees	1,933	2,148	2,268	2,402	2,515
The number of new employees per year	209	300	282	310	240
Total % of increase in the number of employees	7.0 %	11.1 %	5.5 %	5.9 %	5.9 %

Number of Ericsson Nikola Tesla's employees by their work location*

	2018	2019
Zagreb	1,825	1,906
Split	545	566
Osijek	32	43

* as at 31 December 2019

Ericsson Nikola Tesla Group employees – distribution by sex and age*

employees	mother company		affiliated companies							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
younger than 25	145	6 %	4	4	7	-	0	15	2 %	160	5 %
26-35 years old	956	38 %	8	5	90	1	1	105	15 %	1,061	33 %
36-45 years old	850	34 %	7	5	124	-	3	139	20 %	989	31 %
46-55 years old	380	15 %	2	3	307	-	4	316	45 %	696	22 %
older than 55	184	7 %	8	2	123	-	1	134	19 %	318	10 %
total	2,515	100 %	29	19	651	1	9	709	100 %	3,224	100 %
- male	1,826	73 %	25	10	574	1	5	615	87 %	2,441	76 %
- female	689	27 %	4	9	77	0	4	94	13 %	783	24 %
average age	38	-	40	38	47	34	46	41	-	40	-
32 years old or younger than 32	894	36 %	8	6	76	0	1	91	13 %	985	31 %
average employment duration	10	-	10	9	21	3	13	11	-	11	-
up to two years of work experience	711	28 %	15	5	18	0	2	40	6 %	751	23 %

Qualification structure of Ericsson Nikola Tesla Group*

Qualification	mother company		affiliated companies							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
University degree	2,184	86.8 %	2	16	201	1	9	229	32.3 %	2,413	74.8 %
College degree and univ. bacc.	233	9.3 %	4	1	138	-	-	143	20.2 %	376	11.7 %
Secondary education	94	3.7 %	20	2	257	-	-	279	39.4 %	373	11.6 %
Highly-skilled workers	2	0.1 %	-	-	47	-	-	47	6.6 %	49	1.5 %
Skilled workers	1	0.0 %	3	-	5	-	-	8	1.1 %	9	0.3 %
other	1	0.0 %	-	-	3	-	-	3	0.4 %	4	0.1 %
total	2,515	100.0 %	29	19	651	1	9	709	100.0 %	3,224	100.0 %
PhD	37	-	0	0	2	0	0	2	-	39	-
MSc	140	-	0	10	13	0	1	24	-	164	-
total	177	7.0 %	0	10	15	0	1	26	3.7 %	203	6.3 %

Managers*

number of managers	mother company		affiliated companies							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
number of managers	168	-	3	1	42	1	1	48	-	216	-
managers - male	134	80 %	1	1	34	1	1	38	79 %	172	80 %
managers - female	34	20 %	2	0	8	0	0	10	21 %	44	20 %
average manager age	45	-	56	56	48	33	46	48	-	46	-

Number of employees by the type of employment contract

employees	mother company	affiliated companies					total	Ericsson Nikola Tesla Group
	ETK	Libratel	TBA	EHR	TXK	TBY		
permanent employment contract	2,360	24	19	641	1	-	685	3,045
- male	1,709	21	10	565	1	-	597	2,306
- female	651	3	9	76	-	-	88	739
temporary employment contract	155	5	-	10	-	9	24	179
- male	117	4	-	9	-	5	18	135
- female	38	1	-	1	-	4	6	44
full-time employees	2,514	28	19	651	1	9	708	3,222
- male	1,825	25	10	574	1	5	615	2,440
- female	689	3	9	77	-	4	93	782
part-time employees	1	1	-	-	-	-	1	2
- male	1	-	-	-	-	-	-	1
- female	-	1	-	-	-	-	1	1

Note: During the employment time, all employees, regardless of their contract type, have the same rights and benefits.

Employees who left the organization during the reporting period

employees	mother company	affiliated companies					total	Ericsson Nikola Tesla Group
	ETK	Libratel	TBA	EHR	TXK	TBY		
younger than 25	9	-	-	0	-	-	0	9
26-35 years old	79	-	-	16	-	-	16	95
36-45 years old	19	-	-	5	-	-	5	24
46-55 years old	10	-	-	18	-	-	18	28
older than 56	25	-	-	34	-	-	34	59
total	142	-	-	73	-	-	73	215

Occupational injuries and worktime lost

	Ericsson Nikola Tesla d.d.								Ericsson Nikola Tesla Servisi			
	2018				2019				2018		2019	
	Zagreb		Split		Zagreb		Split					
	M	F	M	F	M	F	M	F	M	F	M	F
total number of injuries	3	2	1	-	4	3	-	-	6	-	7	1
- injuries at work	-	-	-	-	-	1	-	-	6	-	5	-
- injuries during commuting to/from work	3	2	1	-	4	2	-	-	-	-	2	1
severe injuries	1	-	-	-	3	-	-	-	-	-	2	1
minor injuries	2	2	1	-	1	3	-	-	6	-	5	-
total worktime lost	1,186	172	-	-	1,064	1,098	-	-	1,136	-	2,256	432

Note: M – male; F – female

2018: six injuries at work on site while rolling out telecommunication infrastructure (Dicmo, Zagreb, Split), of which 1 injury while driving on site (Badrena).

2019: four injuries at work on site (Dubrovnik, Split, Zagreb); four injuries in traffic (Zagreb, Rijeka, Šemovci, Split), of which 1 injury while driving on site (during work process) and 3 during regular commuting to/from work.





Environmental responsibility

Highlights

- an active contribution to fighting climate change by reducing our carbon footprint through improving energy efficiency is an important part of our business strategy
- ICT industry will be crucial in cutting greenhouse gas emissions by half by 2030 in all relevant sectors of global economy, and 5G, IoT and Artificial Intelligence will play an important role in enabling this
- solutions, products and services offered by Ericsson Nikola Tesla Group are rightfully recognized as green technologies which have a positive impact on business, people's lives and the environment
- with numerous communication and educational activities, we strive to demonstrate the practices that we use as a responsible entrepreneur and through our example, encourage other business entities and individuals to preserve our planet

Contribution to fighting climate change - a part of business strategy

Regardless of whether you agree with Greta’s approach or advocate less radical methods in limiting human impact on climate, the fact is that climate change is one of, figuratively and literally speaking, hot topics of today. The very fact that you understood the previous sentence even without the surname Thunberg being mentioned, witnesses of the intensity of current challenge which the modern civilization can no longer ignore but must respond to it.

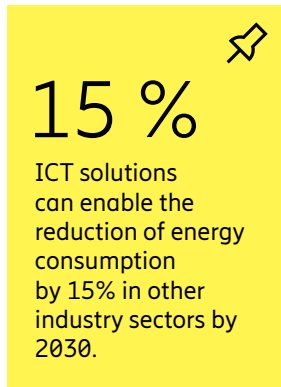
It is undisputed that CO₂ creates the greenhouse effect in the atmosphere by soaking up the Sun’s energy and Earth’s warmth, and, by keeping it in the atmosphere, causes higher and higher temperatures.

Although greenhouse gases are also of natural origin, human activities largely contribute to increasing their amounts, thus additionally increasing global warming.

After the European Parliament pronounced a global climate and ecological crisis in November 2019, it is to be expected that, along with the support to the European Green Deal, it will stand for even more ambitious goals in 2020. This includes a plan of the EU’s climate neutrality, i.e. accomplishing zero emissions of greenhouse gases by 2050, and reducing harmful emissions by 50-55% compared to 1990 as early as by 2030, with the aim of limiting global warming to 1.5°C above pre-industrial levels.

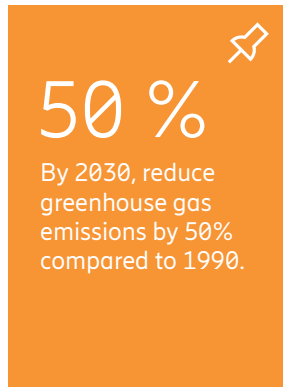
In 1992, the EU started the LIFE program for financing activities in protecting the environment, nature and climate. The program was aimed at contributing to the protection and improvement of environmental quality and reduction of climate change impact by financing innovative projects that will contribute to the transition to a low-carbon economy in which resources are used more efficiently. It was also aimed at stopping and reducing biodiversity loss and fighting against the disruption of ecosystems. Our company has joined the LIFE project (whose holder in Croatia was Energy Institute Hrvoje Požar) and was the only large private company in Croatia that calculated its carbon footprint in 2018 and prepared an action plan to reduce it. In this way, we actively contributed to creating a plan for replication and

Impact on climate - our technology is globally important for sustainable development



15 %

ICT solutions can enable the reduction of energy consumption by 15% in other industry sectors by 2030.



50 %

By 2030, reduce greenhouse gas emissions by 50% compared to 1990.



1.5°

Limit temperature increase to 1.5 °C above pre-industrial level.

transferability to other business entities in the EU. The calculation was based on the Bilan Carbone® model, which was prepared by the French ADEME (*Agence de l’Environnement et de la Maitrise de l’énergie*) and based on the application of a Life-Cycle Assessment (LCA) approach that has been used for many years by all members of Ericsson corporation in their business.

Knowing the company’s processes

A comprehensive and very complex calculation according to the mentioned model includes a precise collection of data on numerous activities and impacts on the environment. The parameters are, e.g. electricity consumption in all segments of the production process and the amount of energy used for steam heating from the heating plant. This also includes impacts on the environment due to the use of various office materials, IT equipment and air-conditioning-related emissions, as well as business trips by various transportation means. The analysis also contains information regarding packaging, direct waste, employees commuting to/from work, as well as assessments related to, e.g., the impact of meals prepared on site, or the calculation of the footprint that the customers, business partners and guests leave when they visit the company. Calculation based on the described procedure that sees the overall volume of carbon footprint was possible only by knowing the company’s processes and portfolio. It has also required a significant additional engagement that far exceeds the

usual support as well as a quality cooperation between organizational units.

Focus on energy efficiency and transport

After several months of work, we have calculated that in the company’s total annual CO₂ emissions, energy sources account for as much as 47%, all forms of primarily passenger transport account for 43%, and everything else for only 10%. To efficiently reduce CO₂ emissions, the primary focus needs to be on improving physical characteristics of buildings and thermo-technical plants, and on the optimization of business trips and raising the employees’ awareness by proposing them to make their commute more eco-friendly (public transportation, bicycles, walking, carpooling, etc.).

By supporting this program and the activities that, although previously detected, have been quantitatively proven only through the program, the company’s management, by contributing significantly and setting an example in their everyday work, show that participating in the creation and a consistent implementation of public policies for calculation and reduction of carbon footprint is the only rational response to the challenge of sustainable life and business.

In the year when our company marked its 70th anniversary of successful business operations, the strategic project of improving energy efficiency was one of the most important company’s projects. All the usual business activities were adjusted to its successful completion by the end of 2020.

Focus on energy efficiency and transport

Energy renovation

As a socially responsible entrepreneur, we pay special attention to sustainable business which includes setting concrete annual and multi-annual objectives, based on corresponding analyses related to the preservation of climate and the environment, and acting in line with these objectives.

The best current example is a large and very complex project of increasing energy efficiency of a part of our plants and buildings, which is making great strides. The project is co-funded by the EU funds from the European Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014-2020. For the project, the company was awarded a grant in the maximum amount of HRK 20 million that will be used in the amount of almost 30 percent of acceptable project costs. The project will last until the end of 2020. After it is completed, the company's annual energy savings will be more than 4.6 million kWh, while simultaneously CO₂ emissions will be reduced by almost 1400 tonnes.

During 2019, intensive activities were ongoing on main production site which operates 24/7. In parallel, many pipelines and pipeline distribution systems, ventilation systems, main heat exchange station with corresponding substations and main cooling station were reconstructed. The aluminum joinery and glass windows were also replaced, and more efficient lighting system was installed. Furthermore, additional

geodetic measuring was performed. Most of these works had not been visible to the public until the scaffolding for an energy-efficient facade was put up from the street side of our six-floor office building. All these activities relate to a significant improvement of thermal insulation of building envelopes. By the end of 2020, the overall energy integration of the production site and work premises will have been completed. New heating, ventilation, air-conditioning and lighting systems will be installed.

In addition to this project, according to conclusions of the Ericsson Nikola Tesla's Carbon Footprint Reduction Action Plan, which was previously made within the European LIFE Clim'Foot project, the second important area of operation related to the reduction of our carbon footprint is transport.

Transport

As a significant amount of our services is delivered remotely, we focus on the rationalization of transporting people. A responsible management of our own business impacts on the environment implies avoiding all business travel when our objectives can be achieved by using ICT solutions, such as video conferences, e-learning, etc. By using such solutions, we significantly reduce the emission of greenhouse gases in our daily operations. We achieve the same thing by improving our logistics-related processes, services, as well as shipping and distribution of products, etc.

Along with our dedicated work in making improvements in this segment, we are also the first commercial company in Croatia with the European "cycle-friendly" certificate. Bicycle parking lots and bicycle parking racks are an integral part of our campus, located in it and on its outer edge. During cycling season, several hundreds of employees park their bikes there. Due to ongoing works on campus and for our employees' safety, some of these parking lots were not available in 2019. Therefore, some of the parking lots on the outer edge were expanded, and after project completion, it is planned to put them back in function and improve the ones that were previously established. Through these activities, we directly impact the entire transport system, improve the quality of life of our employees, and reduce traffic-related carbon dioxide emissions.

Since reducing the impact on the environment is an important part of Ericsson Nikola Tesla's business strategy, the company engages in numerous communication activities. By publishing articles in the company's magazine "Komunikacije", posting content on its website and social networks, and writing extensive non-financial chapters of annual report on its business performance, the company strives to highlight its numerous practices as a responsible entrepreneur. It wants to set an example and encourage other entrepreneurs and individuals in preserving the planet, since climate change is already impacting various biological systems, certain economy sectors and the quality of people's lives and health.



Works on the main heat exchange station

Green ICT solutions

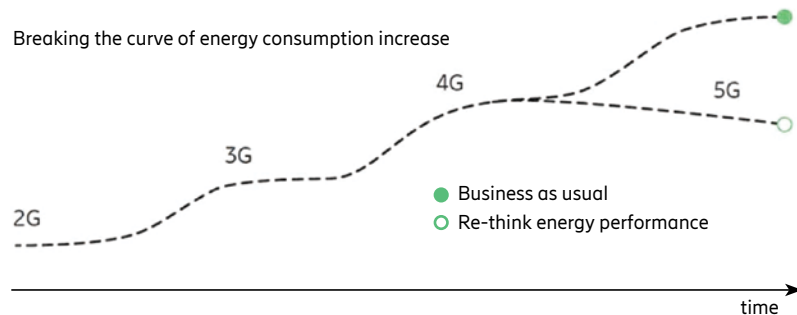
Dealing with climate change is one of the greatest current challenges for humankind, and green ICT solutions will play an important role in solving these challenges. If we plan to limit global warming to 1.5°C in comparison to the pre-industrial period, 2020 must be a turning point. After 2020, emissions of greenhouse gases must be cut in half every ten years, which will demand unprecedented activities in all parts of society, at state, city, industry and individual level.

In the upcoming decade, Industry 4.0 technologies, especially 5G, IoT and Artificial Intelligence, will ensure key tools for an increased economy efficiency and preparation for a post-fossil-fuel society. Despite an exponential data transfer growth, for several years now, the carbon footprint of ICT industry has been at the level of 1.4 percent of total global emissions, and ICT companies are globally the largest buyers of electricity generated from renewable sources. These are often companies that impact others through their example; setting themselves demanding climate goals based on science and technology. They do not only reduce the emissions caused by their operations and products, as well as cooperating with others in procurement chain, but also invest directly or indirectly in renewable energy sources. Ericsson Nikola Tesla is also prominent for this and has won CSR Index Award in the category of responsible policies and practices of environmental management in 2019.

However, this is not enough. The goal is to implement ICT solutions that, according to expert evaluations, can reduce energy consumption by 15 percent in other industry sectors as early as by 2030. Perhaps this does not seem like much, but it is in fact more than the total emission of greenhouse gases produced by the EU and the US combined. Emerging technologies, primarily the ones enabled by 5G, will be the foundation of industry and society transformation which will enable a significant reduction of carbon footprint. Every previous generation of mobile networks has, until now, increased the energy consumption and carbon emissions. In terms of energy efficiency, 5G is the most energy efficient standard ever developed, and will help break this trend in mobile sector. Instead of just suppressing activities with high emission levels, ICT industry, and

Reducing energy consumption by introducing 5G technology

Breaking the curve of energy consumption increase



Ericsson Nikola Tesla too, create solutions to replace those activities. These innovative solutions mean substantial social benefits as regards sustainable development, but also develop new business opportunities. Digital technology sector will be crucial to cut the emissions of greenhouse gases in half by 2030 in all important sectors of global economy: electricity supply, industry, construction, traffic, food consumption, agriculture and forestry.

Ericsson Nikola Tesla's contribution

Solutions, products and services offered by Ericsson Nikola Tesla Group are rightfully valued as green technologies that positively impact business, people's lives and the environment. Seeing as a high-quality infrastructure is an important prerequisite for using any e-service, here we would like to highlight a complex project of modernizing Hrvatski Telekom's radio access network and a framework agreement with A1 Hrvatska that encompasses modernization and expansion of their radio access network by using the latest technology solutions from an energy efficient Ericsson Radio System (ERS) portfolio.

In ICT segment for Industry&Society, we continue to upgrade services and systems in the field of e-Health in Croatia and abroad, Joint Information System for Land Registry and Cadaster, as well as in the field of public safety and state administration in general. All this enables an even more efficient data management and access as well as reduces the need for changing location exclusively just to provide a certain service, thus reducing the amount of greenhouse gases which would, without the use of these systems and services, be emitted in the atmosphere. The WaterQ project that promotes accessibility of drinking water and protection of natural resources and their

sustainable development also continues, and the company's experts have also been working on developing solutions for tourism, agriculture, and e-Environment. One of the segments that particularly contributes to de-carbonization in a modern, urban world, are the Smart City solutions: from smart parking or traffic, through the most advanced solutions for managing municipal infrastructure, to improving education and raising the quality of city life around the world. The company's experts continue to improve the Smart City model with many fully functional systems, including a network of adaptive and remotely adjustable traffic lights and changeable traffic message signs, smart lighting, video surveillance system, a system for road weather monitoring that can detect and anticipate unfavorable situations, and communication with other smart traffic participants is also enabled. The model also includes smart parking with an automatic detection of parking spot occupancy, a system for charging city services based on NFC technology, railway infrastructure and systems that address issues of automated railway management in case of incidents, based on sensor network and machine learning.

At the end of 2019, with the Faculty of Transport and Traffic Sciences (FPZ), University of Zagreb, the company founded a new joint Traffic and Logistics Data Science Lab which is also a continuation of successful long-term cooperation in the field of science and research, development and education.

It can be expected that modern mobile communication networks, Internet of Things and data science will have a significant impact precisely on the transportation industry as we know it today, as well as its interconnection, and bring out various green solutions in the domain of intelligent transport systems and logistics.

Responsibility towards the environment

Ethical, responsible, and sustainable business is important for the entire Ericsson, including Ericsson Nikola Tesla Group. We are aware that the reduction of negative impact on the environment, created as a result of our business activities, implies examining the entire business chain, including business partners and suppliers. Therefore we expect them to adhere to norms defined by Ericsson Code of Conduct for Business Partners that, in addition to a general overview of our expectations and demands in key areas, such as business ethics, anti-corruption, employee rights and human rights, health and OHS, also highlights responsibility towards the environment and fighting climate change.

Specifying demands for business partners in terms of environmental protection is prescribed by a special document that defines requirements regarding products and services, production, transport, energy consumption, water management, as well as requirements related to waste reduction and circular approach. Our suppliers must meet the demands stated in Ericsson's list of banned and restricted substances (<https://www.ericsson.hr/en/suppliers>) as they are familiarized with these lists before signing business contracts with the Group's members. The lists encompass the material composition of products and packaging

and other information regarding product materials and materials used during service provisioning.

We pay special attention to targeted audits of suppliers in line with the company's corresponding annual plans. In this way, we actively check and evaluate the impact of our supplier chain on the environment, thus contributing to the overall quality of all participants. In line with the findings, whenever it is necessary, we provide education and/or suggest improvements, and in extreme cases, take radical corrective measures, including changing the supplier. All our suppliers must be familiarized with the relevant legislation, strictly adhere to it and have all the necessary permits and documents related to the environment. We particularly insist on programs of improvement, which encompass plans and specific objectives of reducing the impact on the environment, such as using solely eco-friendly cleaning products. We try to transfer our knowledge and experience not only to our suppliers/contractors and business partners, but to the wider community as well.

Importance of education for preserving the environment

We are aware that education is an important integral part of our responsibility towards the environment: on individual level, Ericsson Nikola Tesla Group level, as well as towards the general public. We foster quality cooperation with government bodies, specialized companies and institutions, as well as media and other interested parties. Through consultations

and exchange of opinions with them, we try to contribute to shaping positive changes.

We continuously encourage education focused on responsible relation towards the environment among our employees, suppliers and partners, readers of our company's publications and social media followers. Moreover, we motivate them to rationally use natural resources and personally engage in preserving biodiversity. Therefore Ericsson Nikola Tesla Group actively participated in marking World Water Day, World Environment Day, and in the global action Earth Hour organized by the World Wildlife Fund (WWF) during which we publicly invited all the citizens to give a personal contribution to sustainable development and the future of our planet in line with the slogan "Skini se s plastike, navuci se na prirodu!" (Stop being addicted to plastics, start being addicted to nature).

Furthermore, as a socially responsible entrepreneur doing business in a country where sea is one of the most important natural resources, we try to encourage our employees to stop using single-use plastic bags, bottles, plates, cutlery, straws, and similar products. In cooperation with our service providers, we have already replaced some of the single-use plastic items by the ones made of eco-friendly materials. We believe that by publicly conveying adequate messages, such as those about avoiding the use of single-use plastics, we encourage personal responsibility and by example positively impact on others, thus proving that the contribution of each individual and each company is an important and vital segment of fighting for a cleaner and a healthier environment.



We teach our employees to be responsible towards the environment. All employees were given heat-resistant glass mugs so that they can use them instead of single-use plastic cups that pollute the environment.

Energy and water consumption

Ericsson Nikola Tesla Group has been systematically working on optimizing the consumption of all energy and other natural resources and has been regularly informing the public about that. Knowledge is the foundation of our portfolio and we use it daily to rationalize energy consumption since it represents one of our key resources. We have continuously been applying innovative measures of energy efficiency, in particular because high energy consumption is a necessary prerequisite of our production in the center for communication equipment and networks, which has been gaining new market responsibilities.

Our responsibility towards the environment, along with a green portfolio, includes an energy efficiency upgrade of our plants and improvement of the process energy efficiency. A concrete example is an extensive energy efficiency project concerning a part of the company's buildings and plants, co-funded by the EU funds from the European Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014-2020. For this purpose, the company received a maximum grant amount of up to HRK 20 million that will be used in the amount of nearly 30 percent of officially acceptable project costs. The project will last until the end of 2020 and following its completion, the company's annual energy savings will amount to more than 4.6 million kWh, with a simultaneous reduction in CO₂ emissions by almost 1400 tonnes. Energy efficiency project is in line with the conclusions of Ericsson Nikola Tesla's Carbon Footprint Reduction Action Plan, which was earlier created within the European LIFE Clim'Foot project, in which our company participated too. This project significantly reduces the emissions of greenhouse gases in our daily business operations.

We use intelligent collaboration tools, ensuring customer satisfaction with the service provided, regardless of the fact that they are provided remotely. This primarily refers to services in the segment of design and optimization of networks, and integration and software upgrades of networks. A slight increase in recorded electricity consumption is a result of gaining new extensive business activities that



Works on the reconstruction of the main cooling station

take place on our test systems, i.e. Test Environment, which is also our largest consumer of electricity.

We would like to especially highlight that in our business operations, we use ZelEn (green) energy from renewable energy sources.

The production process, which is characterized by intellectual work of many experts, as well as equipping new workspaces results in significant consumption of water and steam. Regardless of the continuous increase in the number of employees, owing to infrastructure renovation, use of central monitoring of consumption and a better system management and maintenance, the consumption of steam, and even more of water, is significantly dropping, which additionally contributes to the realization of our strategic goals regarding "green business" and sustainable development.

Systematic work on optimizing consumption

Quantitative indicators of the three-year consumption of water and energy for the Group's location at Krapinska 45 in Zagreb are presented in the following table. The data shows how investing in infrastructure efficiency and reconstruction, along with using a central monitoring system, results in optimization of consumption of water and steam for heating purposes. Despite a large capacity expansion, over the last three years we have reduced the consumption of steam for heating purposes, and water consumption has been cut in half in comparison to the previous year. A slight increase in electricity consumption was caused by a large expansion of operations in the center for communication equipment and networks.

year	water (m ³)	steam (tonnes)	electricity (MWh)
2017	51,881	8,808	19,617
2018	42,847	8,613	21,132
2019	21,195	6,921	22,467

Consistent in sustainable waste management

The main characteristic regarding facts and data on the waste collected in Ericsson Nikola Tesla during 2019 is a significant decrease in the amount of waste, approximately by up to 30% as compared to 2018. Last year, we collected, sorted and sent for recycling, i.e. corresponding treatment, and in the case of sludge which we disposed of, approximately 203 tonnes of waste, in comparison to 290 tonnes in 2018. Along with municipal solid waste, additional 14 types of waste were ecologically disposed of: paper, glass, electronic, plastic and wooden waste, batteries, fluorescent tubes, toners, aluminum, iron and steel, mixed construction waste, as well as septic tank sludge. Along with the archives, an increased amount of waste can be seen in the categories which are the result of intensive construction and mechanical works included in the project "Increasing Energy Efficiency and Renewable Energy



Compared to a traditional, linear model based on the pattern "take-spend-spend-discard", the basis of the circular approach is (almost) a closed loop, which includes reusing, repairing, renewing and recycling. To support the recycling process, containers for separate collection of plastics, paper and municipal solid waste were placed in many locations in working spaces.

Sources in Manufacturing Industries", co-funded by the EU funds from the European Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014-2020.

A significant decrease in the amount of collected waste printing toners, paper and cardboard packaging, as well as wood and plastic and glass packaging, is the result of, among other things, continuous work on raising awareness on the importance of responsible relation towards the environment, and broadening the knowledge of sustainability among employees and service providers, which is an important integral part of our business practice.

A decrease in the amount of electronic waste and discarded equipment is the result of an intensive use of new technology and contracted services. We consistently manage waste in line with the Act on Sustainable Waste Management, Ordinance on Waste Management and corresponding regulations for special waste categories. Our internal procedures are in line with the mentioned laws and regulations. This means that we take a comprehensive and systematic care of all types of waste produced on site. We have valid contracts signed with external service providers related to transport and disposal/recycling of waste and manage all the prescribed documentation on the way in which the waste is created and handled. Our company also meets all the obligations stipulated by the Ordinance on the management of waste electrical and electronic appliances and equipment. We observe all the prescribed requirements regarding electronic waste disposal on our sites, and, in line with certain customers' demands, we take care of disposing their electric and electronic equipment.

Facts and figures

Waste generated at Ericsson Nikola Tesla in 2019

key waste code	waste name	amount (in kg)
08 03 17*	waste printing toner	1,045
15 01 01	paper and cardboard packaging	62,330
20 01 01	paper and cardboard (archive)	3,100
15 01 02	plastic packaging	44,920
15 01 03	wooden packaging	44,790
15 01 07	glass packaging	440
16 02 13*	discarded equipment - ee waste	10,030
20 01 02	glass	7,780
20 03 06	septic tank sludge	3,820
17 04 05	iron and steal	11,180
17 06 04	mineral wool	2,590
20 01 21*	fluorescent tubes	225
17 04 02	aluminum	688
16 06 05	batteries (small)	480
	total	203,498

In comparison to 2018, in 2019 we have drastically reduced the amounts of packaging too, which is clearly shown in the Annual report for Registry of packaging for the previous two years. The amounts are given in tonnes.

	2019	2018
Packaging without deposit refund, paper, cardboard, other	155,331	170,696
Packaging without deposit refund, wood, other	73,339	150,596
Packaging without deposit refund, metal Fe, other	0,948	22,591
Packaging without deposit refund, plastics, other polymers	7,268	17,070



5G
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SPECTRUM



Social responsibility

Highlights

- we initiate and shape positive changes in the society
- we prepare the youth for a digital society
- our socially responsible projects are in line with high standards and the best global practice

Social responsibility


Corporate social responsibility (CSR) is an integral part of Ericsson Nikola Tesla Group’s business model. By clearly highlighting all the target groups and their related wanted positions, the Group strongly advocates a holistic approach in applying CSR principles and wishes to drive positive changes in society. The Group bases its transformative role on its technology leadership, innovative ICT solutions which aim to improve people’s lives, the society and the economy, as well as on its own economic responsibility.

The Group insists on completeness, as it resists the practice of corporate social responsibility being reduced to philanthropy in the form of sponsorships and donations, coexisting with failure to meet fiscal obligations, unfair treatment of employees, etc. For the Group, CSR represents a strategic commitment.

The Group also emphasizes that only an economy relying on healthy business entities can encourage all other stakeholders in the society to maintain sustainable growth and development. Therefore, in its own practice, the Group starts with stable and successful business: by developing innovative technological solutions that are competitive in a global market, it greatly contributes to the national economy, develops its own economic sustainability, as well as has the resources to invest in development and promote positive practices in all business segments.

In its activities with the community, the Group uses precisely those activities in which it is a leader and plays a relevant role: advanced technologies and solutions. Ericsson Nikola Tesla Group gives its maximum contribution to the

society through socially responsible projects and practice related to the investment in new knowledge, competencies, products and solutions, providing in this way prerequisites to strengthen the community. Through joint projects with the academia, the Group creates new jobs and enables a two-way transfer of knowledge and technologies; through programs aimed at students, it encourages young experts to adopt more competitive skills in STEM, and advocates the improvement of citizens’ quality of life, especially when it comes to sensitive groups, such as persons with disabilities.



We have steered our operations in three main directions:

- education
- partnerships for socioeconomic development
- helping the community.



We prepare the youth for a digital society

If we observe trends among the youth in Croatia, we can see that they are in line with trends in a great number of other EU countries; moreover, it is also evident that there is a gap between the young people's focus on using modern technologies and their interest in studying at technical faculties. Due to lack of young people considering a career in STEM, there is a decrease in the number of workers with these skills on the labor market, particularly if we consider the needs of an increasingly successful domestic ICT industry. Therefore, for some time, the Group has been using its knowledge and experience to help relevant institutions in recognizing and developing competences that are adjusted to the labor market on the one hand, and on the other hand, it has been using its knowledge and experience to directly address young people and show them the full potential of working in this propulsive industry.

We reaffirm our focus on the said goals by regularly participating in education and motivation programs for the youth. Moreover, the company implemented its numerous programs, such as:



Open Doors

For several years, we have been successfully conducting a program in which we organize students' visits to our company to motivate them to choose STEM jobs. We are guided by the idea that learning about attractive technologies, great professional opportunities and conditions offered by Ericsson Nikola Tesla as Croatian technology leader, can inspire students to study at STEM universities. Students from schools across Croatia, as well as other countries, such as students participating in various Erasmus+ projects regularly visit our company. Our company is also open to students who are interested in our business and wish to see how a large company operates. In 2019, we opened our office in Osijek to the public for the first time. When Ericsson Nikola Tesla Day in Osijek was held, Osijek high school students visited our office.



Let's Talk – for students looking for a good workplace or practice

The Group has not only been intensively hiring over the past years, but also offering various types of cooperation with students from technical faculties, such as internships, part-time jobs, writing master's thesis, etc. An excellent opportunity for interested students to meet the representatives of teams offering jobs is the Let's Talk program. Every Friday, we gave a tour of the company to senior-year students, which was followed by a test for the candidates. Interested students can also send their open applications for cooperation, regardless of the time of the meeting.

Continuous cooperation with students

Owing to the extension of business activities and responsibilities, particularly in Research and Development, we work in various fields and with different technologies, which is particularly useful to young experts for their further development. 5G, IoT, Big Data, IP and cloud solutions, advanced robotics, AI, VR/AR – these are all areas in which we already actively work.

Students and experts with a university degree can find out what we work on at student events and specialist conferences in which we regularly participate. We talked about that with students from the Faculty of Electrical Engineering and Computing (FER) at their job fair, at the DUMP Days conference, organized by the Association of Young Programmers at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FESB) in Split, Career Day at the Faculty of Electrical Engineering, Computer Science and Information Technology (FERIT) in Osijek, the Faculty of Organization and Informatics (FOI) in Varaždin, the Faculty of Science (PMF) in Zagreb, etc.

Presentations and interviews were also held on the Group's premises. In addition to students from FER, FESB and other faculties with which we intensively cooperate and who have traditionally been interested in working at our company, some new members of the academia have expressed their interest in visiting us. We received visits from students from the Transport and Telematics department at the Polytechnic of Rijeka. They were impressed by smart traffic solutions and other ICT solutions that have a positive impact on the economy and society, but even more so by the demos and the visit to the test laboratory.

Students from the Faculty of Electrical Engineering, Computer Science and Information Technology (FERIT) and the Department of Mathematics, University of Josip Juraj Strossmayer, expressed their interest in working at our R&D office in Osijek and actively participated in Ericsson Nikola Tesla Day in Osijek.



The Brainiest Armenian visited our company

The winner of the Golden League of the Armenian TV intellectual quiz "The Brainiest" is Anna Tovmasyan, attending the Physics and Mathematics Specialized School named after Artashes Shahinyan. Her prize was a trip to Zagreb and a visit to Ericsson Nikola Tesla, a long-term partner of Armenian operator Ucom. The winner of the competition visited the Group's headquarters in Zagreb, where the company's experts showed her some of the most significant innovations related to smart city concept, 5G use cases based on pilot projects, as well as a VR solution concept.

Hayk Yesayan, the Co-Founder and Director General at Ucom, said: "Ucom's CSR activities are wired around promoting the engineering skills and education among youngsters, living in all regions of Armenia, including rural communities. So, we just couldn't have thought of any better way to inspire younger generations and particularly the winner of "The Brainiest" TV-show's Golden League, Anna Tovmasyan, than a visit to the laboratory at our major partner Ericsson Nikola Tesla's headquarters. I'm convinced Anna has not only enjoyed the presentation of many pilot projects of the company but also had a chance to appreciate a very diverse and dynamic schedule of her technical and cultural tour, designed especially for her by our Croatian colleagues."



Partnership for socioeconomic development

Ericsson Nikola Tesla incorporated into its business strategy a strong responsibility for the growth and development of all stakeholders, including the wider community. With proactive attitude when it comes to identifying needs, with support and development of partnerships with the community, we try to adjust local and national programs to the best international practice.

Equipping the laboratory at FESB

If we want to educate our students to be competitive, we have to keep study programs adjusted to technology development. Together with our partners from academia, we pave the way for such education in Croatia.

With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FESB), University of Split, we have continued our long-term successful cooperation in the field of science and research, development and education by officially opening Ericsson Nikola Tesla's modernized laboratory at the beginning of

the year. The laboratory enables researchers to work on the development of the latest ICT technologies and the students are given the opportunity to work on challenging tasks in the field of research. Through joint efforts, new technological solutions for a better and simpler life as well as new jobs are created.



On this occasion, Gordana Kovačević, MSc, president of Ericsson Nikola Tesla said:

"Connecting science and economy in a quality manner is a prerequisite for the development of the economy and society at large. It has been almost 19 years since we have signed the first contract with FESB and started our cooperation. We have cooperated in the field of research continuously through projects; so far, we have implemented more than 20 joint research projects. FESB students have been participating in the Summer Camp since 2008, and after their graduation, a large number of the students found a job at our company. I am pleased with the strengthening of the cooperation because the laboratory is becoming a key place where innovative experts can work on the development of new technologies. I would like to additionally emphasize the fact that the start of operations at our R&D Center in Split was directly linked to FESB, 37 years ago, and the company's first employees worked on the premises of this very faculty."

Robots are coming

The second international ICT Society Forum, organized by the Institute for European and Globalization Studies in collaboration with the French institute Laboratoire d'Ingénierie des Systèmes de Versailles (LISV), was held mid-May at Ericsson Nikola Tesla's office in Osijek. The topic "The Robots are coming. The Influence of Robotization on Economy and Social Changes" gathered numerous participants who are actively

engaged in the creation of the digital society in different areas; businessmen and experts, representatives from the academia and public administration.



We improve study programs

On 15 May 2019, at the Faculty of Transport and Traffic Sciences, University of Zagreb, a Partnership Agreement related to a three-year ProLog project was signed. The Agreement was signed by the Faculty of Transport and Traffic Sciences, the Faculty of Maritime Studies of the University of Rijeka, University North, Ericsson Nikola Tesla and Orbico. The aim is to develop university education standards of the profession, qualification standards and study programs

on the basis of the Croatian Qualifications Framework in transport and logistics. It is financed by the European Social Fund, Operational Program Efficient Human Resources 2014-2020.

As a partner from the private sector, we actively participate in this project to improve study programs in the transport domain. By connecting holders of study programs with employers' needs, a qualification standard will be developed with a focus on competences which correspond to labor

market needs. The students will be able to attend study programs which suit labor market requirements, which will enable them to actively participate in the boosting of the Croatian economy as qualified experts.

A confirmation of effective cooperation with FPZ was soon received. Early October, a new joint Traffic and Logistics Data Science Lab was officially opened at the Faculty of Transport and Traffic Science. This added a new dimension to the collaboration between Ericsson Nikola Tesla and FPZ.

Java webinar

In February, the company participated in a series of webinars organized in Croatia by Oracle Academy for the Ministry of Science and Education. The webinars aimed to indicate the significance of changes happening in IT and define the knowledge and skills that the industry needs from its future employees - today's

students - in order to become or remain competitive and grow.

A lecture on Java was held during regular working hours and was streamed through CARNet service. Seeing as the relevant ministry announced that this lecture will be held on its website, there were more than 200 attendees. Professors and teachers were given the

opportunity to learn what Java is, why and how it is used. Through an example of its use in the development of modern telecommunications system at Ericsson Nikola Tesla, they learned about new perspectives brought by this technology to high-school students.

We support international cooperation

Zagreb IX Gymnasium is one of the six participants in the international Erasmus+ project "Networks for Empowering Teachers and Students – From ME to WE" 2017-2020. In that period, the school will focus on developing basic students' competences for the future labor market.

Early February, teachers and students from Finland, Italy, Germany, Poland and Spain participating in the project visited us.

In addition to their workshops on wanted competences and skills, an educational workshop on the impact technology has on life and people's work, as well as the changes it brings, was held at Ericsson Nikola Tesla. In view of the main project goal, which is to empower those who participate in the education process, the workshops' attendees were able to learn that the Group heavily focuses on employees' characteristics such as work ethic, responsibility, helpfulness and dedication, as these characteristics have



a significant impact on a person's career development.

Students from Split in Ericsson's innovation competition in the field of sustainability

A team of students from Split, with the support from Ericsson Nikola Tesla's experts, achieved excellent results in this year's Ericsson Innovation Awards competition. They have become one of 15 teams in the semi-finals who have entered top 1 percent of teams against tough international competition of over 2000 teams, including more than 6800 students from 69 countries. This was the second time in the last three

years that students from Split achieved success in this competition.

The topic was "Dive Deeper" – connecting sea "technologies" with ICT. The students had significant support from experts working at FESB, the University Department of Marine Studies, the Faculty of Science and the Institute of Oceanography and Fisheries in Split. Their idea concerned the removal of heavy metals from the sea and was inspired by the biomechanics of seashells, which is particularly interesting to shellfish farms which cannot obtain the necessary



certificates in case of high heavy metal concentrations.

EVA project receives a special recognition

In the competition for the "Project of the Year", PMI Croatia recognized our contribution to the integration of persons with disabilities in a large international corporation. The awards were presented at the PMI Forum in Zagreb, where our experts are also regularly invited to give lectures.

For EVA project, our company and Mia Stojan, as the project manager, were awarded recognitions of excellence for the integration of persons with disabilities

in a large international corporation. The committee recognized the importance this application has not only for the blind persons and persons with additional motor activity impairment by enabling them a voice management (in Croatian) of the devices that have a touch screen, but also for a wider community. Furthermore, recently a new version of EVA 2.0 has become available on Google Play under the name *Ericsson Nikola Tesla Virtualni Asistent*. With an easier use of modern technologies for the mentioned user groups, the project's additional value lies in

giving persons with disabilities a chance to realize their full professional potential.

It is important to mention that this project has been realized within the program of innovative employment of the persons with disabilities of the Ministry of Labor and Pension System. Our expert, Hrvoje Katić, who himself has visual impairments, as a member of EVA's project team not only gave an exceptional contribution in specifying the needs of persons with disabilities but also participated in the technical development and later education of users.

Helping the community

The Group and its employees are highly sensitive to the needs of vulnerable groups in society. Moreover, they are ready to take a step further in situations that require greater engagement in dealing with the consequences of adverse events (such as natural disasters), in improving the living and working conditions of vulnerable groups of citizens, etc. It is through social engagement and personal contribution that the Group and its employees contribute to building a fairer society and a better life for all.

A long-term positive practice of supporting numerous socially beneficial initiatives, such as the activities of the Ana Rukavina Foundation, etc., has been successfully continued. Moreover, it has recently been expanded by our own socially responsible projects, which were entirely designed and realized by our own resources (e.g. the initiative "Oснаžimo dobre ideje" (Let's empower good ideas) for the flood-affected Slavonia and other similar initiatives). When the Group implements any such activity, its employees offer their selfless support and take part in their implementation.

Charity action "Kompanija donira, vi birate" (Company donates, you choose)

On the occasion of marking the 70th anniversary of its successful business, the Group organized a charity action "Kompanija donira, vi birate" (Company donates, you choose) and made a generous donation for the needs of seriously ill children. The employees

played an important role in this action. They were called to offer their support on social media and participate in deciding which institution will receive the donation. For every photo posted on a person's social media profile, along with hashtags #70ENT #ENTdonira, the Group donated HRK 70 for the young oncology patients. The person whose photo got most likes works at the company's office in Osijek. He decided that the donation be made to Hematology and Oncology Unit of the Pediatric Clinics of Osijek Clinical Hospital Center. Moreover, the Group made a donation to the Foundation Children's Oncology Rebro, the Department of Oncology and Hematology "Dr Mladen Čepulić" at the Children's Hospital Zagreb.

We supported UNICEF's Milky Way

The purpose of UNICEF's Milky Way humanitarian race is to link the promotion of a healthy lifestyle, particularly running, with achieving a goal in the field of taking care for children and families. Runners from Ericsson Nikola Tesla who participated in this race in 2018 helped foster families, and those who participated in the race in 2019 contributed to providing mothers and babies in all maternity wards in Croatia with better care. The funds collected from runners' participation fees were invested

in educating healthcare professionals and procuring the necessary equipment for maternity wards.

Helping the most vulnerable groups

We continued our tradition of helping our fellow citizens living in difficult conditions. Seeing as many socially deprived citizens depend on the society's help in meeting basic living needs, the Group donated funds for the needs of the users of soup kitchens in Zagreb, Split, Osijek and Vukovar. Numerous employees joined the action by donating food and holiday presents to the St Joseph's Church soup kitchen.

Better residence and work conditions

Following the principles of sustainability and circular economy, the Group has come up with a way to find a new, socially useful purpose for high-quality, second-hand office furniture. The donated furniture improved the work of many institutions, such as schools, kindergartens, libraries and children's homes, as well as the stay in these institutions. We used this furniture to equip classrooms, technical laboratories, various classrooms for practical education, preschool classrooms, etc.







Objectives, achievements and indicators

Highlights

- sustainable development goals determine the concept framework of our impact on the society
- we are dedicated to use our technology and expertise to meet the goals more easily
- we firmly believe that ICT ensures greater transparency and strengthens basic human rights, such as the right to health, education, freedom of association and expression
- in all our business activities, we are committed to applying the UN guiding principles on business

Collaborate with us

This report and all the important information about Ericsson Nikola Tesla can be found at: www.ericsson.hr/en/homepage.
If you wish to find out more, give your comments or opinions, make sure to communicate with us:

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Awards and recognitions

2019

■ Ericsson Market Unit Europe and Latin America (MELA) awarded our expert team with a “Break-in of the Year” recognition for exceptional effort in the realization of SRAN contract for our customer Hrvatski Telekom.

■ On the basis of an independent international research on the quality of mobile networks, conducted by P3 Communications, Hrvatski Telekom’s mobile network was declared the best in Croatia and one of the ten best mobile networks in the world. Our experts from Networks unit, together with experts from Ericsson Nikola Tesla Servisi, performed a very complex task related to optimization of Hrvatski Telekom’s mobile network, and thus contributed to the success of our customer.

■ 3rd Generation Partnership Project (3GPP) presented Nevenka Biondić, an expert working in our R&D Center and a long-term Ericsson delegate in this organization, with a 3GPP



excellence award. This award is given to the most deserving people for their contribution to the work of this renowned global organization in developing telecom standards.

■ At the international European Conference on Antennas and Propagation (EuCAP), held in Poland, the scientific paper “Analysis of Curved Metasurfaces with Spatially-Varying Impedance Distribution” was recognized as the best paper related to antenna theory. The paper was written by our experts Dominik Barbarić and Marko Bosiljevac together with Professor Zvonimir Šipuš, PhD, from the Department of Wireless Communications of the Faculty of Electrical Engineering and Computing, University of Zagreb.



■ “PRO PR Vision Manager” award for transparency in communication was given to president of the company Gordana Kovačević. The committee members’ explanation states: “Using various techniques and tools towards all target audiences in an honest, comprehensible

and transparent manner in her communication, she inspired the whole business community”.

■ A team of students from the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, with the support from Ericsson Nikola Tesla experts, achieved excellent results in the Ericsson Innovation Awards competition. The team was among 15 semi-finalists, i.e. among one percent of the best teams in a fierce international competition, consisting of more than 2000 teams with more than 6800 students from 69 countries. This was the second time in the last three years that students from Split achieved success in this competition.



■ Joint Information System for Land Registry and Cadaster (JIS) was included in the first Voluntary National Review (VNR) of the Republic of Croatia. The project was recognized as a support in the creation of e-Croatia, development of entrepreneurship and securing citizens’ trust in land registry and registries. Voluntary National Review is a publication which monitors the achievement of UN Sustainable Development Goals in the period until 2030 in the Republic of Croatia.

■ The idea “Crowdsourced User Experience & Behavior Diagnostics”, whose authors are Andrijana Brekalo and Nikica Vojvodić, won the Smart Business Innovation Challenge organized by ETK Sales & Supply. This is potentially a new service related to monitoring and diagnostics of network quality and availability, and network optimization. Moreover, the idea was additionally recognized as the best idea in the field of Network Design and Optimization (NDO) in the entire MELA region.

■ A team of our experts performed a successful 5G technology test in Telefonica UK. In line with the planned schedule, this has enabled the implementation of 5G network in the UK in this operator’s network. The said achievement, based on the knowledge and flexibility of our experts, represents an important step towards the latest technology and steers our 2G/3G excellence testing center in the direction of a new perspective area.

■ Against strong international competition, Project Management Institute (PMI) Croatia awarded the project “Ericsson Nikola Tesla Voice Assistant – EVA” a special recognition for excellence in the integration of persons with disabilities as equal employees in a competition for the project of the year.



■ Croatian Business Council for Sustainable Development and Croatian Chamber of Economy awarded Ericsson Nikola Tesla a CSR Index in the category of responsible policies and practices in environmental management.



■ Croatian Chamber of Economy awarded Ericsson Nikola Tesla with a special recognition on the occasion of the company marking its 70th anniversary.



■ After four consecutive years when Gordana Kovačević was named the most powerful woman in Croatian business, “Lider” business weekly and Bisnode company awarded Kovačević a special recognition for the overall contribution to the Croatian economy. The jury recognized her active public involvement in the promotion of excellence in business, of high business standards, integrity and ethical behavior in the society as well as popularization of STEM jobs, especially among the youth.



Objectives and achievements

Ericsson Nikola Tesla’s sustainability and corporate responsibility objectives are aligned with the company’s strategy. The objectives are reviewed and reported on annually and reflect our efforts to reduce risks and increase positive impact on the society.

Positive impact objectives

Long-term objective by 2022	2019 achievement
Increase the representation of women up to 30 percent among the Leadership Team, line managers and workforce	Achieved: Management Board 100 percent, Leadership Team (LT) 29.4 percent, line managers 20 percent, workforce 24 percent
Reduce CO ₂ emissions into the environment by offering and implementing new solutions of the portfolio	We developed a Central Management System (CMS) for managing the organizational structure of the healthcare system; continued the realization of Green Borders project; developed a new portal katastar.hr; in cooperation with the State Geodetic Administration (DGU), we founded a joint Traffic and Logistics Data Science Lab at the Faculty of Transport and Traffic Science, University of Zagreb (FPZ).
Encourage the reduction of impact on climate through the reduction of CO ₂ emissions in business-related activities	We will be carrying out a project of increasing energy efficiency until the end of 2020. In 2019, CO ₂ emissions were reduced by more than 10 percent out of the planned total of 1400 tonnes annually.
Reduce impact on ecology by reducing energy consumption per employee by 10% compared to 2016 (real measurements)	We reduced consumption of steam per employee by 55 percent, while average electricity consumption remained the same. Taking into consideration that in the total energy consumption the steam accounts for 31 percent, the total reduction of energy consumption per employee for the said period is 17 percent.

Risk mitigation objectives

Long-term objective	2019 achievement
Strengthen ethics and compliance program, focusing on anti-corruption	<ul style="list-style-type: none"> – 100 percent of Ericsson Nikola Tesla’s active employees completed an anti-corruption course (Anti-corruption 3.0) – 100 percent of active employees acknowledged the new Code of Business Ethics
Secure that Business Units adhere to Sales Compliance process	Business done 100% in line with the Sales Compliance process.
Percentage of successful implementation of corrective measures related to audit findings	Taking into consideration the activities related to supplier selection/audit in the energy efficiency project, the percentage rose to 90 percent
Perform supplier audit in the field of OHS	Audit of 8 suppliers was performed (2 suppliers in the energy efficiency project, 6 suppliers in the project of modernizing Hrvatski Telekom’s network)

Statement on the application of the Code of Corporate Governance

Ericsson Nikola Tesla d.d. was among the first companies in Croatia to adopt its own Principles of Corporate Governance (in April 2005), based on the legislation of the Republic of Croatia and recommendations published in OECD Corporate Governance Working Papers. These documents clearly describe and define the rights and obligations of the Management Board, Supervisory Board and shareholders (<https://www.ericsson.hr/en/corporate-governance>).

The company also applies the Zagreb Stock Exchange Code of Corporate Governance and meets the obligations derived therefrom, with the exception of provisions whose application is not practical at a given moment. The Croatian Financial Services Supervisory Agency (HANFA) and Zagreb Stock Exchange (ZSE) adopted the new Code of Corporate Governance on 15 October 2019. The new Code replaced the previous edition of the Code, which was published in 2010, and the listed companies started complying with it on 1 January 2020.

Deviations from the Zagreb Stock Exchange Code of Corporate Governance which was applied until the end of 2019 are as follows:

– 2.6. Use of modern communication technology

Shareholders and their proxies shall be allowed to vote at the Annual General Meeting using modern communication technologies. However, for the time being, it is not possible to participate remotely in the Annual General Meeting using modern communication technologies.

– 4.2. Composition of the Supervisory Board

The company's Supervisory Board is not composed primarily of independent members. Out of a total of five members, two members are elected on the largest shareholder's proposal, one member is the representative of employees, and the remaining two members are independent.

– 4.7. Remunerations/compensations to Supervisory Board members

Members of the Supervisory Board receive a monthly remuneration

amounting to one half of the average monthly gross salary of the company's employees. Representatives of the largest shareholder Ericsson do not receive remuneration in accordance with the corporate policy.

Information on compensations and other emoluments from the company or company-related persons to the members of the Supervisory Board is not published individually for each member, but in the Annual Report as the total amount.

– 4.12. Committees (Boards)

The Supervisory Board does not have an established appointment committee and remuneration committee.

Other members of the Supervisory Board gave their consent to the Chairman of the Supervisory Board to determine the way of remuneration of the company's Management Board and to take care of appointing new members and monitoring the work of the company's Supervisory Board and Management Board.

– 6.3. Remuneration

Remuneration of the Management Board is regulated by an individual employment contract, which is concluded between the Management Board and the Supervisory Board. Remuneration for the work of the Supervisory Board is determined by the decision of the Annual General Meeting. Statement on the remuneration policy for the Management and Supervisory Board was not published.

– 6.3.3. Publication

Information regarding emoluments and other ways of remuneration of the company's Executive Leadership is published in the Annual Report, in the total amount for all members.

The Ten Principles of the UN Global Compact

UN Global Compact is a United Nation’s initiative for the introduction of corporate social responsibility. It was launched in 2000, and nowadays it is the biggest initiative of such type, which is a unique example of collaboration between business world and the international community.

Ericsson Nikola Tesla Group is committed to promoting and supporting the Ten Principles of the UN Global Compact.

principle		page
Human rights		
1.	Businesses should support and respect the protection of internationally proclaimed human rights; and	50, 54, 58, 59
2.	make sure that they are not complicit in human rights abuses.	50, 54, 58, 59
Labor		
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	56, 67
4.	the elimination of all forms of forced and compulsory labor;	50, 54, 58, 59
5.	the effective abolition of child labor; and	56
6.	the elimination of discrimination in respect to employment and occupation.	56, 64
Environment		
7.	Businesses should support a precautionary approach to environmental challenges;	76-81
8.	undertake initiatives to promote greater environmental responsibility; and	77, 79, 80
9.	encourage the development and diffusion of environmentally friendly technologies.	78
Anti-Corruption		
10.	Businesses should work against corruption in all its forms, including extortion and bribery.	59

GRI index

note: N/A – not applicable; online – on the website

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102-43	Approach to stakeholder engagement	42
102-44	Key topics and concerns raised	42
Reporting practice		
102-45	Entities included in the consolidated financial statements	6
102-46	Defining report content and topic boundaries	34
102-47	List of material topics	45
102-48	Restatements of information	35
102-49	Changes in reporting	34
102-50	Reporting period	34
102-51	Date of most recent report	34
102-52	Reporting cycle	34
102-53	Contact point for questions regarding the report	92
102-54	Claims of reporting in accordance with the GRI Standards	35
102-55	GRI content index	97
102-56	External assurance	34
Economic		
Economic performance (GRI 201)		
201-1	Direct economic value generated and distributed	online
201-2	Financial implications and other risks and opportunities due to climate change	online
201-3	Defined benefit plan obligations and other retirement plans	online
201-4	Financial assistance received from government	online

note: N/A – not applicable; online – on the website

GRI	Topic-specific disclosures	reference
Market Presence (GRI 202)		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	70
202-2	Proportion of senior management hired from the local community	70
Indirect Economic Impacts (GRI 203)		
203-1	Infrastructure investment and services supported	84
203-2	Significant indirect economic impacts	84-89
Procurement Practices (GRI 204)		
204-1	Proportion on spending on local suppliers	60
Anti-corruption		
205-1	Operations assessed for risks related to corruption	59
205-2	Communication and training about anti-corruption policies and procedures	59
205-3	Confirmed incidents of corruption and actions taken	59
Anti-competitive Behavior (GRI 206)		
206	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	N/A
Environment		
Materials (GRI 301)		
301-1	Materials used by weight or volume	N/A
301-2	Recycled input materials used	81
301-3	Reclaimed products and their packaging materials	81
Energy (GRI 302)		
302-1	Energy consumption within the organization	80
302-2	Energy consumption outside the organization	N/A
302-3	Energy intensity	N/A
302-4	Reduction of energy consumption	80
302-5	Reductions in energy requirements of products and services	78
Water (GRI 303)		
303-1	Water withdrawal by source	N/A
303-2	Water sources significantly affected by withdrawal of water	N/A
303-3	Water recycled and reused	N/A
Biodiversity (GRI 304)		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A
304-2	Significant impacts of activities, products, and services on biodiversity	79
304-3	Habitats protected or restored	N/A
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	N/A
Emissions (GRI 305)		
305-1	Direct (Scope 1) GHG emissions	online
305-2	Energy indirect (Scope 2) GHG emissions	online
305-3	Other indirect (Scope 3) GHG emissions	online
305-4	GHG emissions intensity	76
305-5	Reduction of GHG emissions	76
305-6	Emissions of ozone-depleting substances (ODS)	N/A
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	N/A
Effluents and Waste		
306-1	Water discharge by quality and destination	80

note: N/A – not applicable; online – on the website

GRI	Topic-specific disclosures	reference
306-2	Waste by type and disposal method	81
306-3	Significant spills	81
306-4	Transport of hazardous waste	N/A
306-5	Water bodies affected by water discharges and/or runoff	N/A
Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	76
Supplier Environmental Assessment		
308-1	New suppliers that were screened using environmental criteria	79
308-2	Negative environmental impacts in the supply chain and actions taken	79
Social		
Employment (GRI 401)		
401-1	New employee hires and employee turnover	70
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	72
401-3	Parental leave	67
Labor/Management Relations (GRI 402)		
402-1	Minimum notice periods regarding operational changes	64
Occupational Health and Safety		
403-1	Workers representation in formal joint management–worker health and safety committees	62
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	73
403-3	Workers with high incidence or high risk of diseases related to their occupation	62
403-4	Health and safety topics covered in formal agreements with trade unions	62
Training and Education (GRI 404)		
404-1	Average hours of training per year per employee	69
404-2	Programs for upgrading employee skills and transition assistance programs	69
404-3	Percentage of employees receiving regular performance and career development reviews	69
Diversity and Equal Opportunity		
405-1	Diversity of governance bodies and employees	68
405-2	Ratio of basic salary and remuneration of women to men	68, 71
Non -discrimination		
406-1	Incidents of discrimination and corrective actions taken	N/A
Freedom of Association and Collective Bargaining		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	60
Child Labor		
408-1	Operations and suppliers at significant risk for incidents of child labor	56
Forced or Compulsory Labor		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	60
Security Practices		
410-1	Security personnel trained in human rights policies or procedures	48
Rights of Indigenous Peoples		
411-1	Incidents of violations involving rights of indigenous peoples	48
Human Rights Assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	56

note: N/A – not applicable; online – on the website

GRI	Topic-specific disclosures	reference
412-2	Employee training on human rights policies or procedures	49, 56
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	49, 56
Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	84-89
Supplier Social Assessment		
414-1	New suppliers that were screened using social criteria	60
414-2	Negative social impacts in the supply chain and actions taken	60
Public Policy		
415-1	Political contributions	N/A
Customer Health and Safety		
416-1	Assessment of the health and safety impacts of product and services categories	78
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	78
Marketing and Labeling		
417-1	Requirements for product and service information and labeling	N/A
417-2	Incidents of non-compliance concerning product and service information and labeling	N/A
417-3	Incidents of non-compliance concerning marketing communications	N/A
Customer Privacy		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	57
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	N/A

