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Annual Report
Ericsson Nikola Tesla Group



Management report



General report

Ericsson Nikola Tesla Group

in brief

mother company

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| | 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 31 36 53 535 |
| Fax | Zagreb / +385 1 36 53 156 Split / +385 21 43 58 34 Osijek / +385 31 36 53 156 |
| E-mail | etk.company@ericsson.com pravni.poslovi@ericsson.com |
| Web | www.ericsson.hr |
| Personal identification number (OIB) | 84214771175 |
| Commercial court registration number (MBS) | 080002028 |
| Statistical number (MB) | 03272699 |
| Share capital | HRK 133,165,000 |
| Number of shares | 1,331,650 registered shares |
| Ownership structure | Ericsson 49.07%, other shareholders 50.90%, treasury shares 0.03% (as at 31 December 2020) |
| 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 OTP HR5324070001024070003 ADDIKO HR9725000091101465712 |
| Management Board / | |

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|--------------------------------------|-------------------------------|
| Managing Director | Gordana Kovačević, MSc |
| Chairperson of the Supervisory Board | Franck Pierre Roland Bouétard |

affiliated companies

Ericsson Nikola Tesla Servisi d.o.o.

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|--|--|
| 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/ericsson-nikola-tesla-servisi |
| Personal identification number (OIB) | 47445593925 |
| Commercial court registration number (MBS) | 080921748 |
| Ownership structure | Ericsson Nikola Tesla d.d. 100 percent |
| IBAN | RBA HR2124840081107008882 ZABA HR4723600001102860133 ESB HR7324020061100756266 |
| Director | Dario Runje |
| Chairperson of the Supervisory Board | Gordana Kovačević, MSc |

Ericsson Nikola Tesla BH d.o.o.

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|--------------------------------------|--|
| Core business | Provider of modern information and communications products, solutions, software and services |
| Address | Ulica kralja Petra Krešimira IV, Lamela B-bb, Mostar, Bosnia and Herzegovina |
| Telephone | +387 36 446 492 |
| Fax | +387 36 446 494 |
| Web | www.ericsson.hr/ericsson-nikola-tesla-bh |
| Unique identification number (JIB) | 4201717070003 |
| Tax number (VAT id) | 201717070003 |
| Registration number | 58-01-0534-18 |
| 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 |
| E-mail address | libratel@libratel.hr |
| Web | www.libratel.hr |
| 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.

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|---------------------|--|
| Address | Kirova str, 8, office 33, 220030, Minsk, Republic of Belarus |
| Registration number | 192753195 |
| Ownership structure | Ericsson Nikola Tesla d.d. 100 percent |
| Director | Mario Lovreković |

2020 highlights

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- Sales revenue MHRK 2,023 (2019: MHRK 1,779)
 - Gross margin 8.62 % (2019: 9.24 %)
 - Net profit MHRK 95 (2019: MHRK 103)
 - Cash flow from operating activities MHRK 308 (MHRK 69)
 - New responsibilities in 4G and 5G in R&D and services towards Ericsson
 - Collaboration with the leading Croatian operators (HT, A1 HR)
 - Network modernization and preparation for the introduction of commercial 5G network
 - Took over the full responsibility for HT's Managed Services from Ericsson corporation
 - Intensive market activities in line with our focused strategy
 - Further investments in solutions/products/services, testing equipment, development of employees' strategic knowledge and skills
 - Focus on cost and operational efficiency, capital efficiency and strategic risk management and compliance
 - Further employment: 204 new experts employed (mainly highly educated and having STEM degrees)
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Annual report on Group performance

The challenges that marked 2020 could not have been predicted by anyone. Globally, the year will be remembered for fighting against the COVID-19 pandemic. Unfortunately, in Croatia, we will also remember 2020 for the devastating earthquakes that hit parts of our country in March and December.

Despite great challenges, Ericsson Nikola Tesla Group had a stable business performance, and achieved excellent business results. We quickly responded, adjusted and were innovative, always trying to support our employees and the community in which we operate to cope somewhat easier with the consequences of pandemic, and then earthquakes. The health and safety of our employees, customers, and partners has always remained our main priority. We are proud of the dedication and engagement of our employees who have continued to provide services/support to our customers despite the difficult business conditions. Ericsson Nikola Tesla Group's products, services and solutions, as well as the knowledge, engagement, innovativeness and courage of our employees in the most critical moments, in cooperation with our customers, have secured the operation of telecom network and internet connections, as well as smooth operation of, among others, a strategically important Central National Information Healthcare System in Croatia.

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

Market overview

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

Taking over and signing a new contract for managed services in build and maintenance of HT's telecommunication infrastructure had a significant impact on the Company's results in 2020. Main focus was placed on securing sales revenue through a successful implementation of the contracted works and on the transformation of Ericsson Nikola Tesla Servisi. Furthermore, we were focused on cost optimization and control of operating cash flow. Such focus was also placed on other network modernization projects, as well as projects in the Industry & Society segment. In the domestic market in the operator segment, we have continued to support our long-term strategic partners HT and A1 Hrvatska on the modernization and expansion of radio access network, while in the segment of ICT for Industry&Society, we have been intensively working on innovative solutions in e-Health, e-Business, and public safety, which additionally strengthened our position in the domestic market.

The biggest operators in Croatia (HT and A1 Hrvatska) have started to introduce the 5G based on Dynamic Spectrum Sharing technology (ESS – Ericsson Spectrum Sharing) that was delivered by Ericsson Nikola Tesla. We look forward that, by assigning 5G radio frequency spectrum, conditions will be created for full implementation of 5G.

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

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

strong team of experts with the necessary domain knowledge, bring new business opportunities. Our excellent performance and recognition as Ericsson supplier for R&D, services and solutions give us a good foundation to continue to achieve planned results in 2021. I am proud that our research and development and expert teams for solutions and services in Zagreb, Split, and Osijek, have been continuously gaining new responsibilities within the global organization. In 2020, 204 new employees, mostly highly educated experts in STEM, joined Ericsson Nikola Tesla Group, and at the end of 2020, the Group had 3236 new employees. We have thus contributed to the development of Croatian economy even in the aggravated circumstances caused by the pandemic and earthquakes.

Key performance indicators

At Ericsson Nikola Tesla Group level, gross profit increased by 6.0% to MHRK 174.4 year-over-year, while gross margin decreased by 0.6 percentage points as a result of business mix due to taking over the full responsibility for managed services for HT from Ericsson Corporation, and related transition and transformation costs. Operating profit increased by 1.8% year-over-year to MHRK 104.4, as a result of higher gross profit and profitability program aimed at comprehensive cost optimization. Despite an increased engagement in pre-sales activities related to 4G/5G radio access and core networks, as well as increased costs related to managed services for HT, the share of selling and administration expenses in sales revenue was stable and amounted to 4.14%. Net profit amounted to MHRK 94.5, and ROS was 4.7%. The year was concluded with a solid balance sheet, and an equity ratio of 34.8%. A strong cash flow from operating activities was realized, amounting to MHRK 308.1. Therefore, total cash and cash equivalents, including short-term financial assets, at the end of 2020 amounted to MHRK 314.0. Ericsson Nikola Tesla Group's Working Capital Efficiency, measured in Working Capital Days (WCD), was 25 days, and if we exclude services to Ericsson, WCD was 44 days.

Main business risks

Although at the end of the year, vaccination against COVID-19 began in Croatia and worldwide, measures restricting movement, as well as certain business activities on site, are still in force. 2021 remains challenging and will demand a lot of knowledge and flexibility in conducting the business. Therefore, to continue successful business performance, we are taking the necessary measures to mitigate all risks, as much as possible with a special focus on profitability and operating cash flow.

Considering the unpredictability due to the impact of COVID-19, the risks, such as delays in the implementation of existing contracts, reduction or postponement of investments and travel restrictions, are still present. An additional risk is economic environment and political situation in certain export markets. The demand for customer financing continues, as well as the exposure to an increased credit and financial risk, should our customers face adverse financial conditions. A challenging global environment, as well as consolidation among the providers of products and services, and new ICT companies entering the market leads to an increased competition, which impacts the demand and prices of our products and services. The exposure to financial impact of foreign exchange differences continues to be significant, as a big part of the Group's revenue comes from export, but the risk is mitigated by active foreign exchange (FX) risk management.

Although we further strengthen business continuity measures to be able to continue to support our customers and mitigate any impact on our business, disruptions to the global economy and to the operations/business of our customers, suppliers, and partners could cause disturbances in our operations and impact our business and financial position.

Sustainability and corporate responsibility

We dedicate special attention to responsible business, as the foundation to realize a strategic goal - achieving a competitive and innovative economy, i.e. developing green and digital industry through products, solutions and services that we offer to our customers, as well as through internal activities in Ericsson Nikola Tesla Group. Two and a half years after contract signing, we successfully completed the project "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.". This is one of the biggest energy efficiency projects in the Republic of Croatia, co-financed by the EU's Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014 -2020. The expected annual calculated energy savings amount to 4.6 million kWh, with the annual reduction of CO2 emissions by 1400 t.

In 2020, perhaps more than ever, multiple crisis situations encouraged Ericsson Nikola Tesla Group and the employees to solidarity and to take initiative. Through concrete actions of support and assistance, the core values of the Group were demonstrated.

Numerous realized projects and initiatives related to social responsibility are described in this Annual Report (Non-financial report).

Ethics and compliance

Ericsson Nikola Tesla Group continuously works on strengthening business practice regarding ethics and compliance. I am convinced that the culture of integrity, responsibility, and transparency is what in the end determines the company's long-term success. Therefore, all stakeholders that are in contractual relation with the Group, as well as all the employees, are required to adhere to the Code of Business Ethics and the Code of Conduct for Business Partners of Ericsson Nikola Tesla Group in their daily operations.

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 training, are transmitted daily to all Group's employees and all other stakeholders. Our Risks and Compliance Board is responsible for the overall management of compliance aspects within the Group, and the implementation of Ethics and Compliance Program.

Conclusion

The information-telecommunications market under the influence of COVID-19, both in the world and in Croatia, has shown great resilience and limited impact of the crisis, and at the same time emphasized the importance of telecommunications infrastructure and digitalization in various industries, government institutions and in all spheres of life. In addition to innovative solutions in the Industry & Society segment, especially solutions in the field of healthcare, public safety and eBusiness, there is a growing need for telecommunications solutions that ensure higher bandwidth within telecom infrastructure and mobile broadband access (like 5G), as well as solutions for smart network management and network capacity. We will certainly play an important role in the implementation of 5G, and our advantage is that, beside an intensive cooperation with the leading domestic operators, many of our experts are already working on the development and application of new solutions and services within Ericsson global teams. Our focused strategy remains unchanged. We remain focused on the development of solutions, on providing services and sales in 4G/5G, on digital transformation of service providers based on cloud and automation, managed services and the development and implementation of innovative platform solutions in Industry & Society segment. We also continue with extensive activities of Ericsson Nikola Tesla Group's digital transformation with the aim to simplify and automate company's key processes and increase efficiency.

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

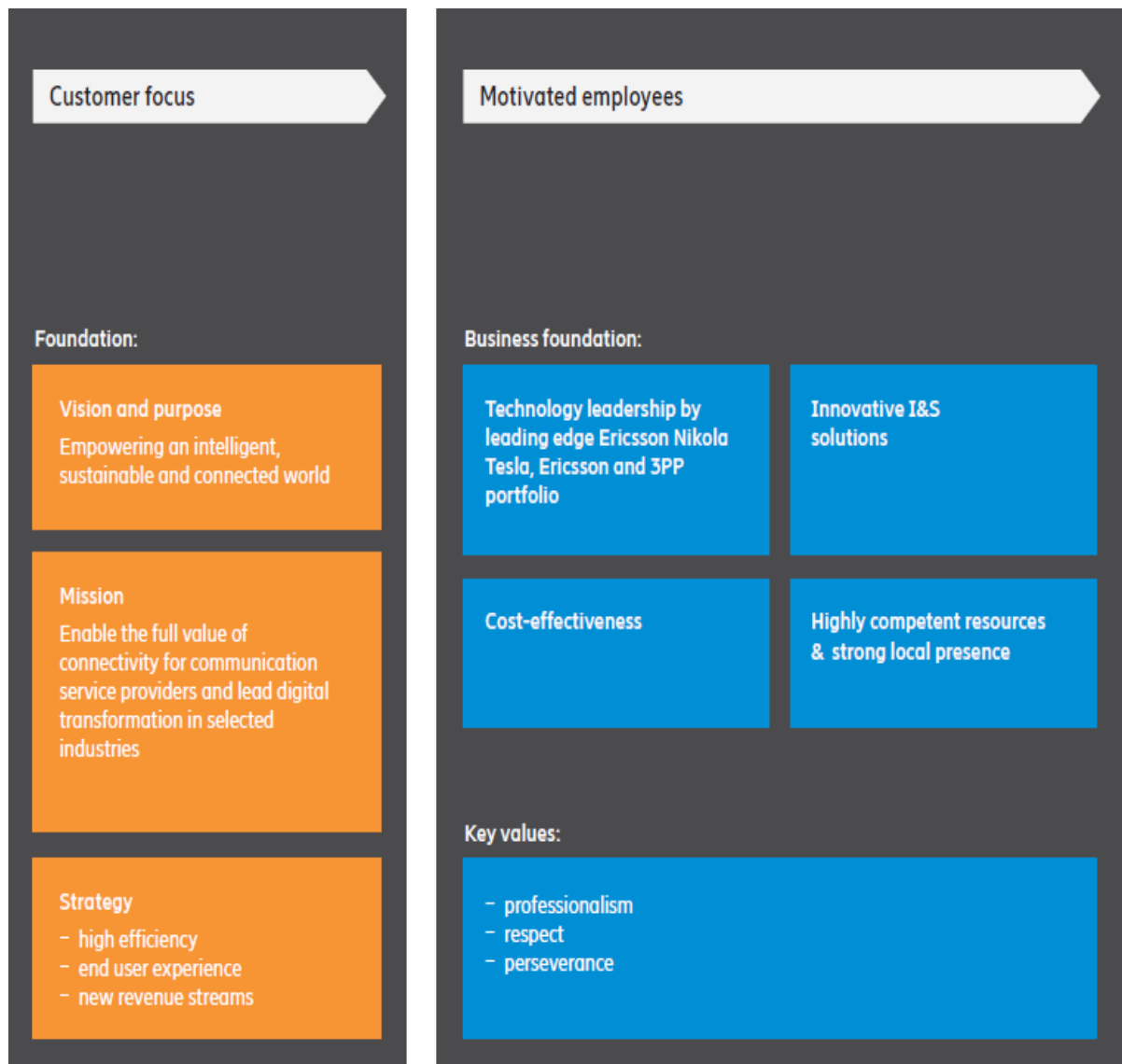
In the end, I would like to thank our customers, partners, suppliers and investors for their cooperation and trust, and especially to our employees whose expertise and continuous motivation and dedication enabled to achieve top results.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2020 Annual Report, consisting of General Report, Non-financial report, and Consolidated and Non-Consolidated Financial Statements as at December 31, 2020.

Gordana Kovačević,
president of Ericsson Nikola Tesla d.d.

Business model

In a business and social environment that has been continuously, and especially nowadays, going through very dynamic changes, our business model gains even more importance. Our business model is based on agile adaptation to changing market conditions and on capturing new business opportunities. In this way, we can offer technologically advanced, cost efficient and sustainable products, solutions and services to our customers. Customer focus and motivated employees are the foundation of our business through which we create new value for all our stakeholders.



Customer focus

We develop innovative and cost-efficient ICT solutions

Motivated employees

Motivated and talented employees are key drivers of our business

Value for stakeholders

We create value for all stakeholders through a stable company in the long term

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

Financial goals:

stable business

Focused business strategy

ICT solutions and products play a key role in digital transformation of all industry segments and are the catalyst of change for the well-being of each individual, and society at large. Our company's purpose is in empowering an intelligent, sustainable and connected world by offering innovative ICT solutions and products that are easy to adopt, use and scale.

Our focused strategy is based on five pillars:

- technology leadership by leading portfolio from Ericsson Nikola Tesla, Ericsson and 3PP,
- innovative solutions for Industry & Society,
- cost efficiency,
- highly competent resources and strong local presence,
- doing business in line with the standards of sustainability and business responsibility.

We secure a successful implementation of our strategy by being:

- a partner of choice that leads digital transformation in selected industries and a trusted advisor to our customers.
- an expert and a reliable R&D and service center, that provide 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

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

We create new values 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. For communication service providers, it enables the full value of connectivity and leads digital transformation in selected industries and areas of human activities. It is among the leading exporters in Croatia, and number one when it comes to exporting knowledge. The Company provides a modern test environment, along with a wide range of innovative solutions that enable quality testing of operators' and internal Ericsson's users' networks.

By combining technology leadership of Ericsson's global and the company's portfolio, innovative and cost efficient solutions, along with the assistance of highly educated employees, the company meets the customers' needs, with the aim to realize a vision to further strengthen an advanced, sustainable and connected world. 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 Servisi d.o.o.

The core business of Ericsson Nikola Tesla Servisi is to provide services related to the monitoring, build and maintenance of telecommunications network infrastructure. With regard to the services portfolio and the long-term experience in managing telecommunications projects, the company meets the most complex and most demanding market and technology requirements, and also offers a service on a turnkey basis.

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

Libratel d.o.o

Libratel's core activity is to provide highly professional and cost-efficient telecom services; installation of telecom equipment, putting telecom network into operation and upgrade of telecom equipment.

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.

Ericsson Nikola Tesla d.d. - Branch office Kosovo

The branch office 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 Belarusian 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 Ericsson Nikola Tesla's, 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

Of the total sales revenue, domestic market accounts for 45.8 percent, services to Ericsson account for 42.6, while other export markets account for 11.6 percent.

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

Hrvatski Telekom (HT) and Ericsson Nikola Tesla Group strengthened their cooperation during 2020 by signing several significant multi-year agreements. The cooperation in radio part of network continued by signing the first 5G agreement in Croatia, which makes Ericsson Nikola Tesla the supplier of the radio part for Hrvatski Telekom's mobile network until 2024. At the end of October, Hrvatski Telekom launched the first 5G commercial network in Croatia, based on the technology of dynamic spectrum sharing - ESS (Ericsson Spectrum Sharing), thus making a significant step in the upcoming digitalization of Croatia. In only a few weeks that followed, 5G network became available in numerous Croatian cities.

Ericsson Nikola Tesla Servisi d.o.o. (a daughter company of Ericsson Nikola Tesla d.d.) has taken over the full responsibility for managed services in the beginning of 2020, i.e. for building, maintenance and monitoring of fixed and mobile network of Hrvatski Telekom d.d. In August, this company

signed an extension of the Management Services Agreement for the construction and maintenance of fixed and mobile telecommunications infrastructure, supervision of the telecommunications network, and field maintenance of the active access network and passive network. The Agreement is in force until the end of 2023, and its frame value is over HRK 1.6 billion. The most significant program of the Agreement is an intensive deployment of fiber to the home (FTTH). Solely in Q4, optical infrastructure was deployed to almost 40,000 households, and thus the total number of deployed optics infrastructure to households and enterprises in 2020 reached the planned number of almost 80,000 households.

Mid-December, we signed a contract regarding the delivery of microwave transport technology until the end of 2024.

A strong partnership of the two companies, even in the times of crisis, was additionally highlighted during the devastating earthquakes in Zagreb and in Banovina, when the good communication and coordination of joint teams enabled, in the shortest time possible after the earthquake, an uninterrupted operation. In Zagreb, the earthquake caused a fire in which the HT's building and part

of the equipment related to Internet access service provisioning were damaged. By promptly reacting, the system was restored into its initial state. In Banovina, there were disturbances in operation of HT's base stations in the area of Sisak, Petrinja, and Glina, which was also eliminated. Moreover, by jointly implementing additional cell on wheels, the capacity in Petrinja was increased by 30%, and in Glina by 100% in order to enable all the individuals and services on site to do their job.

With the strategic partner A1 Hrvatska, activities continued the modernization and expansion of radio access network using the latest technological solutions from Ericsson Radio System (ERS) portfolio. Ericsson Nikola Tesla continuously ensures high network quality in order for A1 Hrvatska to meet the increased user demand for services in a situation caused by COVID-19.

The cooperation in the segments of core network and transport telecommunication network has also continued, which contributes to the increased network quality and new services for end-users. The technology of dynamic spectrum sharing (Ericsson Spectrum Sharing) has also been implemented.

As a particularly interesting part of our cooperation, the news that A1 Hrvatska put into commercial operation the longest radio relay network in the world MIMO (Multiple Input – Multiple Output) which was realized using Ericsson's ML TN system in 2x2 MIMO configuration at the distance of 26.8 km in the hinterland of the city of Split, was published worldwide.

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

In ICT solutions for Industry & Society, intensive activities are ongoing on the implementation of solutions that will additionally improve digital connectivity between the public sector and citizens and enable new ways of using information and communications infrastructure. In 2020, we signed several contracts with the Ministry of Justice and Public Administration of the Republic of Croatia, Ministry of Health of the Republic of Croatia, Ministry of the Interior of the Republic of Croatia, Ministry of Culture and Media of the Republic of Croatia, Ministry of Defense of the Republic of Croatia, and State Geodetic Administration. We have continued the upgrade of the Joint Information System of Land Registry and Cadaster (JIS) by signing a new one-year agreement. With the Croatian Ministry of Health, we have signed a three-year Contract for the Support, Maintenance and Upgrade of the Central Part Software of the Integral Central Healthcare Information System of the Republic of Croatia (CEZIH). With the Croatian Ministry of Culture and Media, we signed a contract related to the services of development and maintenance of the information and communications system for the project e-Culture "Digitalization of cultural heritage", financed by the EU funds.

An agreement was signed with the Ministry of the Interior of the Republic of Croatia on the continuation of the implementation of the "Green Borders" project, while the expansion of activities on the adjustment of geodetic surveys for import into the cadaster infrastructure system has been agreed with the State Geodetic Administration. Furthermore, we successfully completed the first phase of the project of "Introduction of quality management system into Public Administration of the Republic of Croatia", signed with the Croatian Ministry of Justice and Public Administration in the beginning of 2020.

In export markets (excluding Ericsson market) sales revenue decreased by 7.9 percent year-over-year to MHRK 234.4 (2019: MHRK 254.6). In addition to the negative impacts of COVID-19 pandemic, business performance is additionally aggravated by the political and economic situation in certain export markets.

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

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

Within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan, the activities are ongoing on the maintenance of the national information healthcare system.

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

Ericsson Nikola Tesla's R&D Center finished 2020 with excellent results, despite the COVID-19 situation and the fact that almost during the entire year R&D worked mostly from home. All business activities and deliveries are ongoing as planned. In business segment Networks, significant features related to 5G products were delivered with a high level of quality, and at the same time we continue to enter into new areas and expand our responsibilities. Within the business segment Digital Services, new functionalities in the Cloud and in the domain Home Location Register and the Centralized User Database (CUDB) node were successfully delivered, as well as the elements related to the modernization and virtualization of Mobile Switching node. We continue to gain new responsibilities in the business segment Digital Services, related to CUDB node, and in the domain Home Location Register, and for the so called „Cloud features“. In segments of Service Area Networks, Wireline and Legacy, numerous customer support activities were successfully provided.

The satisfaction of the quality of the delivered software was confirmed at the regular semi-annual evaluation MBR/OSG (Management Business Review / Operational Steering Group) meetings, where the representatives of Ericsson's global organizations gave especially high evaluations of the work of our R&D Center.

The demand for the services of Ericsson Nikola Tesla's experts by Ericsson global/regional organizations was high throughout the entire year. The impact of pandemic on the realization of activities is limited, as it was possible to perform most activities remotely.

In addition to the projects for the customers of Ericsson Nikola Tesla Group, the experts from Services and Solutions Center for Networks participated in activities of integration and optimization of various technologies for Ericsson customers in the United Kingdom, Germany, Ireland, Denmark, Finland, Switzerland, Sweden, Czech Republic, Greece, the USA, Albania, Malta, Slovenia, Slovakia, Hungary, Bulgaria, Russia, Estonia, Turkey, Singapore, Japan, Indonesia, the UAE, Oman, Bahrain, Qatar, Iraq, Vietnam, Mexico, Thailand, Kazakhstan, Pakistan, Brazil, Malesia, etc. The work has continued on the development and implementation of software tools for management and optimization of mobile networks, which are applied in the implementation of these services in many countries /by many operators worldwide, with which Ericsson and Ericsson Nikola Tesla do business.

Experts from Services and Solutions Center for Digital Services, Media and Operations, in addition to projects for our customers, were also engaged on projects for Ericsson customers in Germany, Sweden, Switzerland, the United Kingdom, the Netherlands, Denmark, France, Luxembourg, Ireland, Norway, Lithuania, Italy, Slovenia, Poland, Greece, Albania, Australia, Tahiti, and Mexico. They are engaged in complex projects of 5G technology introduction, operational and business support systems, as well as projects of introduction of core solutions in Cloud.

The teams working in IT& Engineering Services, in addition to providing excellent support and achieving excellent results on test environment management projects and IT operations for Ericsson corporation, have a key role in our company's transformation processes. A new data information center was built which, energy efficiently, by using advanced technologies (Zero Trust Network, Software Defined Network...) creates a functional network with centralized management with fast delivery of solutions where they are needed. This expands the foundation of digital platform, optimally prepared to support security and functional

business requirements, such as transformation of business towards customers, transformation of business processes within Ericsson Nikola Tesla Group, transformation/optimization of business model towards Ericsson corporation, as well as the introduction of advanced computer algorithms in the development of intelligent digital tools (Machine Learning, Artificial Intelligence,...). Moreover, the experts of units for IT& Engineering Services have secured IT equipment and infrastructure and have continuously provided quality support for a smooth operation from home, as well as providing customer support remotely.

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

Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are aligned with the long-term business development strategic goals. 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 for the needs of our products.

The driving force behind scientific and research activities is Ericsson Nikola Tesla's Research Unit. Moreover, this unit is responsible for Ericsson Nikola Tesla's Institute that 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. Early in 2018, the implementation of Horizon 2020 (H2020) LIVING INNOVATIONS project began, 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 with the use of technology. The project's duration is three years, and all the activities are ongoing as planned. At the end of 2019, we started a 4-year H2020 project - PHArA-ON. The aim of the project is to test and consolidate platforms for technology assisted living of elderly. Our role is to help in creating system's architecture, take care of security and ensure the integration of various solutions to provide services, support to establish and operate pilot projects in three countries in Europe. Along with the issues caused by the pandemic, the project realized all the planned activities, and is ongoing as planned. We have successfully continued to work on H2020 project INSULAE, that lasts for four years, and its purpose is to apply technology to improve life on European islands. Our company participates particularly in the case for the island Unije in Croatia, where the first devices for energy consumption control in household were installed during the year. We are collaborators in the ERASMUS++ BENEFIT project, which aims at advancing telecommunication study programs in the region, and through our work, we contributed to a successful implementation of all the planned project assignments.

The company continued a quality research cooperation with the Faculty of Electrical Engineering and Computing, University of Zagreb, and a project of researching into the communication between different devices in the overall machine communication was particularly highlighted. We continued with the research into the system of radio signal transport optimization. A highlight was also given to research of new radio elements in the build of antenna systems for multiple input and multiple output of signal (MIMO), as well as the development of support for beamforming radio signals. Our employees, who are enrolled in a PhD, are included in the work on these projects, along with the Faculty Professors and the company's employees who already have a PhD. With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, we have worked on the project of optimum service positioning in complex networks. There was also research on the project of defining access networks reliability for connecting many nodes for the Internet of Things, with a special focus on use cases for critical demands in communication and decision-making, and application of multiple sensors. The projects are carried out within our research laboratory at the premises of the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split. At the University of Split, we successfully cooperate in implementing student practice with the University Department of Professional Studies.

The successful operation of the Traffic and Logistics Data Science Lab at the Faculty of Transport and Traffic Science, University of Zagreb (FPZ) has been continued. In collaboration of the Faculty, our company and the City of Rijeka, a special contribution was made by receiving a short project on the competition of the European Institute of Innovation & Technology. The project aimed at researching new methods for urban planning by using data on mobile network user movement. The received results of the project shall be used in the lab for students' practices, and potentially also in commercial projects.

The research team has continued working on analyzing big data and has worked during the year on projects of machine learning and artificial intelligence, with a highlight on personalized medicine and the application for

predicting fires. The activities 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 have continued. The activities of IoT application in the domain of environment control with a concrete case of testing drinking water have continued. An IRI project for the control of water eutrophication in rivers was submitted and accepted.

During the year, we have continued to work with our partners within the Scientific Center for Data Science and Cooperative Systems (our company is a member of this Center). We have participated in preparing projects to encourage research, development, and innovations in Croatia by establishing digital innovation hubs for the domain of Artificial Intelligence application. We have passed the local evaluation and are now waiting for the preparation for EU evaluation (application domains



We have continued with the garage project in Split that has been research in analytical methods for connecting various types of data with the aim to better predict and create AI in the field of enrichment of available sensor data, and with the purpose to reach more precise and faster conclusions and decrease the number of the necessary physical sensors. Through this research, we participate in two projects of the Croatian Science Foundation. New methods for data correlation have been established, as well as a new lab platform for fast search and reaching conclusions from various available data types.

During 2020, three projects started with a research phase within the Center of Competences (CEKOM) for Smart Cities which is led by the City of Rijeka, and we are a partner, along with other 20 members. The projects are co-financed by the European Structural Fund. We lead two projects, and through development in these projects, in the following three years, we wish to test the existing prototypes and develop new technologies for smart city management, from infrastructure to traffic, all in the purpose of a more economic and “greener” business, to a greater satisfaction and lower costs for citizens.

We have established 5G lab in Zagreb, and the preparation activities are ongoing for the realization of 5G lab in Split and Osijek.

We could not host our ETK Summer Camp this year due to epidemiological measures; however, with the preventive epidemiological measures in limited scope, we worked with the students on carrying out their students practice remotely. The Company also has two new PhDs, and as the result of the work of the Institute, more articles have been published in magazines and conferences.

Important events

2020

January-March

- At the Zagreb Innovation Center - ZICER, the book "Gender Equality in the Workplace: Macro and Micro Perspectives on the Status of Highly Educated Women" was presented, written by Nina Pološki Vokić, PhD, Alka Obadić, PhD, and Dubravka Sinčić Ćorić, PhD; Professors from the Faculty of Economics and Business, University of Zagreb. Marijana Đuzel, Director of Human Resources and Organization at Ericsson Nikola Tesla participated in a round table "Karijere i uključivanje žena – prakse organizacija u Hrvatskoj" (Careers and inclusion of women – practice of organizations in Croatia), organized as part of book presentation, where she presented the Company's good practice in this area.
- With the goal to exchange knowledge and experience, and a stronger connection between the development units, a series of presentations and discussions on technology, titled "Tech Talks" was held at the Split section of the Research and Development Center.
- On the occasion of the implementation of the Declaration on Women in Digital, the Central State Office for the Development of Digital Society organized a round table titled "Postani i TI, djevojka IT" (Become a Girl in ICT) at the Faculty of Electrical Engineering, Computer Science, and Information Technology in Osijek. The second edition of this gathering was held (FERIT), and a greater engagement of women in digital world was also supported by our company by presenting examples from practice.
- Ericsson Nikola Tesla Group 2019 business results and a business outlook and expectations for 2020 were presented at a press conference held on the Company's premises.
- Since February 25, after there was a first patient infected by COVID-19, Ericsson Nikola Tesla Group's Crisis Management Task Force starts with intensive activities, with the aim of taking care of employees' health and business continuity.
- The Ministry of Public Administration of the Republic of Croatia and a consortium headed by Ericsson Nikola Tesla, with the participation of Apsolon company, have signed a contract for the introduction of a quality management system in public administration. The contract is worth over MHRK 17 (VAT excluded), and the duration of the contracted activities is 24 months. The contracted activities include the development of an IT system which will provide support to process and quality management in public administration. The project aims to optimize and standardize a great number of processes and services in public administration.
- In export markets of Bosnia and Herzegovina, Belarus and Moldova, Ericsson Nikola Tesla signed contracts worth more than MHRK 84. The contracts cover mobile networks expansions, which will mostly be realized in 2020, as well as network maintenance in the upcoming period. We contracted network maintenance for the period of two years with the operator HT Eronet (Bosnia and Herzegovina). With the operator IDC (Moldova), IP Multimedia Subsystem (IMS) virtualization was contracted, and with the operator beCloud (Belarus) LTE network expansion.
- Considering that the earthquake that hit Zagreb on March 22 caused fire in a part of buildings of Hrvatski Telekom (HT) in Zagreb, thus significantly damaging a part of the equipment, due to safety reasons, power was switched off, which resulted in the interruption of fixed internet access. Due to the efforts of HT's employees and the employees of Ericsson Nikola Tesla Servisi, in extremely demanding circumstances, the problem was solved.
- In cooperation with the Croatian Ministry of Health, Croatian Institute for Public Health, APIS IT and Croatian Health Insurance Fund, Ericsson Nikola Tesla upgraded the Central Healthcare Information System of the Republic of Croatia, and especially its safety infrastructure, in order to enable the implementation of new, especially important web applications to fight COVID-19 infection.
- Our company donated computers to the Hospital for Infectious Diseases "Dr. Fran Mihaljević".
- Moved by the call for aid of the Croatian Students' Council, many of our employees joined the commendable initiative #studentipomazu (students help). The company donated funds for the procurement of materials, and the employees of Ericsson Nikola Tesla printed headbands for visors for the protection of medical personnel on 3D printers in Zagreb and Split.

April-June

- Ericsson global community and the jury evaluated the ideas that were received in Ericsson #HackTheVirus hackathon and selected top 10 that will be further developed. The idea of our Company's team, titled "The

Analysis of the Potential of Virus Spread by Analyzing the Movement of Citizens by Using Mobile Network Data” was listed among global TOP 10.

- University Department of Professional Studies at the University of Split started the project “Improvement and implementation of professional practice at the University Department of Professional Studies”, co-funded by the EU Funds. In the realization of this project, Ericsson Nikola Tesla participates as a project partner. The project aims to establish a service for professional practice that would advance the services of support to students, improve professional practice models, strengthen the capacities of the University Department of Professional Studies, and increase the level of students’ knowledge and skills.
- Hrvatski Telekom and our company signed an agreement based on which Ericsson Nikola Tesla is the exclusive supplier of the radio part for Hrvatski Telekom’s mobile network until 2024, by which we continue the long-term quality cooperation. This is the first 5G agreement in Croatia, and 95th 5G Ericsson agreement globally. The successful cooperation in radio part started with the network modernization two years ago and is now focused on the introduction of 5G standard in the mobile network.
- In the circumstances caused by the COVID-19 crisis, and with the observance of all protection measures, on the company’s premises in Zagreb, Krapinska 45, Ericsson Nikola Tesla joint-stock company held its General Meeting, at which all the proposed decisions were adopted.

July-September

- The longest radio relay network in the world, measuring 26.8 km, was realized in A1 Hrvatska’s network between the towns of Klis and Kamensko in the hinterland of the city of Split. This was realized on Ericsson’s equipment with 2X2 MIMO functionality implemented.
- Ericsson Nikola Tesla and the Croatian Ministry of Culture and Media signed a contract related to the services of development and maintenance of the information and communications system for the e-Culture project “Digitalization of cultural heritage”. The contract is worth approximately MHRK 12 (VAT excluded). The project is financed by the EU funds.
- In export markets, Ericsson Nikola Tesla signed several contracts valued at MHRK 20.5. In addition to the maintenance of Ipko’s mobile network in Kosovo for the period until the end of February 2023, in Belarus, the maintenance of a part of Beltelecom’s fixed network was contracted, as well as the delivery of transmission equipment for A1 in Belarus.
- Hrvatski Telekom and Ericsson Nikola Tesla Servisi d.o.o. signed an extension of the Management Services Agreement for the construction and maintenance of fixed and mobile telecommunications infrastructure, supervision of the telecommunications network, and field maintenance of the active access network and passive network. The Agreement is in force until the end of 2023, and its value is over HRK 1.6 billion. The company Ericsson Nikola Tesla Servisi is the exclusive supplier for the activities in the contract domain.
- Based on the call by the European Institute for Innovations and Technology (EIT), the Faculty of Transport and Traffic Sciences, University of Zagreb, the City of Rijeka, and Ericsson Nikola Tesla officially started a six-month project SumBOOST (Sustainable Urban Mobility Boost Smart Toolbox), worth MHRK 1.3, and 84 percent is co-financed by EU grants.
- HT Mostar and Ericsson Nikola Tesla signed a contract worth more than MHRK 29 for the upgrade of 4G/4G+ network and expansion of transport network of HT Mostar.

October-December

- The Ministry of Health of the Republic of Croatia and Ericsson Nikola Tesla have signed a new three-year Contract for the Support, Maintenance and Upgrade of the Central Part Software of the Integral Central Healthcare Information System of the Republic of Croatia. The contract comprises services of corrective and adaptive maintenance of CEZIH as a system that connects and integrates a great number of different healthcare institutions.
- Hrvatski Telekom started its commercial operation of 5G network in the areas of Zagreb, Rijeka, Split, Osijek, Samobor, and Sveta Nedjelja, and its implementation includes the technology of Dynamic Spectrum Sharing (DSS).

Ericsson Nikola Tesla concluded a business deal worth almost MHRK 370 regarding the implementation of the Central Software Platform for the Centralized e-Health System in the Republic of Belarus. The contract is the result of a two-stage bidding process within the scope of the World Bank project P156778 „Belarus Health System Modernization Project”, financed by a loan of the International Bank for the Reconstruction and Development. The contract was

Membership in associations

Whether it regards participating and working in branch associations, numerous bodies and organizations on national and international level, or quality initiatives in economic and social environment, the Group gives its contribution to positive changes in business and society. Owing to advanced practices and knowledge, Ericsson Nikola Tesla Group is very often respected as a reference point for certain areas and activities.

The Group's experts largely contribute to this through their readiness to transfer the acquired knowledge, competences, and experience, and additionally engage in various professional associations, organizations, scientific institutions, etc.

In addition to compulsory memberships in umbrella institutions prescribed by law, the Group is also a regular member of the following organizations:

- Croatian Chamber of Economy
- Croatian International Chamber of Commerce – ICC Croatia
- Community for CSR at Croatian Chamber of Economy
- 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 Scientific Association for Traffic
- 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
- The Croatian Competition Law and Policy Association
- and other.

Initiatives

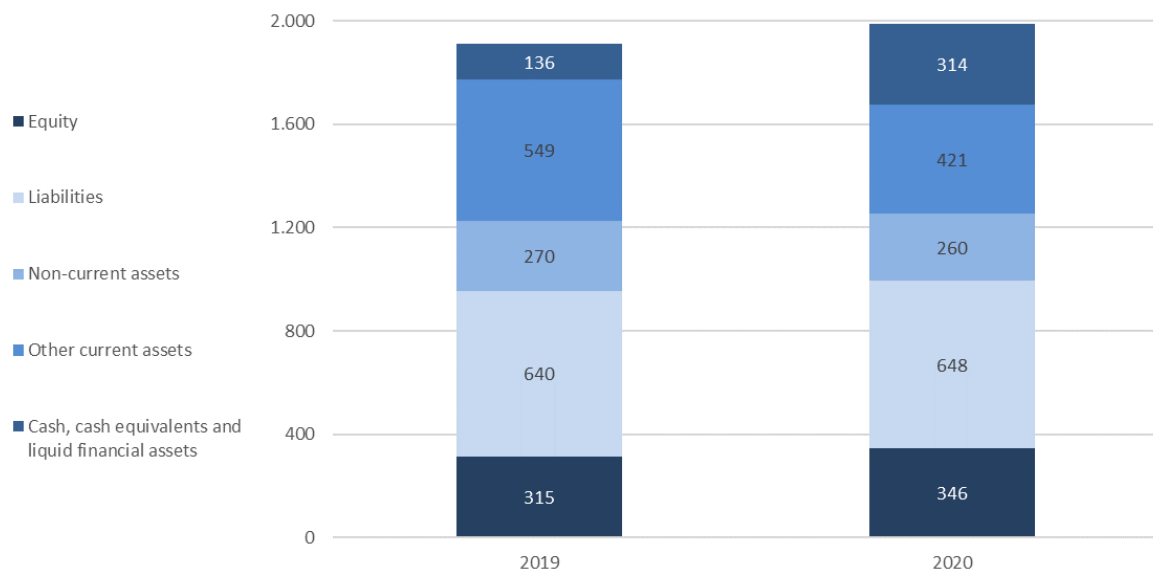
Ericsson Nikola Tesla participates in the following socially important initiatives and platforms:

- 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 2020

| | Ericsson Nikola Tesla Grupa | | | Ericsson Nikola Tesla d.d. | | |
|--|-----------------------------|-------|-------|----------------------------|-------|-------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Income statement and cash flow items (in HRK million) | | | | | | |
| Sales revenue | 2.023 | 1.779 | 1.558 | 1.417 | 1.545 | 1.374 |
| Selling and Administration expenses | -84 | -82 | -73 | -73 | -75 | -66 |
| Operating profit | 104 | 103 | 120 | 82 | 94 | 117 |
| Profit for the year | 95 | 103 | 114 | 76 | 96 | 112 |
| Operating cash flow | 308 | 69 | 75 | 276 | 40 | 81 |
| Year-end position (in HRK million) | | | | | | |
| Total assets | 994 | 955 | 840 | 786 | 897 | 819 |
| Cash, cash equivalents and liquid financial assets | 314 | 136 | 236 | 279 | 121 | 231 |
| Capital employed | 425 | 395 | 326 | 372 | 352 | 305 |
| Equity | 346 | 315 | 305 | 307 | 294 | 291 |
| Per share indicators | | | | | | |
| Earnings per share (EPS) in HRK | 71 | 77 | 85 | 57 | 72 | 84 |
| Dividends per share | | 49,0 | 70,6 | | 49,0 | 70,6 |
| Number of shares outstanding, average (in millions) | 1.331 | 1.331 | 1.332 | 1.331 | 1.331 | 1.332 |
| Other information (in HRK million) | | | | | | |
| Additions to property, plant and equipment | 45 | 68 | 40 | 41 | 65 | 39 |
| Depreciation of property, plant and equipment | 35 | 36 | 34 | 31 | 32 | 29 |
| Alternative Performance Measures (APMs) | | | | | | |
| Gross margin | 8,6% | 9,2% | 9,1% | 10,2% | 9,9% | 10% |
| Operating margin | 5,2% | 5,8% | 7,7% | 5,8% | 6,1% | 9% |
| EBITDA Margin | 7,9% | 9,0% | 9,9% | 8,8% | 8,7% | 10,7% |
| Return on equity (ROE) | 28,6% | 37,3% | 42,0% | 25,5% | 36,9% | 43,5% |
| Return on capital employed (ROCE) | 23,1% | 31,1% | 38,4% | 21,1% | 32,1% | 40,7% |
| Return on sales (ROS) | 4,7% | 5,8% | 7,3% | 5,4% | 6,2% | 8,1% |
| Equity ratio | 34,8% | 33,0% | 36,3% | 39,1% | 32,8% | 35,5% |
| Capital turnover | 4,9 | 5,4 | 5,3 | 3,9 | 5,2 | 5,0 |
| Current ratio | 1,3 | 1,2 | 1,3 | 1,3 | 1,2 | 1,2 |
| P/E ratio | 21,1 | 18,2 | 11,8 | 26,1 | 19,5 | 12,0 |

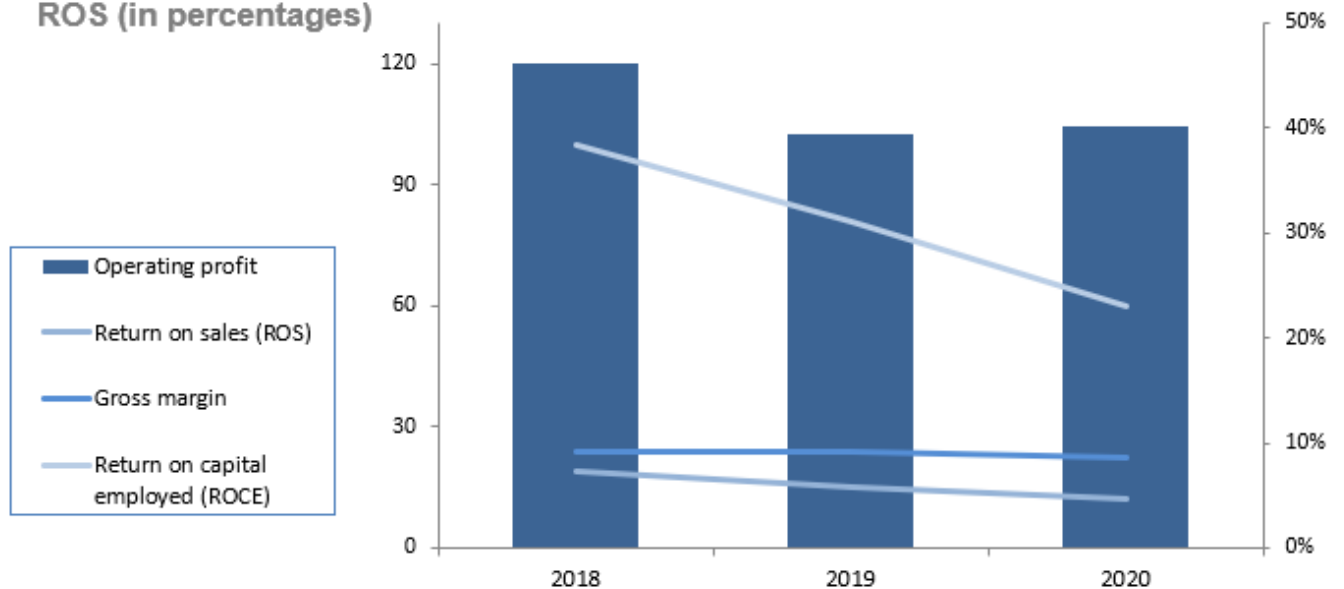
Balance sheet structure (in MHRK)



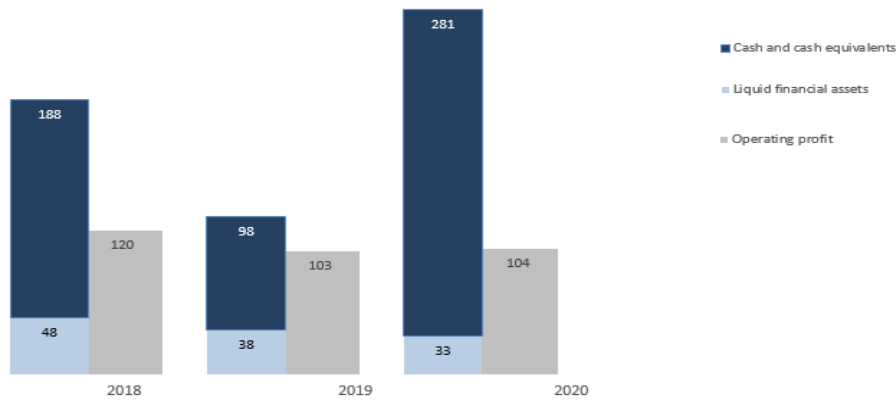
Balance sheet structure (in MHRK)

Equity
Liabilities
Non-current assets
Other current assets
Cash, cash equivalents and liquid financial assets

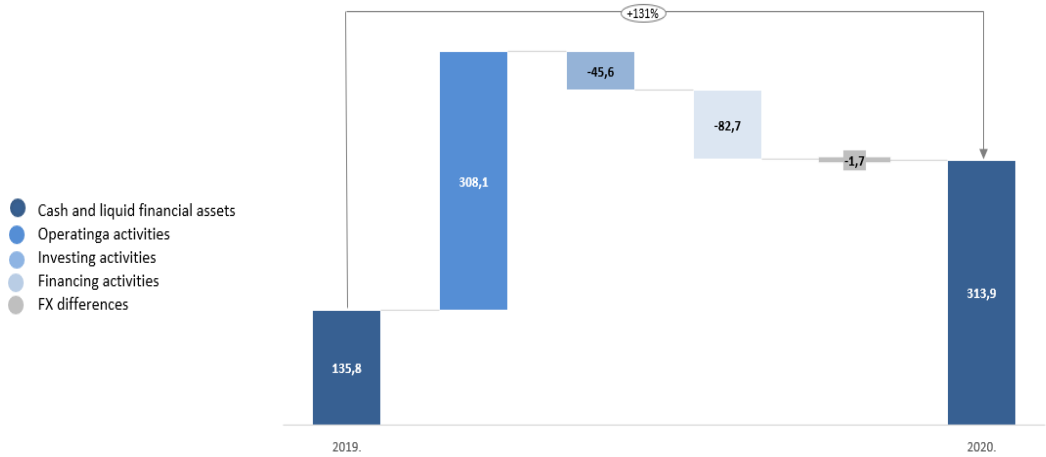
Operating profit (in MHRK), Gross margin, ROCE and ROS (in percentages)



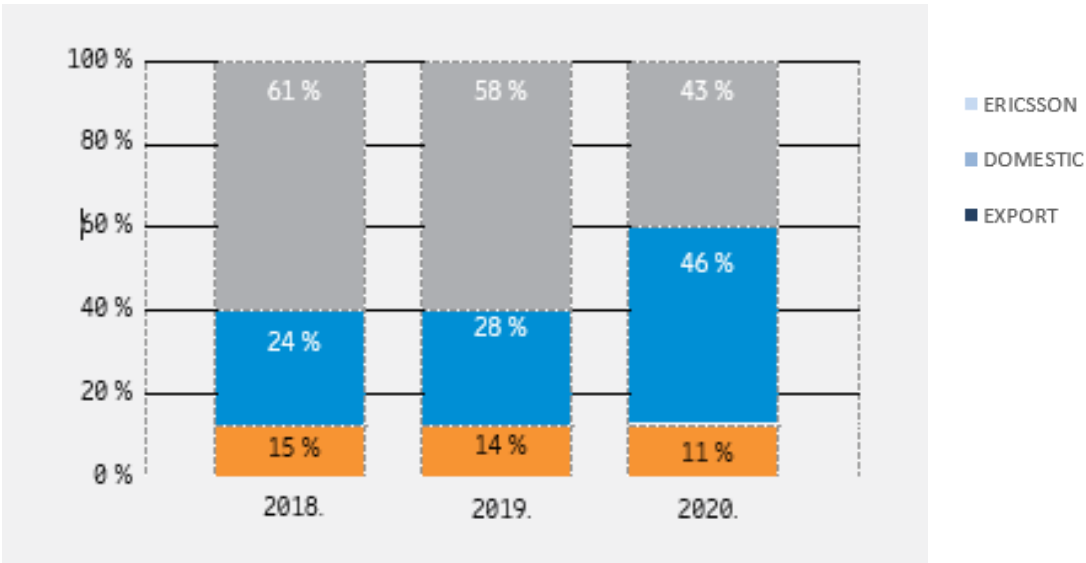
Development of liquid assets and operating profit
(in MHRK)



Change in liquid assets (in MHRK)



Sales revenue



Financial performance in 2020

Looking at Ericsson Nikola Tesla Group's results in 2020, we can say that we successfully overcame all the challenges related to the extraordinary circumstances that were caused by the COVID-19 pandemic and earthquakes.

Managing crisis situations, risk management system, company's processes, and first and foremost the competences and motivation of our employees, showed that we are ready to minimize the impacts of such events, and secure Group's stable business performance. We have demonstrated the ability to adapt and to quickly respond in challenging circumstances, thus securing a stable business performance.

The quality business performance in 2020 is the result of focus on several key areas: (i) securing new contracts within focus areas, defined in our strategy, (ii) securing the delivery of projects, with a highlight on optimization of project costs, securing collection, and working capital optimization, (iii) optimization of company's costs and focus on business critical investments, (iv) providing best in class R&D and other services and (v) company's cash flow.

During the entire year, we have continued a successful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and commercial partner banks.

Through our achievements in key projects, activities, and segments, we have justified our position of a recognizable brand in ICT area and a technology leader in Croatia and in our export markets. Such a development of the situation in the markets led to a total increase in sales by 13.7% year-over-year, with the largest increase in Croatia, and a stable business performance towards Ericsson and export markets. In addition to the increase in sales, in 2020 the Group realized a stable gross and operating margin. Gross margin is 8.6 %, representing a decline of 0.6 pp year-over-year. The Group's gross margin is stable, considering business mix and sales growth in managed services. This is the result of Group's focus on transition and transformation within the project of managed services with HT, and on the profitability project. It is precisely through this program that we have optimized costs on all other projects, as well as company's investments and operating expenses. Operating profit increased by 1.8% year-over-year to MHRK 104.4. Despite an increase of general and administrative expenses related to the support of growing business with different business mix and along with the necessary transformations, as well as presales activities regarding 4G/5G radio access and core networks, we can say that operating profit is stable. Net profit amounts to MHRK 94.5, down by 7.8% year-over-year due to lower gain from financial activities and less tax incentives. Return on Sales is 4.67%.

The balance sheet reflects the stability of business performance and is at the same level as last year's results. Significant changes are visible in working capital and cash and cash equivalents. The trend of changes in working capital shows decrease, because of high level of realization of complex network modernization projects that usually require an increased engagement of working capital during their implementation. Consequently, and additionally driven by our focus on cash collection and control of cash outflow, the available cash and cash equivalents show a significant increase year-over-year, and represent a healthy base for further business investments, and continuous need to invest in our employees. The level of effort and complexity of other projects are still visible in the Group's balance sheet as a significant amount of working capital engagement, and therefore, we are still focused on maintaining high performance, quality and savings in the areas where this is optimal and necessary, and especially taking into account the COVID-19 situation. The energy efficiency project was successfully completed, and now it remains for us to meet the project-related financial obligations. We expect to see the results of this project, i.e. return on investment, in the form of savings in the upcoming years.

The Digital Transformation continues, and the course of the project so far resulted in decisions on the necessary changes in the existing processes, and decisions on further investments in infrastructure and applications, and the aim is to enable the development of strategic knowledge and skills required for quality operation in all areas, and also in the area of support to the overall business and business reporting process.

A continuous focus on our own transformations with clearly defined goals, the ability to adapt and quickly react to unexpected circumstances, as well as the motivation and dedication of our employees secured excellent results in a challenging 2020. Taking additionally into consideration our belief in the importance and the long-term perspective of ICT industry, and a significant role that we have, the Group is ready for a challenging and unpredictable 2021.

Damir Bušić
Director Finance Sourcing & Comm. Mgmt

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 2020, share price increased by 7.14%. At the end of 2020, Ericsson Nikola Tesla's market capitalization was MHRK 1,997.5 (end of 2019: MHRK 1,864.3). In regard to the free float market capitalization, Ericsson Nikola Tesla is ranked ninth on the Zagreb Stock Exchange, with MHRK 1,016.7, representing 3.2% of the total free float market capitalization. At the end of 2020, Ericsson Nikola Tesla's share weight in CROBEX Index was 10.9%. Ericsson Nikola Tesla's share was the fifth most traded share on the Zagreb Stock Exchange with a turnover of MHRK 121.1 (2019: MHRK 58).

Average ERNT-R-A share price trend 2016 – 2020 (in HRK)

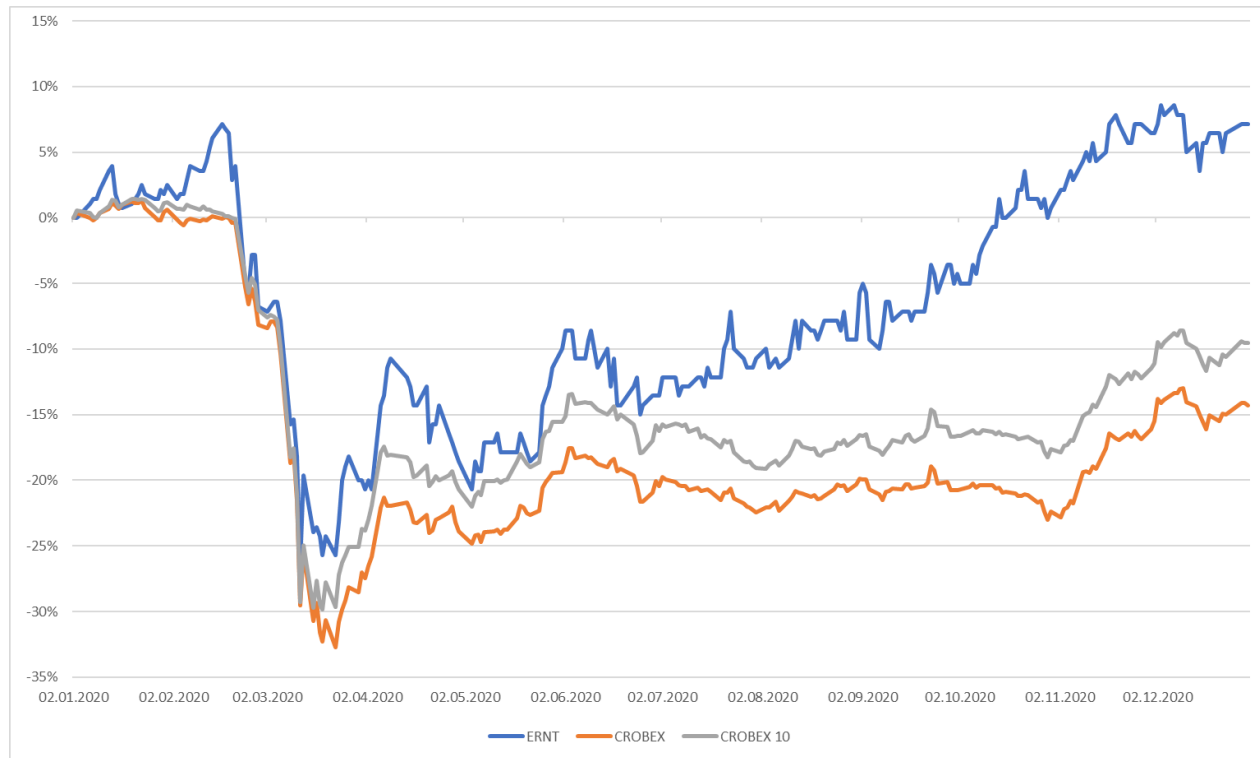


The Company won the Zagreb Stock Exchange awards in two categories: the share with the largest increase in turnover and the largest increase in price. The awards of the Zagreb Stock Exchange are traditionally presented every year in December with the aim of strengthening the visibility of the capital market and its active participants among the financial and general public.

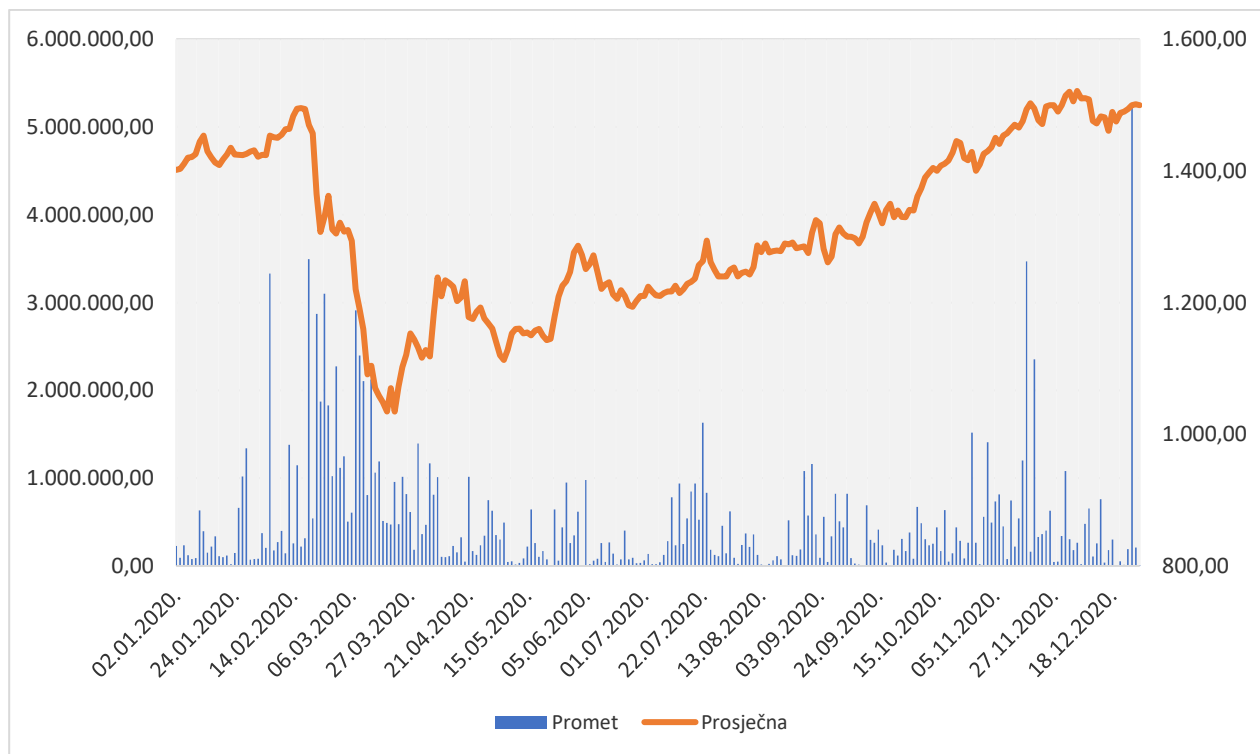
| Share price and turnover | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|----------|----------|--------|--------|--------|
| <i>Highest (HRK)</i> | 1,177.99 | 1,444.00 | 1,240 | 1,415 | 1,530 |
| <i>Lowest (HRK)</i> | 940 | 1,066.51 | 976 | 972 | 1,020 |
| <i>Last - end of year (HRK)</i> | 1,164 | 1,203.99 | 1,010 | 1,400 | 1,500 |
| <i>Turnover (in MHRK)</i> | 53.2 | 55.1 | 39.3 | 58.0 | 121.1 |
| <i>Trade volume</i> | 49,628 | 43,312 | 36,116 | 49,652 | 93,010 |
| <i>Dividend per share (HRK)</i> | | | | | |

* The dividend proposed to Ericsson Nikola Tesla's General Meeting

ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indexes in 2020



ERNT-R-A share trading volume and average price trend in 2020 (in HRK)



Capital market in 2020

In March 2020, US indexes suffered the fastest decline since 1987 due to the culmination of the spread of coronavirus and related serious impacts on the global economy. The companies worldwide were faced liquidity issues and the inability to deliver the announced quarterly results. Record increase in unemployment rate in the US also contributed to the decline. Accordingly, in March, the main indexes recorded the following decline in value: NASDAQ Composite (-10.12%), Dow Jones (-13.74%), S&P 500 (-12.51%). Negative impact was also felt in Europe, where the situation was most dramatic in Italy and Spain. On a monthly level, the leading European indexes realized the following results: German DAX (-16.14%), French CAC40 (-16.42%), FTSE100 (-15.45%).

Croatian stock market responded strongly to current, as well as the potential negative consequences of the pandemic to Croatia's economy. In March, CROBEX recorded a strong decline of values on a monthly level (-20.55%).

After suffering the initial decline, stock markets recovered, which was initiated by a certain optimism of the further course of the pandemic, and by many monetary and fiscal measures to support the market and the economy on a global scale, and the assessments of some investors that share price levels represent a good opportunity for long term positioning. Thus, as early as April, stock markets recorded a respectable growth, for example NASDAQ Composite (15.45%), Dow Jones (11.08%), S&P 500 (12.68%). This optimism was also felt in Europe, and therefore on a monthly level European indexes recorded the following: German DAX (8.93%), French CAC40 (3.03%), and British FTSE100 (6.07%). The leading stock indexes went back to the levels that were approximately halfway between the highest values in February and the lowest values in March. However, the entire year was marked by investors shifting from the sectors that were most impacted by the pandemic, which resulted in great shifts in capital markets.

Investors' understanding that COVID-19 pandemic brings more benefit than harm to the companies in the technology sector, such as Apple (AAPL), Amazon (AMZN) or Microsoft (MSFT), initiated a strong growth of Nasdaq 100 index (which is dominated by such technology giants) throughout several months. Moreover, a combination of historically low interest rates and stimulative conditions of monetary and fiscal authorities created an environment in which the index was repeatedly breaking new records during summer, and in spite of corrections in September and October (when, due to the lack of reaching the fiscal package of help in the US and selling-off shares of the technology sector, as well as the re-introduction of restriction measures in some European countries due to a sudden increase in the number of new cases of COVID 19) realized a strong growth (+ 46.6%) in 2020. A strong growth of Nasdaq100 index components pushed the growth of the overall US market, measured by S&P 500 index, to historically highest levels. On the other hand, European indexes did not record significant movements due to a weaker representation of technology sector in comparison to the US indexes.

Following the growth of global indexes, CROBEX strengthened by 8.1 percent in November, which is the best monthly result since January 2013 when, waiting for Croatia to join the EU, the index went up by 8.5%.

However, if we observe the period from the beginning of 2020, some of the domestic indexes weakened between -7.5% and -10%, while CROBEX and CROBEXtr declined by -13.8%, i.e. -12.5%. Some indexes ended the year with significant growth, for example CROBEXindustrija (+9.19%) and CROBEXkonstrukt (+61.74%). CROBEXturist slightly went up by +0.60%, which, however, was somewhat optimistic for one of the sectors that was most hit by crisis.

How did Ericsson Nikola Tesla's share (ERNT-R-A) behave in CROBEX-indexes environment?

By observing the price range during 2020, we can conclude that ERNT-R-A share in the first half of 2020 mainly followed the trend of CROBEX indexes, however, did not have respond equally strong. Mid-March till the end of 2020, share price increased by 45.6%, which significantly surpasses the values of CROBEX indexes in the same period.

Share capital

As at 31 December 2020, Ericsson Nikola Tesla joint-stock company had a 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 General Meeting. The total number of treasury shares at the end of 2020 was 406, representing 0.03% of the share capital. The shares were owned by 6,590 shareholders.

Shareholders

Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2020

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



Non-financial report

About the non-financial report

This non-financial report describes Ericsson Nikola Tesla Group's CSR activities in 2020. The report and additional information are available on the website of the mother company and affiliated companies that comprise Ericsson Nikola Tesla Group. On its corporate social responsibility, the Group has been informing the public and stakeholders in a regular, true and documentary manner.

Sustainable development and social responsibility are an integral part of our Long-Term Business Strategy and are the pillars of sustainability and responsibility, embedded in all our business processes and activities. All our employees are fully focused on the implementation of the triple bottom line of responsibility: financial, environmental, and social. Our goal is to create positive impacts on our business performance and to all our stakeholders through our business. At the same time, we strive to successfully manage all types of business risks, especially environmental, social, and ethical. Our key priority is to be an example of responsible and transparent entrepreneur 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 suggests 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 finally encourages long-term competitiveness.

Report boundaries

All the information and data mentioned in the report, unless stated otherwise, relate to the activities and projects undertaken from 1 January 2020 to 31 December 2020. 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. 2020 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 2020 and it comprised the data for 2019. This non-financial report has not been subject to an external verification, however, it has been sent to auditors before they give their Independent Auditor's Report on the Audit of the Financial Statements.

Reporting principles

Sustainability and social responsibility principles are applied in all segments of our business operations. The Group reports on its sustainability and the effect of corporate responsibility in line with globally recognized standards and principles to provide the stakeholders with all the required information about the Group's activities in this area. This report was 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 principle of stakeholder engagement, sustainability context, materiality and completeness, as well as response and impact, help the Group to define the content of the sustainability and social responsibility report. 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 on www.ericsson.hr. Moreover, 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.

We are committed to achieving global goals

1. 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.

2. 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.

3. Good health and well-being

We continue with the intense activities in eHealth in Croatia and abroad. With the Croatian Ministry of Health, we have signed a new three-year Contract for the Support, Maintenance and Upgrade of the Central Part Software of the Integral Central Healthcare Information System of the Republic of Croatia (CEZIH). We are also working on the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus.

4. Quality education

By including students into concrete projects in the Company, as well as projects in cooperation with the academia, we achieve synergy potential for all stakeholders. In addition, within the implementation of the project "Improvement and implementation of professional practice at the University Department of Professional Studies", University of Split, which is co-funded by the EU funds, we participate as a project partner.

5. 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 equal participation of women in ICT.

6. Clean water and sanitation

Together with our partners, we are working on several solutions related to the digital monitoring of environmental quality by using the state-of-the-art technologies that, among other things, enables up-to-date monitoring of physical and chemical parameters of water.

7. Affordable and clean energy

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

8. 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 we give them rightful, regular and competitive salaries.

9. Industry, innovation and infrastructure

In global Ericsson teams, we work on the solutions related to 5G, which is becoming the most important open innovation platform for the development of industry and society. We are taking over new responsibilities in the field of improving the quality of telecom infrastructure of our strategic partners, which indirectly also enables new services and a better quality of life for their end-users.

10. Reduced inequalities

In the project of increasing energy efficiency of our campus, we have dedicated special attention to placing tactile stripes that enable movement for people with visual impairments. Moreover, we deliver microwave transfer technology to our customers, which is the prerequisite for the introduction of 5G network also in the rural areas, and on the islands.

11. Sustainable cities and communities

Together with the City of Rijeka and the Faculty of Transport and Traffic Sciences, University of Zagreb, we have been working on the project SumBOOST, majority of which is financed by the EU grants, with the aim of creating a new strategic foundation for the realization of measures in the field of sustainable forms of urban mobility.

12. Responsible consumption and production

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

13. Climate action

We have successfully implemented the project "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d." co-financed by the EU funds from the European Structural and Investment Funds - one of the biggest projects of this kind in Croatia. This will enable us to significantly reduce our total energy consumption and carbon footprint.

14. Life below water

By systemic education of our employees and, based on our example, the wider public as well, and through corresponding process activities in which we also include our suppliers, we reduce the use of harmful chemicals and single-use plastics, and point out to an urgent need to reduce the pollution of rivers and sea.

15. Life on land

Environmental sustainability aimed at reducing pollution and preservation of life on land is an integral part of our business strategy. This is achieved through responsible management of impacts from our own activities and through a product portfolio with a focus on innovative 5G solutions that will significantly contribute to the preservation of ecosystem on land.

16. Peace, justice and strong institutions

By developing solutions for state green borders monitoring, as well as for other security aspects, we provide an opportunity for a more efficient work of institutions, and a safer life.

17. Partnerships

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 sustainability

The purpose of Ericsson Nikola Tesla Group's business performance is to empower an intelligent, sustainable, and connected world. Sustainability is embedded in all the Group's activities and processes and represents a foundation for creating business values. The focus on sustainability and responsible business performance helps us in realizing two main goals: creating positive impacts, and reduction of all types of risks. We wish to be a responsible and relevant driver of positive changes in the society.

Sustainability as a new value creator

Integration of sustainability and responsible business practice makes the Group's business more efficient long-term. Focus on energy efficiency of products that we offer to the market helps the operators we do business with to reduce the costs of their networks, and also supports positive social and ecological effects in the society. The aim of our endeavors is to improve all the characteristics in a business chain, create new value, and make our brand different from our market competitors.

Doing business responsibly

Doing business responsibly is the primary mark of the Group's long-term strategy, as well as our company culture. Respecting human rights on all levels of our business operations is in line with The United Nations Guiding Principles on Business and Human Rights. We believe that responsible business and reaching the right decisions during the whole value chain is crucial for the Group's business success. In addition to the team that is responsible for compliance, each Group's employee is responsible for implementing compliance in all activities and processes in which the person participates in. We form partnerships with all target groups and do business with integrity and transparency on all our markets.

Technology as a driver of positive changes

At Ericsson Nikola Tesla, we believe that communication is a basic human need and that technology is the key driver of positive changes, which are important for society's sustainable development. Therefore, it comes as no surprise that over many years the society has recognized our company as a relevant and responsible leader of digital transformation process.

Strategy implementation and harmonization

ICT industry plays an important role in the process of implementing UN Sustainable Development Goals and fulfilling the obligations foreseen by the Paris Agreement on Climate Change. As a responsible and relevant driver of positive change in the society, in our organization, we use 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 goals set, bringing thereby benefits to all the people in society.

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; 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- the key area of our business activities.

Setting goals

Aligning our goals to the UN Sustainable Development Goals is nowadays necessary more than ever because 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 annual 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 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.

SUSTAINABILITY STRATEGY

Our strategy integrates sustainability and corporate responsibility, thus creating prerequisites for an active role in implementing society's digital transformation and creation of new value for all stakeholders. The Group measures and evaluates its ecological, social and economic impacts. Activities regarding these areas represent a continuous journey, and implementation of strategy covers three main areas:

Doing business responsibly

Ericsson Nikola Tesla Group wishes to continue to develop responsible business practices to strengthen its position as a reliable partner with all relevant stakeholders. We are proactive in many activities that encompass much more than complying with the law, and we continuously conduct programs in areas such as human rights, anti-corruption, occupational health and safety, impact of radio waves on health, as well as responsible supplier chain management.

Environmental sustainability

Through a circular economy, we wish to enable solutions and services that will contribute to the creation of a new value in business and positioning of the Group on the market.

Digital engagement

By implementing innovative ICT solutions, Ericsson Nikola Tesla Group creates prerequisites for the availability of mobile broadband for all people.

10 Hot Consumer Trends 2030

The 10 roles consumers expect connected intelligent machines to have in 2030 everyday life.



01. Body bots

Get a power-up – 76 percent of consumers predict there will be intelligent posture-supporting suits.



02. Guardian angels

Three-quarters believe that privacy guardians will help fool surveillance cameras and block electronic snooping.



03. Community bots

Seventy-eight percent believe electronic watchdog services will alert neighborhood allies to any trespassers.



53min
Optimal
posture



07. Connectivity gofers

Smart signal locators will be able to guide you to optimal connectivity spots, say 83 percent of consumers.



08. Baddie bots

A baddie bot that can be trained to carry out burglaries or attack other people is wanted by 37 percent of AR/VR users.



09. Media creators

Machines will curate content. Sixty-two percent think game consoles will make original games based on their gameplay.





04. Sustainability bots

Future weather will be extreme – 82 percent believe devices will share data and warn about local rain torrents or heat blasts.



05. Home officers

WFH uninterrupted – 79 percent say smart speakers will project noise-canceling walls around the home office space.



06. Explainers

More than 8 in 10 predict automated financial management systems that explain how your investments are handled.



10. Bossy bots

Around 7 in 10 believe that social network AIs will understand your personality and build up a circle of friends that is good for your mental and physical wellbeing.



Our vision is that advances in AI and cellular communications technology will enable connected intelligent machines to securely communicate across the networks of tomorrow.



ericsson.com/consumerlab

Engagement of our stakeholders

Through a continuous two-way communication, Ericsson Nikola Tesla has a meaningful dialogue with all stakeholders and builds relationships that contribute to the achievement of joint goals, important for Group's sustainable development, as well as the community in which we operate.

By including stakeholders and engaging in a dialog with them about the topics of common interest, we build mutual trust and gain an 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 of 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 stakeholders' opinions in other ways, such as individual meetings, consultations, collaboration in the field of research 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 the 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.

We

| 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 that have a positive impact on business, peoples' lives, and the environment, including climate change 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 |
| 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 from the aspect of risk management |
| Suppliers and Partners | <ul style="list-style-type: none"> Joint efforts to improve the supplier chain Knowledge transfer Regular inspection of compliance and the system of management of quality, environment, OHS |
| Unions | <ul style="list-style-type: none"> Partnership Consulting and engaging in the decision-making process Supporting union work, including care for the interests of its members |
| Business and professional associations | <ul style="list-style-type: none"> Participating in activities and communication Exchanging knowledge, experience and good practice |
| 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 through joint projects, etc. Transfer of knowledge about the latest technologies Financial aid |
| Community | <ul style="list-style-type: none"> Knowledge exchange Support and collaboration in local initiatives Financial aid |

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 material topics

To ensure solid foundations of sustainable corporate social responsibility, Ericsson Nikola Tesla Group regularly evaluates its key economic, ecological and social topics. 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 and aims to:

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

In 2020, during the evaluation process, we have focused on identifying 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 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 and 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 implement new management procedures to ensure business sustainability and responsibility and focus on priorities. We actively include stakeholders in these topics to discuss and mitigate possible risks, as well as to optimize 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.



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

Doing business responsibly – every activity matters

Ericsson Nikola Tesla Group and all its employees have a responsibility and commitment to the highest level of integrity and ethics in doing business. Integrity and ethics are an integral part of the company 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.

Our goal is to build company culture with a strong focus on compliance and ethics. We aim to be a responsible and relevant driver of positive changes within communities, organizations, and society at large.

All stakeholders that have a contractual relation with the Group, as well as all employees, are required to adhere to the Ericsson Nikola Tesla Group's Code of Conduct for Business Partners and Ericsson Nikola Tesla Group's Code of Business Ethics in their daily operations. These documents can be found at: <https://www.ericsson.hr/en/company-governance>.

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 Risk and 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, as well as social and corporate 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 for Business Partners, 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 policies and directives, manage risks, and achieve our goals.

Code of Business Ethics

Creating a transparent environment in managing business is the Group's 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
- respecting human rights throughout our business operations
- occupational health and safety
- promoting sustainable development
- support to the United Nations Global Initiative, as stated in the Code of Conduct for Business Partners.

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

- the ensuring of absolute compliance with all valid laws, rules, and regulations
- promoting complete, fair, accurate, timely and comprehensible publication of data in financial reports and other public statements
- resolving potential conflicts of interests adequately
- protecting and using assets appropriately.

The Code emphasizes our zero tolerance for all types of corruption. All employees are obliged to read and sign the Code now they become employees of the company and occasionally during the time spent working for the company.

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.

Compliance Officer

Monitoring compliance on the Group level, especially when it comes to anti-corruption and the implementation of the principles of fair-trade competition, is carried out by the Compliance Officer. This is a person who reports to Ericsson Nikola Tesla Audit Committee and Supervisory Board and participates in the work of Risk and Compliance Board.

Personal Data Protection Officer

The implementation of the regulations regarding personal data protection, especially the Privacy and Electronic Communications Directive (ePrivacy Directive) is managed by the Personal Data Protection Officer, who reports the Management Board about it.

Reporting non-compliance

Employees, suppliers, customers and other partners, associated with Ericsson Nikola Tesla Group, can report a suspected breach of a law or the Code of Business Ethics to the local executive manager, Compliance Officer or a Person of Confidence, as described on the web page: www.ericsson.hr/en/company-governance.

This page describes how to submit a report anonymously by using the Compliance Line. 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. The system for anonymous reporting is user-friendly. 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 Risk and Compliance Board and Audit Committee (a body of a Supervisory Board), who determine the ways of further handling the report.

In 2020, there were no confirmed incidents of corruption.

Education for employees and suppliers related to conducting business responsibly

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 2020, all active Ericsson Nikola Tesla Group employees completed the anti-corruption course via 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 and continued with the introduction anti-corruption courses for new employees, with the aim 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.

Managing business risks

In the process of creating and preserving values, the organization meets with numerous unexpected circumstances, derogations from planned patterns of behavior, business acceptable practices, etc. An important stronghold to overcome the mentioned negativities is a quality established process of integrated management of business risks - Enterprise Risk Management (ERM). The Group's Business Risk Management is an integral part of Management System, with the purpose of a more efficient corporate governance.

Risk and Compliance Board

This body has the main jurisdiction. The work of the Board includes monitoring risks and compliance and ensuring harmonization and risk mitigation. The Management Board, Executive Management, Risk and Compliance Board and line managers of all organizational units of the Group take into account on compliance with the directives.

The Management Board, Executive Leadership and Risk and Compliance Board monitor and regulate the following areas through specific elements:

- Human Resources:

compliance regarding labor relations and Workers Councils matters, compliance with the Code of Business Ethics, review business practice to avoid the risk of employee claims, due to discrimination (sex, disability, age, sexual orientation, religion, etc.), compliance with laws on immigration and posted workers, compliance of obligations related to pensions.

- Finance:

preparation and filing statutory accounts with local authorities; compliance with accounting standards and IFRS, compliance with tax laws and filing appropriate returns to authorities, compliance with the Group Authorization policy and Code of Conduct, compliance according to Group Code of Conduct and the Supply chain directive, suppliers' compliance with the Ericsson Nikola Tesla Code of Conduct for Business Partners, environmental and Occupational Health and Safety requirements, suppliers' compliance with anti-corruption requirements by continuous supplier integrity screening and requests of due diligence reports.

- Sales & Trade Compliance:

sales compliance with the Group Sales directive, handling of approval requests related to Sensitive Business Areas, as well as Government and Defense business; trade compliance with local laws, including administration of import/export licenses.

- Legal:

compliance to statutory, regulatory, and contractual obligations, requirements in the areas of Anti-Bribery & Corruption, Competition Law, compliance with Corporate law, Data Protection and IPR.

- General Services:

compliance according to security directives and legal obligations according to Croatian laws, compliance with ISO 27001 and ISO 9001, compliance with insurance requirements and insurance claims notification; compliance to lease arrangements and local laws related to activities at company's sites in the country.

- Communications & Corporate Social Responsibility (CSR):

compliance according to policies and directives of Ericsson Nikola Tesla Grupe, directives of the Marketing, Communications and CSR, as well as Croatian laws and regulations (Securities Market Act, ZSE rules, etc.), corporate communications and investor relations, including transparent and fair reporting, managing risk, i.e. perception in relation to brand, external/internal and crisis communications, compliance with Donation and Sponsorship directive;

managing risk in relation to Occupational Health and Safety (OHS) matters; evidencing and auditing compliance with OHS policy, law and best practice; compliance with ISO 14001 and OHSAS 18001/ISO 45001.

- Business Partner Review Board

Based on the inputs gathered through screening process done by Sourcing and Finance, this Board decides on compliance matters related to business partners, with which the Group or a subsidiary does, or intends to do business with.

The Head of each unit is responsible for each of the mentioned areas. It is important to highlight that Board proposes to Management Board and Executive Management the decisions regarding the approval or rejection of business relations with a business partner and/or a specific deal structure, should it in the discretion of the board be deemed that it would pose a compliance risk which cannot be mitigated.

Adequate methods and measures

To successfully manage risks, an integrated approach is needed. By linking culture, means and practices with strategic goals and their execution, a framework is created to manage risks in certain scenarios with the aim to create, realize and retain values.

Group's risk management includes an operational and process dimension, and the primary risks are defined as:

- strategic
- business
- operating
- financial
- security (IT, people, premises)
- reputational and compliance.

Always staying cautious

The ERM process itself has three lines of defense:

- The first line of defense refers to carrying out control and measures of internal control in regard per certain organizations. The holders are line managers, as the owners of responsibility for a certain risk, and the risk is related to their area of operations.
- The second line of defense refers to the control of central risk and compliance. The holders are the Management Board, Executive Management and Group's Risk and Compliance Board, in a way that they are support to the owners of a certain risk in reaching policies, but also helps to define goals and actions with risks that are multi-functional. These are the risks that appear in several various functions at the same time, such as sourcing, sales, payments, safety, quality, etc. In order for the defense to function, all risk owners must regularly share information about the status of a certain risk with the Risk and Compliance Board, and which are regularly monitored and mitigated on the meetings of Executive Leadership.
- The third line of defense refers to independent internal evaluation. The holder is an independent internal evaluator, and the function of the Holder is currently being implemented. In an environment of a developed network in the first and second line of defense, like this one, which is applied in the Group, its function will include the work on the improvement of the existing models of work, a contribution to corporate governance and evaluation of efficiency of the first and the second line of defense against risks. Regardless of the status of the third line of defense, all the key risks are addressed at the meetings of the Company's Executive Management and the Supervisory Board.

For a positive status of defense, all included stakeholders need to have a deep understanding of the types of jeopardies. A comprehensive internal and external communication regarding risks greatly helps in achieving this. Detailed information can be found at Internet and Intranet pages within the content related to management, i.e. management model.

Corporate governance

Corporate governance describes the way in which the rights and responsibilities are shared between the Company's 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 and Company's sustainability.

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 regulations that affect the management of the Company. The most significant regulations that apply to us, are:

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

Internal rules

Furthermore, in order to ensure compliance with legal and regulatory requirements and high standards we set, Ericsson Nikola Tesla 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 Company's 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 crucial for maintaining trust and credibility towards our customers, partners, employees, shareholders, and 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 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.

The Company's bodies

The 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 managing of the Company. The Management Board of the Company consists of one member, appointed by the Supervisory Board. The Management Board manages the Company's business under its own responsibility with the support of Ericsson Nikola Tesla's Executive Management. 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.

General Meeting

General Meeting of shareholders 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, policy of remuneration and the reports on the remuneration for the members of the Management Board and the members of the Supervisory Board, 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 the General Meeting, the decisions are reached by the majority of votes cast (simple majority), unless prescribed by law or the Articles of Association that it needs a larger majority. For example, the Companies Act defines that the decisions reached at the 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 General Meeting.

Ericsson Nikola Tesla's General Meeting is held in Zagreb, at the Company's headquarters. The date, time and place of the General Meeting, as well as the respective agenda, are published on Ericsson Nikola Tesla's web page no later than a month before the 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 General Meeting, can exercise their right to vote by proxies. All documentation related to the General Meeting is available in Croatian and English.

The shareholders attending the General Meeting are entitled to ask questions regarding the Group's business performance.

Normally, the majority of members of the Supervisory Board, Management Board and Executive Management are present at the General Meeting to answer such questions.

External auditor attends the General Meeting.

Ericsson Nikola Tesla's General Meetings in 2020

In the conditions caused by COVID-19 pandemic and with the observance of all epidemiological measures, in the Company's premises in Zagreb, Ericsson Nikola Tesla held its Regular and Extraordinary General Meeting.

The Regular General Meeting of the joint stock company Ericsson Nikola Tesla was held on June 26, 2020. The share capital was represented in the amount of HRK 89,870,700, which accounts for 67.49 percent of the Company's total share capital.

At the regular General Meeting, the decision was adopted to allocate the Company's net income for the financial year 2019, amounting to HRK 95,551,068.81 into retained earnings.

Supervisory Board's report on the supervision performed in 2019 was adopted.

The Company's Managing Director, Gordana Kovačević, as well as the Chairperson and the members of the Supervisory Board were discharged from liability for 2019.

It was decided that KPMG Hrvatska d.o.o. is re-appointed as the auditor for the Company's business performance in 2020.

The Extraordinary General Meeting of Ericsson Nikola Tesla was held on December 9, 2020. For the participation in the work of the General Meeting, HRK 85,957,100 of the share capital was registered, corresponding to 64.55 percent of the Company's total equity.

In line with the published Agenda, the Extraordinary General Meeting of Ericsson Nikola Tesla reached the following Decisions:

The Company's shareholders will be paid a dividend amounting to HRK 49 per share from retained earnings from 2018 and 2019. The dividend will be paid on December 21, 2020 to all the Company's shareholders who had the Company's shares registered on their securities account in the Central Depository & Clearing Company on December 14, 2020.

The Company's Management Board was given consent to award the Company's employees up to 11,000 treasury shares.

The decision on amendments of the Company's Articles of Association related to the use of electronic means so that shareholders could participate in the General Meeting and exercise their rights.

In 2021, the regular General Meeting of Ericsson Nikola Tesla will be held on June 29 at the Company's headquarters, Krapinska 45, Zagreb. Additional information can be found at Ericsson Nikola Tesla's web page.

Supervisory Board

The main task of the Supervisory Board is to supervise the managing of Company's business. Ericsson Nikola Tesla's Supervisory Board consists of five members, appointed for a four-year term with the possibility of re-election. Four members of Supervisory

Board are selected by the Company's General Meeting, and one is selected by the employees.

In its work, the Supervisory Board shall apply high ethical standards and consider the interests of the Company and its shareholders. If a member of a Supervisory Board believes that he/she is in a conflict of interest regarding a certain decision, he/she must notify the Chairman of the Supervisory Board of this.

The Company's Management Board has regularly informed the Supervisory Board on all important business activities and course of business operations, as well as all other items that the Supervisory Board asked for.

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

Rules of Procedure of Ericsson Nikola Tesla's Supervisory Board is available at Company's web page:

<https://www.ericsson.hr/en/company-governance>.

In line with the decision of the General Meeting, the members of the Supervisory Board are entitled to receive monthly remuneration amounting to half of the average monthly gross salary of the Company's employees. Additional information on remuneration is available in Note 29.b. "Key management compensation".

Chairman of the Supervisory Board



Franck Pierre Roland Bouétard

(elected 2018)

Ericsson Regional Head for France, Algeria, Tunisia, Belgium and Luxembourg, as well as Head of Orange, Altice and Iliad global accounts.

Graduated from Ecole Nationale Supérieure des Télécommunications (Télécom Paris) and graduated from IFA (Institut Français des Administrateurs) at Sciences Po Paris.

Board member of Swedish Chamber of Commerce in France, Article 1 association and Telecom Paris engineering school.

Deputy Chair of the Supervisory Board; Chair of the Audit Committee



Olgica Spevec

(independent member, elected 2019)

Director of the Amplus Consult Ltd, Zagreb

MSc of the economics, University of Zagreb - Faculty of Economics, Croatia

Member of the Supervisory Board; member of the Audit Committee

**Vidar Mohammar**

(first elected 2015)

Vice President & Corporate Officer Finance

Telefonaktiebolaget LM Ericsson

Group Function Finance

Bachelor's degree in Finance, University of Stockholm, Sweden

Board Memberships: two different Swedish mutual insurance companies PRI Pensionsgaranti and Bliwa, Ericsson-LG and several other Ericsson Group companies including Ericsson Pensions Trust, Ericsson Insurance AB and Ericsson Credit.

Member of the Supervisory Board**Dubravko Radošević, PhD**

(independent member, first elected 2010)

Economic adviser of the President of the Republic of Croatia Ivo Josipović

PhD in Economics (field of Finance), University of Zagreb, Croatia

Member of the Supervisory Board and employees' representative**Vladimir Filipović**

(elected 2018)

Project Manager in Ericsson Nikola Tesla R&D Centar
Business and quality development
Graduated in electrical engineering, Department of Telecommunications;
Master of Economics; Department of Informatics management; University of Zagreb, Croatia

Work of the Supervisory Board in 2020

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 (4) regular and five (5) extraordinary meetings held during 2020. There was full attendance of Supervisory Board members at all meetings.

In 2020, members of the Supervisory Board were:

- Franck Pierre Roland Bouétard (Chairman)
- Olgica Spevec (appointed Deputy Chair on December 17, 2020)
- Dubravko Radošević (Member; Deputy Chair until December 17, 2020)
- Vidar Mohammar (Member)
- Vladimir Filipović (Member and employees' representative)

The Supervisory Board dedicated special attention to the impact of COVID-19 pandemic as well as the consequences of the two catastrophic earthquakes highlighting the importance of caring for health and safety of all Ericsson Nikola Tesla employees. At the regular meetings, the Supervisory Board discussed business environment, activities with the customers in the domestic and export markets, key risks, focus areas, strategic projects, realization of targets, and financial performance. Further topics of discussion encompassed investments, compliance issues, as well as issues regarding human resources and shareholders. The Supervisory Board has been continuously monitoring business development and responsibilities of Research & Development Center, Center for Digital Services, Customer Operations & Networks, Center for ICT for Industry and Society, IT & Engineering Services Unit, and a daughter company Ericsson Nikola Tesla Servisi d.o.o..

At extraordinary Supervisory Board meetings, the members discussed targets for 2020, impact of the COVID-19 pandemic and earthquakes in Zagreb and Banovina on the realization of Ericsson Nikola Tesla Group's business plans, approval of annual financial reports for 2019, dividend proposal for 2019, the application of the national Code of Corporate Governance of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange and the vetting procedures for key positions, including the members of the Supervisory Board.

The Supervisory Board strongly supported the activities on strengthening business practice regarding ethics and compliance, in order to secure that the company meets the highest standards, in line with the Code of Business Ethics of Ericsson Nikola Tesla Group.

During the year, special focus was on compliance with the Code of Corporate Governance (in force since the beginning of 2020). In line with this, the categories of the Management Board Decisions that require prior approval by, or consultation with, the Supervisory Board have been defined. Also, the targeted percentage of female members in Supervisory Board, Executive Management, Line Managers, and on the level of the entire Company until 2025 was defined. The goal is to reach 40% of women in Supervisory Board, and 30% in Executive Management, among Line Managers, and on the level of the entire Company.

The Supervisory Board conducted a self-assessment of the effectiveness, competences and composition of the Supervisory Board and its Audit Committee, as well as the performance of individual SB members. Furthermore, the Supervisory Board assessed the efficiency of cooperation with the Management Board and the adequacy of the support and information it receives from the Management Board.

The Supervisory Board itself carried out the assessment, without the engagement of external advisors. The tools for assessment included detailed questionnaires and discussions.

Overall conclusion is that the Supervisory Board of Ericsson Nikola Tesla and its Audit Committee operated well, had sufficient experience and were efficient in performing their main tasks. A strong strategic alignment with the Management Board, devotion of the Supervisory Board members to the ambition of the Company, and the support to Management Board in achieving its goals, were especially highlighted. The Supervisory Board will continue improving its ways of working, and strengthening its resilience, including diversity and succession planning.

The Management Board assessed its own effectiveness and presented its conclusions at the meeting of the Supervisory Board. All members of the Supervisory Board agreed with the self-assessment of the Management Board.

Moreover, the Supervisory Board analyzed the efficiency of risk management and internal control systems, and with the aim of continuous improvement, reached a decision on introduction a position of an interdependent internal auditor.

Based on the recommendation of the Audit Committee, the Supervisory Board proposed to the Annual General Meeting of Shareholders to appoint KPMG Hrvatska as the auditor of Ericsson Nikola Tesla d.d. for 2021.

Activities of the Audit Committee

The Audit Committee is a specialized subcommittee of the Supervisory Board. Ericsson Nikola Tesla's Audit Committee Charter is available at Company's web page: <https://www.ericsson.hr/en/company-governance>.

In 2020, the Audit Committee acted in the following composition: Dubravko Radošević (member and Chairman until December 17, 2020), Vidar Mohammad (Member) and Vesna Vašiček (Member). Olgica Spevec was appointed as a new member and a Chair of Audit Committee on December 17, 2020, instead of Dubravko Radošević. All Audit Committee members were present at all meetings. Audit Committee held six (6) meetings in 2020. The topics of discussion included financial performance during the year, approval of annual financial statements, 2020 audit plan, external audit findings, quality control and risk management systems, and security and compliance issues, and performed other tasks in line with the Audit Act.

The Audit Committee regularly met with external auditors to discuss the audit plan and audit report on annual financial statements. The Audit Committee monitored Ericsson Nikola Tesla Group compliance process and program activities. Furthermore, it also monitored key positions vetting procedures and decided about the reported compliance concerns. It analyzed the compliance with the Code of Corporate Governance in details as well as the efficiency of the risk management system and internal control.

The Audit Committee regularly presented its conclusions and recommendations to 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 is the Managing Director of the Company since January 1, 2005, and at the end of 2019, she was reappointed 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 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 warn of deviations in the actual business development compared to previously defined plans and goals, and to state the reasons for this;
- to organize the 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".

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 strategy and policy, and establish 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".

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 main stakeholders (customers, shareholders, employees);
- within defined risk limits and with reliable internal control;
- in line with the relevant regulatory framework.

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), ISO 45001:2018 (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.

Management system is a prerequisite for operational excellence that results in an increased customer satisfaction, reduced costs and an increased competitiveness.

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 Group regularly certifies its management system through independent certification authorities, and holds the following certificates:

- › **ISO 9001:2015** – Certificate for Quality Management System, including Management, Marketing, Sales and Delivery of Information and Communications Solutions, Products and Services, including Managed Services of Telecommunication Systems (SGS Adriatica, Hrvatska)
- › **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 Research and Development, Management, Marketing, Sales and Delivery of Information and Communications Solutions, Products and Services, including Managed Services of Telecommunication Systems and other services in telecommunications (SGS Adriatica, Hrvatska)
- › **ISO 45001:2018** - Certificate for Occupational Health and Safety Management System, including Research and Development, Management, Marketing, Sales and Delivery of Information and Communications Solutions, Products and Services, including Managed Services of Telecommunication Systems and other services in telecommunications (SGS Adriatica, Hrvatska)
- › **ISO 27001:2013** - Certificate for Information Security Management Systems, including Marketing, Sales, Development and Delivery of information and Communications and Telecommunication Products, Solutions and Services (EY CertifyPoint, Nizozemska)

Ericsson Nikola Tesla Servisi d.o.o., are not included in the scope of the above-mentioned certificates and they own their own certificates, as follows:

- › **ISO 9001:2015** - Certificate for Quality Management System, including Planning, Design, Geodetics, Build, Testing, Monitoring and Maintenance of the Information and Electronic Communication Infrastructure and Network (TÜV Austrija)
- › **ISO 14001:2015** - Certificate for Environmental Management System, including Planning, Design, Geodetics, Build, Testing, Monitoring and Maintenance of the Information and Electronic Communication Infrastructure and Network (TÜV Austrija)
- › **ISO 45001:2018** - Certificate for Occupational Health and Safety Management System, including Planning, Design, Geodetics, Build, Testing, Monitoring and Maintenance of the Information and Electronic Communication Infrastructure and Network (TÜV Austrija)

External auditors

External independent auditors, appointed by the General Meeting of the Company, 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 General Meeting is an integral part of the Annual Report. KPMG Hrvatska d.o.o. was again chosen as the Company's auditor for 2020.

We respect human rights

We dedicate significant attention to human rights protection. Our aim is to raise awareness among our employees and business partners regarding human rights issues, and how our business impacts these issues. Bearing this in mind, we have been continuously working on implementing processes and controls that support respecting human rights.

As an associated member of Ericsson Corporation, and as a socially responsible entrepreneur, Ericsson Nikola Tesla Group follows the UN Guiding Principles on Business and Human Rights (UNGPs), and has developed concrete quality practices. In daily activities, this is primarily seen in mandatory complying with the Code of Business Ethics for everyone working for the Group, under the guidance of the Group's executive management or on its premises, whether they are an employee, a subcontractor or a private contractor.

Among many measures and activities, we particularly highlight our strategic commitment to cooperate with business partners and all other stakeholders that share our values regarding human rights and our insistence on responsible use of technology. In this way, we can avoid potential harmful effects that we might cause, to which we could contribute, or that can be linked to our business, products, or services.

In the mentioned insistence on responsible use of technology, we are aware of the potential risks of using ICT solutions and services for harmful actions. Lately, there has been a lot of talk regarding the protection of human rights and open communication, as well as the right to privacy. In addition, new technologies, such as artificial intelligence, and similar, presented new questions and doubts. It is our responsibility to take care of all aspects of human rights protection while developing products and services, and, subsequently, in their application. We achieve this by continuous investment in training and raising awareness of employees and business partners, ethical ways of working and in-depth review.

Main risks include:

- Misuse of Ericsson technology and technology of Ericsson Nikola Tesla that could negatively impact on the right to privacy and freedom of expression.
- Failure to comply with all the standards of protecting human rights in the supply chain, that could have a negative impact on a wide spectra or rights in the field of the right to work and labor law.

Information security

Nowadays, ICT infrastructure has an important role in protecting a large amount of various kind of information, which is in different IT systems. Every day, we are exposed to threats and risks of growing cybercrime, and the awareness on the importance of information is the foundation for the implementation of information security measures. Accordingly, one of our key priorities is the security of our personal information, as well as the information related to our business, and our customers. By applying high standards of data protection, we balance daily between strict protection measures and efficiency in our operations.

Ericsson Nikola Tesla Group has been continuously, and with dedication, implementing and carrying out the protection measures by respecting high standards of private data protection, with the aim to develop and deliver our products and services, as well as to secure business continuity, regardless of the possible threats.

Management and policies

Information security management is a high priority of the Management Board and the entire management structure of Ericsson Nikola Tesla Group. The policy of information security reflects the readiness and commitment of the entire Group to dedicate special attention to information security in its business.

Security Management Board and Crisis Management Task Force are the umbrellas at Ericsson Nikola Tesla Group level that deal with safety issues in the phase of planning and implementation, as well as in times when a crisis occurs. At Ericsson Nikola Tesla Group level, a security manager was also appointed, who operationally coordinates the issues regarding information security. Considering the importance of IT systems in securing the basic aspects of information security, an IT Security Manager has also been appointed. Aiming to operationally solve security issues, incident reporting has been implemented, which can be accessed by all employees, as well as business partners. The incidents are processed in corresponding organizational units, according to the incident type. Along with the operational activities on eliminating the cause and the consequence of incidents, incident management also serves as one of the input data for continuous improvement of security systems.

Ericsson Nikola Tesla is using an integrated management system (EGMS) based on business standards (ISO 9001, 14001 and 45001) that also includes information security standard - ISO 27001, for which Ericsson Nikola Tesla has had a corresponding certificate for many years.

All employees regularly, and mandatory, pass a detailed training in regard to information security.

The importance of managing risks also in the area of information security

In Ericsson Nikola Tesla Group, an integrated system of managing risk is applied - Enterprise Risk Management. Considering the types of risks and areas from which they can occur, all the departments in the company have the tools to estimate, process and eliminate or reduce risks.

For the requirements of information security, a range of organizational and technical measures have been implemented, in order to eliminate or neutralize threats. Vital parts of IT equipment are continuously being monitored and protective measures are carried out.

As the areas from which the threats come from, as well as the forms in which they occur have been continuously changing, thus our employees have been additionally educated and informed. From time to time, the company carries out threat simulation exercises.

Organization for crisis situations

In addition to cyber threats, during 2020, we have been exposed to strong earthquakes in Zagreb, Sisak-Moslavina County, Karlovac County, and Zagreb County, as well as the pandemic caused by the COVID 19 virus. Due to a demanding situation, since 25 February 2020, the company's Crisis Management Task Force has been working 24/7/365, reaching decisions and informing employees, with the aim of sustaining the Group's normal business operations. By actively responding to these challenges, and within the social responsibility that Ericsson Nikola Tesla has, as a company of a special public interest, our experts and employees participate in organizing a system of civil protection in the community. The system enables a fast and an efficient response to the emergence of crisis situations in a wider environment.

Right to privacy

Ericsson Nikola Tesla Group respects privacy and protects personal data of everyone it communicates with in any way. Therefore, we apply the regulations on personal data protection, among which we would like to highlight the Privacy and Electronic Communications Directive (popularly known as "ePrivacy Directive") which was implemented in Croatia through the amendments of the Electronic Communications Act and Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing the Directive 95/46/EC (popularly known as GDPR), that was implemented in Croatia through the Act on Implementation of GDPR.

In line with Articles 13 and 14 of the GDPR, on ENT Group web pages, at <https://www.ericsson.hr/en/privacy>, we transparently provide basic information on personal data processing, including the processing of personal data of job applicants.

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, the rules on the protection of privacy on ENT Group websites are available via the link at the bottom of every page (in the footer), regardless of its content.

In line with the Act on Implementation of General Data Protection Regulation, we use video surveillance on our premises to protect the employees and visitors, as well as the assets of the company, employees, and visitors. All information on the use of video surveillance are also available on our portal.

As we lead the digital transformation of industry and society in various segments and/or participate in it, we believe that ICT has an enormous potential to improve all aspects of life, work and communication among people, but only if networks and services keep information secure, and protect our right to privacy.

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

Privacy is very important to us also because it is one of the basic human rights, and therefore 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, religious beliefs, political 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.

Depending on the category, sensitivity or purpose, personal data at Ericsson Nikola Tesla Group 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.

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 also includes strict protection of personal data as well as specific checks (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, which is a basic document defining behavior we expect from all our employees. We encourage employees to report any kind of behavior for which they believe in good faith to constitute the breach of the Code of Business Ethics. Every person who is likely to submit a report, whether internally or externally, is provided with protection of personal data, i.e. anonymity and confidentiality, via the Compliance Line which was specially developed for this purpose.

Due to the nature of our business, we have additional responsibility to efficiently address privacy, as the analysis of 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 protection, which ensure the corresponding levels of data anonymization, while the result brings benefits for all the stakeholders.

Main risks include:

- Failure of employees or third party to comply with the laws regarding information security and privacy, and company regulations, policies and directives related to that area.
- Potential actors of threats with the aim to jeopardize our intellectual capital, network, finances, customers, and personal data.
- Stricter or new regulatory demands of information security that may impact on the more demanding conditions of our business.
- System failure due to human error, or lack of quality control.

Application of sales and trade compliance

Ericsson Nikola Tesla is a large exporter doing business in many markets, and is therefore exposed to various commercial, political, and ethical risks. The best protection against these risks is to be well informed on the need to adhere to international standards, and to apply legislation of every individual market, as well as to follow current situations in the countries we are interested in.

Each employee passed a corresponding training, and is obliged to respect the laws of own country, as well as other countries in which we do business, and especially take care of potential sanctions and/or embargo, of which the employees are educated. The Group finds violations of human rights and unethical practices to be completely unacceptable.

A continuous focus is necessary

In a world in which some business entities are prone to tolerate and overlook breaches of legal framework to reach their goals, additional caution is more than necessary. Therefore, Ericsson Nikola Tesla applies Sales Compliance: all aspects and relations are considered in order to protect the brand, stakeholders' interests, and ensure responsible behavior, and especially human rights in countries where the Company operates.

Sales Compliance regulates actions in all parts of the sales process, direct or indirect sale and business connections. Sales Compliance enables a good assessment, prevention, and neutralization of potential negative impacts in the field of human rights and brand, preventing in such manner the risk of 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. Defining risks is carried out regarding the limitation of human rights, corruption, freedom of expression, the right to privacy, and other parameters, based on international standards and assessments.

Activities in 2020

During the year, 48 requests for sales compliance check for our customers were initiated: 46 received full compliance, 1 received conditional agreement, and 1 was declined in agreement with Sales organization.

Regulatory framework and clear obligations

Business sales processes prescribe one more process that additionally protects against misuse. This is Trade Compliance, a process which respects specific international and national laws and regulations, and especially the regulations of the European Union and the USA, as well as Ericsson's policies and directives that we should adhere to as an affiliated member.

Ericsson Nikola Tesla Group's employees must be familiarized with and are obliged to comply with all the rules and regulations that are applicable in their area of work and defined in local directives and instructions. Employees can address all their questions to experts in charge of the processes and their implementation.

Sales compliance risk methodology

country classification

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

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.

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.

Responsible sourcing is our priority

By implementing an improved sourcing process that is applied to all the suppliers of Ericsson Nikola Tesla Group, an additional highlight has been placed on the transparency and efficiency of sourcing activities.

The responsible sourcing program ensures high standards during the sourcing process and in the supply chain in the areas related to fight against corruption, labor, the environment, human rights protection, and ethical standards. This program enables social and professional involvement, as well as business opportunities and realizing better conditions for persons with disabilities.

The program implies continuous 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 for reporting.

Insisting on transparency leads to ethical and responsible conduct of suppliers

The suppliers are familiar with the proposals of cooperation with the Group and accept regular reviews. It must be noted that requirements from the Supplier Code of Conduct are an integral part of all Ericsson Nikola Tesla Group'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 Group 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:

- General Supplier Occupational Health and Safety Standards
- Specific Occupational Health and Safety Standards for the Suppliers of Ericsson Nikola Tesla Group
- Supplier Environmental Requirements.

Supplier Screening Tool – additional support to experts

In 2020, we have continued to use 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 2020, the list of screened business entities (suppliers and partners) contained a total of 1679 suppliers with whom an 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), which resulted in almost 5000 performed checks. Except for screening these business entities, approximately 4500 checks of potential suppliers and partners were also performed.

Continuous use of this tool enables a continuous approach to relevant information and their interpretation, filter, 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.

Activities in 2020

Many new business responsibilities and demanding projects in 2020, as well as the global threat of COVID-19 illness, has reflected on the volume of performed risk assessments and the number of screened suppliers:

- Following the proposal of an expert team, risk assessment procedure was performed for 15 suppliers.
- Based on the assessment, the plan was prepared to evaluate suppliers at their locations. The result: 5 evaluations performed during the year.
- The assessment results concluded 8 findings and 8 observations. The suppliers have been informed of these through reports.

Reporting non-compliance

Employees, suppliers, customers, and other partners associated with Ericsson Nikola Tesla Group can report suspected infringements of the law or the Code of Conduct 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 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 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 sender's IP address.

Main risks include:

- Failure of employees or third parties to comply with the Code of Business Ethics.
- Failure to monitor, report or check the origin and source of materials used in production.
- Altered or new regulatory requirements that can negatively impact on the availability and the price of materials used in the production of products.

Zero tolerance for 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 employees, customers, shareholders, suppliers and the society as a whole; and it represents a significant obstacle to the economic and social development in countries worldwide.

We have embedded zero tolerance for corruption as the leading principle on the highest levels of the company. Moreover, we have carried it out throughout the entire organization, along with a comprehensive set of rules and processes that the employees must adhere to. Our Risk and Compliance Board provides support to the Management Board and Executive Management and is responsible for the overall management of aspects of compliance within the Group and the implementation of the Ethics and Compliance Program.

Our approach

We continue to strengthen the rules and processes through which we set our own expectations high and ensure the ability of meeting strict anti-corruption regulations in all our markets. Ericsson Nikola Tesla Group's Code of Business Ethics and Ericsson Nikola Tesla Group's Code of Conduct for Business Partners are two main policies that describe our commitment to anti-corruption. During 2020, after several months of work of a team of risk evaluators, selected by the decision of the Risk and Compliance Board, a special Anti-bribery and Corruption Risk Assessment (ABC RA) program was carried out for the companies of Ericsson Nikola Tesla Group. Supervisory Board and Audit Committee have been regularly informed of the implementation and the achievements of ABC RA program. All the Group's employees are regularly educated and pass the knowledge test regarding anti-corruption; following education programs and knowledge tests, newly employed persons certify with their signature that they agree to follow the Company's Anti-corruption Policy. Anti-corruption is one of the important components of internal audits.

Suppliers and business partners

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.

In this way, we build long-term relationships which imply dialog, knowledge sharing and application of modern-day working models. The company's evaluators, by using a survey prepared in line with the standards, perform also an external evaluation of quality of major domestic suppliers.

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 Management 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 Ethics and Compliance 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 2020

- all active employees have passed the e-learning anti-corruption course.
- we have continued with organizing anti-corruption courses, and compliance and anti-corruption workshops were held for the Supervisory Board, Management Board, other managers, and employees in all the units that might be exposed to risks of corruption.
- anti-corruption was brought to attention during the Group's Executive Management meetings.
- in line with the Bylaw on Internal Reporting of Irregularities, and according to the Whistleblower Act, Persons of Confidence and their Deputies were appointed in the two companies of the Group: Ericsson Nikola Tesla d.d. and Ericsson Nikola Tesla Servisi d.o.o.
- an extensive Anti-bribery and Corruption Risk Assessment program was carried out in the entire Group.
- a procedure to check the integrity of key positions was prepared.
- by carrying out a survey among all employees, excellent results were received regarding the answers in the field of Group's ethics, compliance, and management.

Main risks include:

- Failure of employees or a third party to comply with anti-corruption laws and regulations and related policies and directives.
- potential conflicts of interest situations that include our employees and third parties.

Health and safety at work

Taking care of employees' health in the conditions of COVID-19 pandemic

Health and safety of our employees, as well as our customers, suppliers, and associates, have always been our top priority. In a year in which the way of life we knew, and everything we used to do, has suddenly been changed and replaced by the new normal, the protection of health gained a new dimension and became more important than ever. After the first information of the infection in China, the Company began seriously preparing for what will soon follow in the rest of the world, as well as in our own environment. All the available resources of the entire Ericsson Nikola Tesla Group, both human and material, were redirected to protect employees' health.

Establishing Ericsson Nikola Tesla Group's Crisis Management Task Force

One of the first activities undertaken by the Management Board was to establish the Crisis Management Task Force of Ericsson Nikola Tesla Group. This team, led by the President of the Company, is comprised of the Company's most important managerial positions, as well as experts in safety, human resources, health protection, and communication, held regular meetings, reached important decisions in short period of time and coordinated measures to prevent the infection to spread within the organization.



Group's Crisis Management Task Force: Gordana Kovačević, President of Ericsson Nikola Tesla, Snježana Bahtijari, Director of Marketing, Communications & Corporate Social Responsibility; Dragan Fratrić, Director General Services and responsible for safety; Marijana Đuzel, Head of People; Hrvoje Benčić, Director Digital Services, Media, Customer Operations & Networks; Drago Holub, Manager of Team for development of 3G, 4G and 5G Radio Access Networks, Dario Runje, Director of Ericsson Nikola Tesla Servisi, and Dean Marušić (virtually from site in Split) Manager-Site Split Business Support, secured the prerequisites for employees to perform their work smoothly in extraordinary circumstances.

As a global organization, we have been monitoring the development of the corona virus spread since the beginning, and very early began to inform our employees of the measures and decisions that came into force, both in Croatia and within the organization. Major events were canceled, business travel restrictions were introduced, as well as the return of employees from the countries of risk.

Before the infection was recorded in Croatia, the Company has already had an established system of providing support and monitoring employees' health condition, primarily of those who returned from business trips and posted workers outside Croatia, as well as the ones who started to develop symptoms similar to COVID-19 infection, or were on a private trip in countries of risk at that time.

First case of infection

The first case of COVID-19 infection in Croatia was the case of Ericsson Nikola Tesla's employee in Zagreb, who got infected during a private trip to Italy.

On that Tuesday, February 25, 2020, although then in a completely unknown and new situation, we can say that we were ready, as we had a well-organized team of experts who immediately started taking all the measures, in line with the protocol for such situations.

Department of Epidemiology of Andrija Štampar Teaching Institute of Public Health immediately performed all the corresponding activities in the company's work premises and other common areas (canteens and company's restaurant). For the next two days, certified specialist services performed the disinfection of all the company's offices and accompanying areas, and during that period our employees worked from home.

In addition to calling specialist service and epidemiologists to come to the Company, a fast response included gathering information on the workplace of the infected employee, the movement of the employee within the company, finding the contacts the employee had and listing the colleagues with whom the employee shared workplace and who were immediately sent to self-isolation (40 people). Furthermore, it included listing all the employees who were in the Company on that day and went for a business trip before they found out about our employees' infection. All this resulted in the fact that none of the colleagues, nor anyone else who was in the company, got infected.

After this event, we introduced the practice for the Crisis Management Task Force of Ericsson Nikola Tesla Group to address the employees via urgent e-mails, through which we have, timely and transparently, informed the employees of the Task Force activities and new circumstances, as well as of the ongoing business activities. The employees reaction to this way of regularly receiving information from the Crisis Management Task Force (in which the President of the Company participated in from the beginning) was very positive, and the employees began to actively participate, give suggestions and feedback regarding the information and the measures that the Company was taking. Until the end of 2020, 42 such urgent emails were sent.

Measures to protect employees' health

Considering the current situation of working in extraordinary conditions caused by COVID-19 pandemic and the earthquake that hit Zagreb and its surroundings, a safe and a healthy environment is important to us more than ever. In times like these, our behavior plays a great role and it is important that we take care of ourselves, and at the same time, bear others in mind. We are expected to be prepared, dedicated, and focused on performing work tasks in line with OHS rules in order to reduce the risks and danger from injuries, or getting sick, to a minimum.

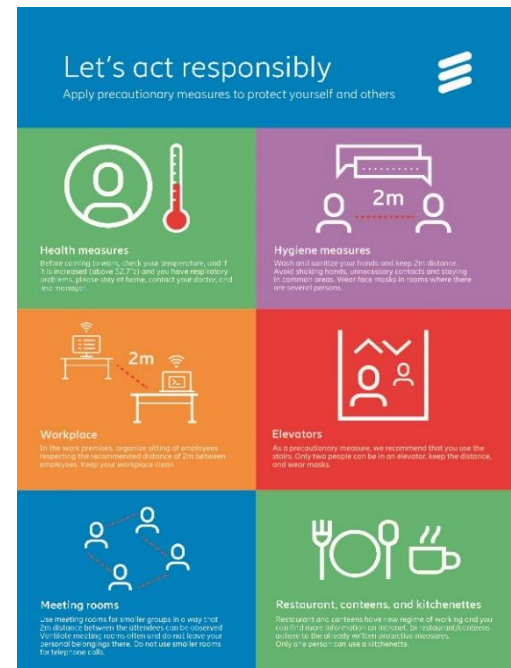
Almost overnight, with the aim to limit physical contact, we have successfully organized working from home, and even now almost all business meetings take place in a virtual reality.

Knowing that there is no manual for this kind of situation, the members of the Company's Crisis Management Task Force and OHS service closely monitor the events, regularly meet and reach new, constructive instructions and measures in order to enable, on the one hand, that the work of employees is as safe as possible, and on the other hand, a smooth performance of business activities. For all the employees whose work is related to going and working on site, as well as for the employees who perform their tasks at company's location, corresponding protective equipment was secured, instructions of safety measures were given, and sanitizers were placed in all visible places. In addition, we secured thermometers and devices that measure employees' temperature at the entrance.

The employees took the measures seriously, because they know that the only way to return to normal as soon as possible is to act responsibly and conscientiously.

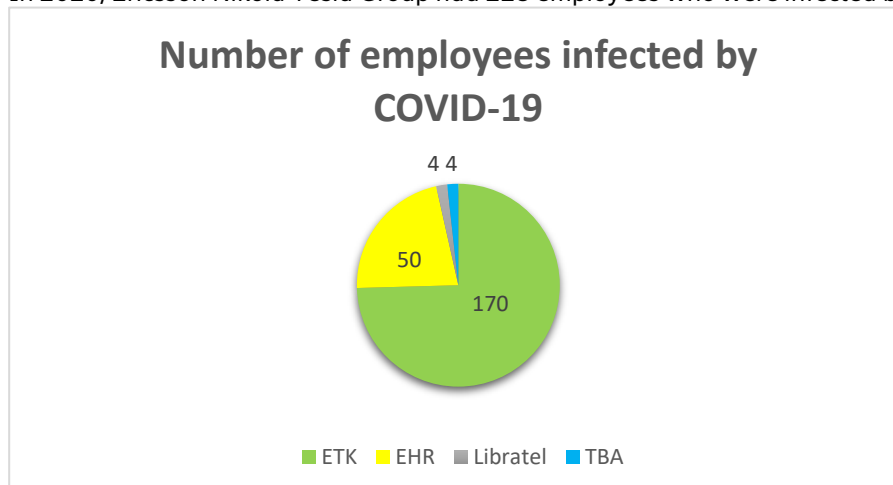
Out of the most important measures that we have introduced, and are still in force, we would like to highlight the following:

- Increased cleaning and disinfection of all work premises
- Instruction on preventive measures for employees, external contractors, and suppliers, as well as external visitors
- Masks and hand sanitizers, and sanitizers for work equipment have been secured for employees
- All business travel, as well as all gatherings and workshops with a great number of participants in and outside the company were canceled
- A special process for approval of travelling for business-critical activities has been introduced, with securing all measures (testing and self-isolation, in line with the regulations in certain countries)
- A system to track employees' medical condition was introduced - a health bulletin - as well as support to employees for all questions regarding pandemic, as well as psychological assistance for employees
- Crisis Management Task Force is in continuous contact with the local institutions and Ericsson
- All employees who can, work from home, with the exception to the ones who, due to business activities, and in agreement with their manager, come to work in the office
- A special organization of work has been introduced on the Company's premises (flexibility in time to arrive to/leave the office, new set-up of space and sitting arrangements, work in teams, working in shifts, etc.) to reduce the possibility of physical contact with the colleagues
- Employees can borrow the equipment needed for work from the company, to have all the necessary conditions to work at home (chair, monitor, etc.)
- The development of the coronavirus situation is closely monitored to take further measures, as required by the situation
- New information is timely communicated on the Intranet page that was created for information about COVID-19, or via email

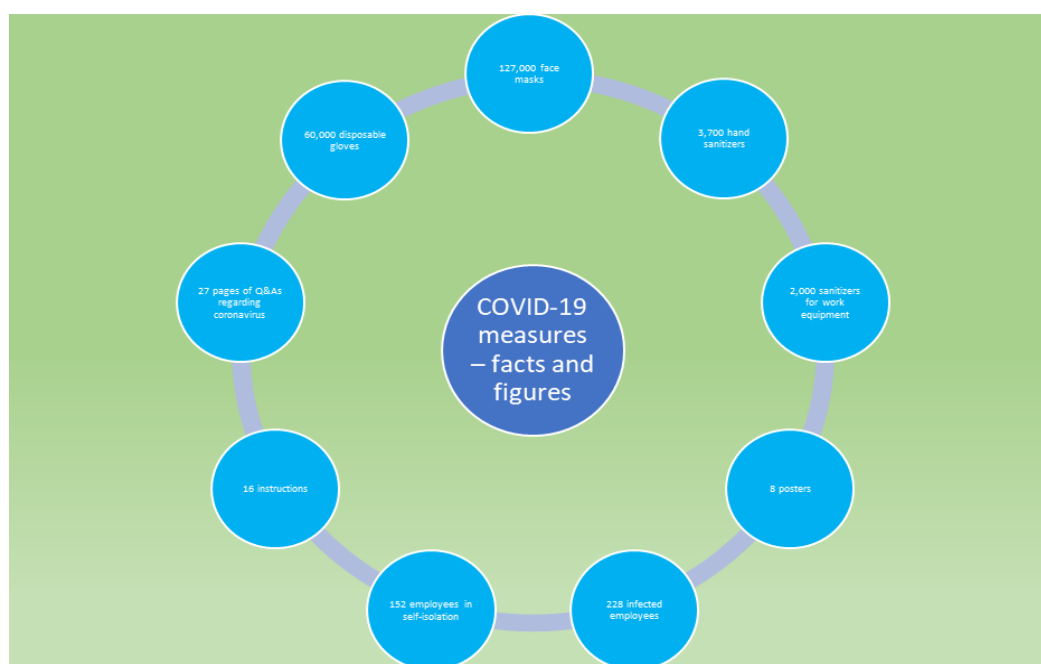
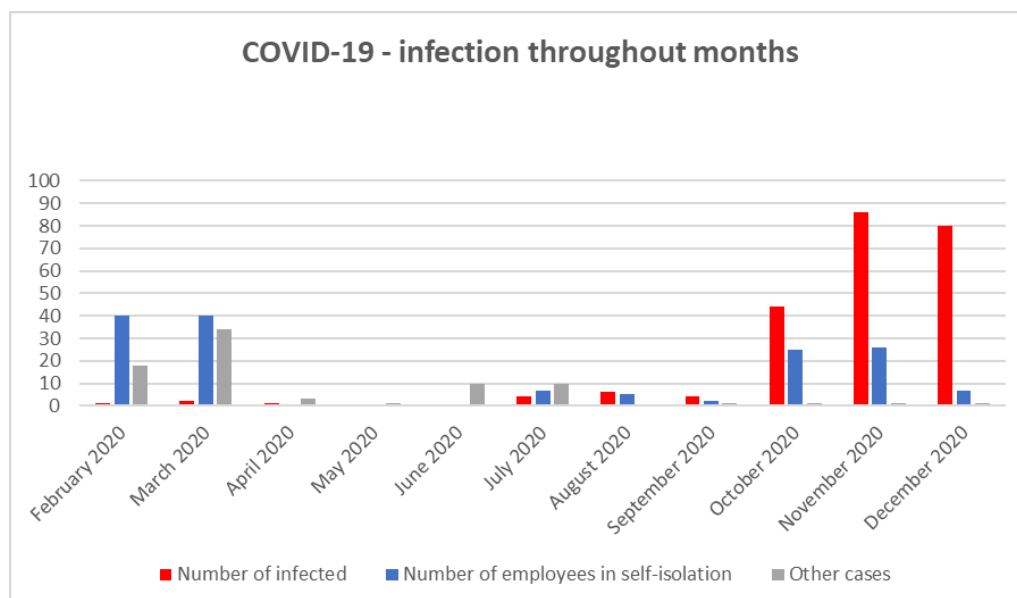


COVID-19 – facts and figures

In 2020, Ericsson Nikola Tesla Group had 228 employees who were infected by COVID-19.



In addition to the data on the infected employees, we have also been gathering data about employees who were in self-isolation because they were in contact with the infected person, as well as other cases, such as symptoms of disease, travelling, and other risk situations. As time went by, we have noticed that, considering that most employees work from home, the number of employees in self-isolation declined, even though the number of the infected significantly increased in the last three months of 2020.



Covid-19 measures – facts and figures

Behind every instruction, message or accompanying material for the employees regarding the protection of their health, the health of their families and loved ones, is the work of an entire team of people engaged in harmonization of recommendations and measures from global and local sources, and their implementation in our company and on our way of working, with a permanent focus on continuity and sustainability of our business."

Marija Petras Palačić, OHS Manager

Work environment

Most of our colleagues in Zagreb, Split and Osijek, as well as colleagues in locations outside Croatia, 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' workplace.

COVID-19 situation also led to changes in the way of performing tasks and, primarily due to the recommendations of national expert services, most employees were sent to work from home. This change, new emerged risks, as well as changes in legal regulations in OHS, resulted in a need to adjust the changed work conditions in company's documents, and therefore, new Risk Assessment was performed in the companies of Ericsson Nikola Tesla Group.

In circumstances that demand strict and consistent limitation of physical contact, telecommunication and digital transformation of business imposed themselves as the optimal choice. By trying to deliver an excellent service to the customer, many of our employees perform their tasks on site, and these activities did not stop in the extraordinary circumstances caused by COVID-19 pandemic and earthquakes in Zagreb and surroundings. Therefore, Ericsson Nikola Tesla Group continued to work with maximum efforts on ensuring the stability of telecommunication networks that became a key backbone for public services, business, and connectivity in Croatia.

In addition to the climbers, the statistics says that approximately 40% of tasks performed by Ericsson Nikola Tesla Servi d.o.o. are considered tasks with special working conditions, which means this is a company of medium risk, and thus requires a special engagement of our OHS experts.

Challenging conditions of performing work tasks, such as working on height, working with electricity, and unfavorable weather conditions, 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 expert audit teams performed audit of suppliers, paying special attention to compliance with OHS rules on high-risk projects. The situation on site showed that in the majority of the cases, suppliers perform their work in line with the rules.

Education of employees and external associates

All new employees, as well as students and employers' newly appointed OHS authorized persons, passed the theoretical and practical part of training for working in a safe way and passed the OHS training prescribed by law. Expert trainings of employees for tasks with special working conditions, as well as for providing first aid and evacuation and rescue, are held when necessary and correspond to workplace requirements.

With the aim to preserve health, working abilities and optimal efficiency, the employees receive educational materials on various topics regarding OHS, such as working in unfavorable microclimate conditions, driving safely, reporting safety incidents and news regarding safety regulations.



Training for climbers of Ericsson Nikola Tesla Servi d.o.o.

In addition to taking care of our employees, we additionally take care of external contractors on various projects, who, by accepting to cooperate with Ericsson Nikola Tesla Group took over the obligation to comply not only with the legal regulations regarding OHS, but also with the standards of Ericsson Nikola Tesla Group. To our external contractors, we

particularly brought to attention that applying and adhering to OHS regulations represents an extremely important segment of business for our company, and that the failure to do so is unacceptable. During the workshops we try to provide an individual approach and care for each individual external contractor in a way that we examine the situations they come across in their work, and through our advices, help them to organize an OHS system within their organizations in the best way possible. We all have the same goal - to go back home to our loved ones each day after performing our tasks at work.

Improving energy efficiency

Within the energy efficiency project, our location in Zagreb was turned into a big construction site, and the project of improving energy efficiency was completed in 2020. The daily expert supervision over the execution of works resulted in an excellent cooperation of all participants in construction, and by respecting all the OHS regulations, which represented a special challenge in the conditions of COVID-19 pandemic and earthquakes; nevertheless, the year and the project ended without any incidents.

Main risks include:

- Failure to implement legal regulations and stakeholder demands.
- Failure to implement the Care Program in a consistent and standardized manner in the entire organization.
- Lack of compliance with the occupational health and safety demands in the supply chain.
- Risks that threat to musculoskeletal system, mental health, including stress, as well as balance business and personal lives of employees during their business.
- Continuation of pandemic with the increase in infection of employees, partners, sub-contractors; situation out of Company's control
- Not enough vaccine

Certification of Ericsson Nikola Tesla Group

Following the extensive preparations in which many employees participated in, and a four-day certification audit of our integrated management system in line with the requirements of ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018, the auditors checked and confirmed that the members of Ericsson Nikola Tesla Group fully comply with the requirements regarding the quality of products, services, solutions and processes, as well as the requirements regarding environmental protection and occupational health & safety. Thus, for the upcoming three-year period, we

have secured the certificates that are a necessary prerequisite to maintain business continuity.



Core Team responsible for certification: Zoran Zorić, Kristina Jakopčin, Jasna Glavaš, Perica Bošnjak and Marija Petras Palačić.

It all starts with people

Ericsson Nikola Tesla Group, as an associated member of Ericsson corporation, successfully conducts business in Croatia and in many foreign markets for many years. The Group's business success and growth is based on innovativeness, knowledge and skills of all its employees, 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

The Group's important strategic goal is to be an employer of choice in its environment. Therefore, we pay special attention to planning the development of employees 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. As positioning our company as the employer of choice represents for us one of the key components of successful organization management, we have therefore defined the necessary knowledge, skills and characteristics that talented candidates must possess, as well as the activities and incentive measures to attract, motivate, and retain the best experts. We have clearly defined the 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 direct us in our everyday work and the way we do business. With colleagues from global Ericsson, as an associated company, 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 this is something we constantly work on, with a zero tolerance for 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 best talents and experts.

Our business philosophy

To achieve a higher level of transparency and improve the implementation of strategy related to human resources, we have defined our business philosophy of managing human resources.

At Ericsson Nikola Tesla, we believe that:

- Each individual is talented
- We give our best when we know what to do, and why this is important for the company's business success
- We learn best when we are motivated and receive continuous feedback on our contribution to the success of our team
- Diverse, inclusive teams drive innovations, thus creating more business value
- We are more engaged when we consider ourselves included, appreciated and when we see that our work has a positive impact on the business results
- Our leaders are the driving force of business and the overall organizational culture
- Our people should be paid in a just way and be recognized and awarded for the results they create.

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

- 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, visualizing and awarding teams who achieve the best results
- a reward system based on the principle of equally awarding equal work results
- a modern equipped workplace with all the tools necessary for work
- a motivating company's 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 sections
- 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 the Collective Agreement, Salary Rulebook, as well as corresponding policies.

In line with the general goals of salaries system, 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 the previously planned business targets and conditions, defined at the beginning of the year
- Variable pay compensation for target realization, 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, 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 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. 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 net. 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 died are entitled to receive a scholarship during their regular education.

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. 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 (ETK ZDMF), for the second year in a row Ericsson Nikola Tesla decided to additionally motivate employees to save in the Fund, and therefore the Company paid to each employee who is a member of the Fund a single deposit of HRK 1,000 on their personal account in the Fund in 2020, as well. During 2020, 102 new members joined the Fund, while 8 members left the Fund, thus at the end of 2020 the Fund had 1,732 members. End of 2020, the Fund's net assets amounted to more than MHRK 34.7. Since the Fund was established, the Fund's average annual return is 6.69 percent, and in 2020 it was - 0.52 percent, because of the impacts of COVID-19 pandemic on the social life and the economy in Croatia and worldwide. In such circumstances, Raiffeisen Pension Fund tried to structure the assets of the Closed Voluntary Pension Fund of Ericsson Nikola Tesla in a way that, in line with the legal limits, as well as strategy defined in the Fund's bulletin and Articles of Association, the Fund's assets are invested in the market segments for which they estimated to offer the highest expected return in comparison to the risk taken.

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. In 2020, the Group hired 204 employees, of which 183 new employees in Ericsson Nikola Tesla, who were mentored by 78 experts/mentors. Special attention was given to trainees, in order to speed up their inclusion into business and processes; 52 experts/mentors mentored 122 trainees.

Monitoring employee engagement and satisfaction

Employee engagement and satisfaction is monitored through Voice - a survey that is conducted twice a year in Ericsson Nikola Tesla. The survey represents an important tool to measure organization climate and gain an insight into employees' opinions on various areas of operations. In this way, we foster the culture of feedback, and continuous change management. By conducting the survey twice, a year, we can continuously monitor employee pulse, keep the dialogue, and gain information on the satisfaction with various changes we introduce. The employees, together with their managers, take part in proposing changes and improvements in all segments of their work and doing business. The survey is anonymous, and is conducted on a local online platform, and the results are available immediately after the period for taking the survey is finished. In this way, we receive relevant feedback, and changes and adjustments can be implemented faster. Based on a detailed analysis of the survey, areas for improvement on all

the levels and the segments are identified. In 2020, on Ericsson Nikola Tesla level, the survey on employee engagement was carried out twice, and more than 80 percent of employees participated in the survey. The survey showed that almost 90 percent (87) of employees state that they are moderately to very happy by working in Ericsson Nikola Tesla, and the same percentage of employees sees a meaning in their job and has a strong sense of belonging to the company. Almost three-quarters (72 percent) of our employees believe they can reach their career goals in the company, while four-fifths (80 percent) believe that they have a good chance of learning and growth in Ericsson Nikola Tesla. We are happy by the fact that almost 90 percent (88 percent) would recommend their direct manager to others, and more than 90 percent believes that we, as a company, show commitment to ethic and responsible business.

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 2020. In addition, the Group's management has continuously been informing the representatives of the Union on the impact of corona virus pandemic on business and business activities of Ericsson Nikola Tesla Group. Sharing information and consultation with the Union regarding all the important topics were carried out 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.

Leaving the Company

Although the labor market is currently extremely demanding, and all the companies in ICT sector are in a ruthless race for talents, the Group has a small percentage of people leaving the Group. We regularly conduct analysis of salary competitiveness of our employees, provide various benefits for them, enable competence development in various career directions, and at the same time maintaining a healthy balance of personal and professional life. The feedback we receive from each employee who left the company to further improve the way of working, retain experts and attract new talents.

We foster a culture of diversity

An integral part of Ericsson Nikola Tesla Group's vision, strategy, and adopted values are diversity and inclusion of all our employees and all other stakeholders in our business and society as a whole. In all the processes and business activities, we are building 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.

Main risks include:

- COVID-19 pandemic, and its global impact on the education of children and family life had a disproportional impact on women, potentially increasing the burdening of women.
- When hiring women in STEM jobs (science, technology, engineering, and mathematics), a serious limitation of availability of female resources and talents in this area poses a real challenge.
- we cannot realize the wish to hire more people with disabilities as there is a lack of people with disabilities who are experts in STEM experts

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 in all segments of business is encouraged and supervised by the organization's highest management bodies. We have developed and constantly 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 each 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 and activities 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, our employees are very devoted to the development of mutual and long-term relationships with different groups of stakeholders. The Group has a 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 of our employees and other stakeholders.

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.

We respect diversity**Gender diversity**

We advocate equal possibilities for women and men in being promoted and in performing leading functions regardless of gender.

Age diversity

We encourage intergeneration understanding and complementing.

Cultural diversity

We empower a multicultural environment where people feel included and can do their job in a successful way.

LGBTQ+

We have ensured an inclusive work environment where every individual feels appreciated and welcome.

People with disabilities

We offer equal opportunities for advancement to all employees, and people with disabilities feel appreciated and equal to every other person.

**For more women in ICT sector**

On the occasion of implementing the Declaration on Women in Digital, the Central State Office for the Development of Digital Society organized a round table titled "Postani i TI, djevojka IT" (Become a Girl in ICT). The second edition of this gathering was held in February 2020 at the Faculty of Electrical Engineering, Computer Science and Information Technology in Osijek, and our company also supported a greater engagement of women in digital. One of the ways in which the interest in IT industry can be increased among girls, is to promote positive experiences of female role models working in ICT. Therefore, the participants of round table, female experts from various companies and institutions, spoke about their professional journey to girls from senior grades of secondary schools. By sharing their stories of success, they encouraged them to choose STEM professions. Marina Simunić, an expert working in Ericsson Nikola Tesla R&D center in Osijek, also sent this kind of message: "If you are good in math, logics and informatics, choose IT. There are jobs for STEM experts of all profiles, and they are various and interesting. You can code, test, work on development studies.... And you can do it here, in Osijek, you don't have to go any further".

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, 25 percent of Group's employees are women, while at the level of Ericsson Nikola Tesla d.d., the percentage of women is higher and amounts to 28 percent. The percentage of women is not at a satisfying level; however, we are satisfied with the trends that show that this is changed in the wanted 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 enough women with STEM education in the labor market. Therefore, in cooperation with the educational community, for a longer period we have been undertaking many activities to motivate girls and young women to choose STEM professions.

Our approach to learning

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

The key to our success - employees' knowledge and skills

Ericsson Nikola Tesla's Education Center 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 Ericsson Nikola Tesla 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. As an associated member of Ericsson, the Group is included in the Talent Management Program and Innovation Program. These are Ericsson corporation global programs where special attention is given to experts with relevant knowledge and skills, and top intellectual potential. With desire to additionally strengthen young managers, new Leadership program was launched that represents a comprehensive program of developing leadership skills. 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.

Ericsson Nikola Tesla's employees have the option to learn via Ericsson's global Degreeed learning platform, which enables them to acquire the wanted set of competences through short videos and texts. This platform is flexible, and can be reached from computer, by using mobile phone or tablet, in order for the employees to be able to develop their competences even when they commute or wait in line. Virtual forms of learning not only save time and money, but are also ecologically acceptable, which we, as a leader of positive changes in the society, strongly support.

Lifelong learning

The development plan 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 educated 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 career. For the employees who left the company, there was no need to organize an education on how to easily find a new job. Namely, the largest part of those employees retired, and the rest continued to work at another company.

Ericsson Nikola Tesla Group - an organization that learns

| | |
|--|---------|
| percentage of employees who participated in some form of education | 98% |
| average number of hours spent in education programs per employee | 45 |
| total number of hours spent in education programs | 123,925 |
| number of available courses | 6,125 |

Facts and figures

| Number of employees in Ericsson Nikola Tesla Group | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| ETK | 2148 | 2268 | 2402 | 2515 | 2571 |
| Libratel | 25 | 25 | 33 | 29 | 27 |
| TBA (od 1.2.2012) | 17 | 16 | 18 | 19 | 19 |
| EHR (od 1.9.2014) | 758 | 743 | 711 | 651 | 610 |
| TXK (od 01.09.2015) | 1 | 1 | 1 | 1 | 1 |
| TBY (od 01.01.2017) | | 7 | 9 | 9 | 8 |
| Total Ericsson Nikola Tesla Group | 2949 | 3060 | 3174 | 3224 | 3236 |
| Number of new employees hires in Ericsson Nikola Tesla Group | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| ETK | 300 | 282 | 310 | 240 | 183 |
| Libratel | 1 | 1 | 10 | 14 | 3 |
| TBA (od 1.2.2012) | 0 | 0 | 4 | 1 | 1 |
| EHR (od 1.9.2014) | 15 | 20 | 12 | 18 | 17 |
| TXK (od 01.09.2015) | 0 | 0 | 0 | 0 | 0 |
| TBY (od 01.01.2017) | | 1 | 2 | 0 | 0 |
| Total Ericsson Nikola Tesla Group | 316 | 304 | 338 | 273 | 204 |
| Employee turnover in Ericsson Nikola Tesla Group | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Total number of employees | 2949 | 3060 | 3173 | 3224 | 3236 |
| The number of new employees per year | 316 | 304 | 338 | 273 | 204 |
| Total % of increase in the number of employees | 5.7% | 3.7% | 3.6% | 3.6% | 3.6% |
| Employee turnover – ETK | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Total number of employees | 2148 | 2268 | 2402 | 2515 | 2571 |
| The number of new employees per year | 300 | 282 | 310 | 240 | 183 |
| Total % of increase in the number of employees | 11.1% | 5.5% | 5.9% | 5.9% | 5.9% |

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

| employees | ETK | % ETK | Libratel | TBA | EHR | TXK | TBY | affiliated companies | % | ETK GROUP | % |
|------------------------------------|-------------|-------------|-----------|-----------|------------|----------|----------|----------------------|-------------|-------------|-------------|
| younger than 25 | 143 | 6% | 2 | 2 | 3 | | 0 | 7 | 1% | 150 | 5% |
| 26-35 years old | 952 | 37% | 11 | 8 | 92 | 1 | 0 | 112 | 17% | 1064 | 33% |
| 36-45 years old | 869 | 34% | 7 | 4 | 110 | | 2 | 123 | 18% | 992 | 31% |
| 46-55 years old | 437 | 17% | 1 | 3 | 283 | | 5 | 292 | 44% | 729 | 23% |
| older than 55 | 170 | 7% | 6 | 2 | 122 | | 1 | 131 | 20% | 301 | 9% |
| total | 2571 | 100% | 27 | 19 | 610 | 1 | 8 | 665 | 100% | 3236 | 100% |
| male | 1850 | 72% | 23 | 11 | 535 | 1 | 5 | 575 | 86% | 2425 | 75% |
| female | 721 | 28% | 4 | 8 | 75 | 0 | 3 | 90 | 14% | 811 | 25% |
| average age | 38 | | 39 | 38 | 47 | 35 | 49 | 42 | | 40 | |
| 32 years old or younger than 32 | 898 | 35% | 9 | 7 | 59 | 0 | 0 | 75 | 11% | 973 | 30% |
| average employment duration | 10 | | 9 | 10 | 21 | 4 | 15 | 12 | | 11 | |
| up to two years of work experience | 633 | 25% | 15 | 6 | 27 | 0 | 1 | 49 | 7% | 682 | 21% |

Qualification structure of Ericsson Nikola Tesla Group*

| Qualification | ETK | % ETK | Libratel | TBA | EHR | TXK | TBY | affiliated companies | % | ETK GROUP | % |
|--------------------------|-------------|---------------|-----------|-----------|------------|----------|----------|----------------------|---------------|-------------|---------------|
| University degree | 2228 | 86.7% | 0 | 16 | 189 | 1 | 8 | 214 | 32.2% | 2442 | 75.5% |
| College degree and univ. | 245 | 9.5% | 5 | 1 | 133 | | | 139 | 20.9% | 384 | 11.9% |
| Secondary education | 94 | 3.7% | 20 | 2 | 243 | | | 265 | 39.8% | 359 | 11.1% |
| Highly-skilled workers | 2 | 0.1% | | | 38 | | | 38 | 5.7% | 40 | 1.2% |
| Skilled workers | 1 | 0.0% | 2 | | 4 | | | 6 | 0.9% | 7 | 0.2% |
| Others | 1 | 0.0% | | | 3 | | | 3 | 0.5% | 4 | 0.1% |
| total | 2571 | 100.0% | 27 | 19 | 610 | 1 | 8 | 665 | 100.0% | 3236 | 100.0% |
| University degree | 2228 | 87% | 0 | 16 | 189 | 1 | 8 | 214 | 32% | 2442 | 75% |
| PhD | 37 | | 0 | 0 | 2 | 0 | 0 | 2 | | 39 | |
| MSc | 133 | | 0 | 3 | 12 | 0 | 1 | 16 | | 149 | |
| Total | 170 | 6.6% | 0 | 3 | 14 | 0 | 1 | 18 | 2.7% | 188 | 5.8% |

Managers*

| | ETK | % | Libratel | TBA | EHR | TXK | TBY | affiliated companies | % | ETK Group | % |
|---------------------|-----|-----|----------|-----|-----|-----|-----|----------------------|-----|-----------|-----|
| number of managers | 187 | | 2 | 1 | 38 | 1 | 1 | 43 | | 230 | |
| managers - male | 146 | | 1 | 1 | 31 | 1 | 1 | 35 | | 181 | |
| managers - female | 41 | 22% | 1 | 0 | 7 | 0 | 0 | 8 | 19% | 49 | 21% |
| average manager age | 45 | | 58 | 56 | 47 | 34 | 47 | 48 | | 46 | |

Occupational injuries in ENT Group

| Ericsson Nikola Tesla d.d. | 2019 | | | | 2020 | | | |
|--|--------|------|-------|---|--------|---|-------|---|
| | Zagreb | | Split | | Zagreb | | Split | |
| | M | F | M | F | M | F | M | F |
| Total number of injuries | 4 | 3 | 0 | 0 | 1 | 0 | 0 | 0 |
| Work related injuries | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 |
| Injuries during commuting to/from work | 4 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Major injuries | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minor injuries | 1 | 3 | 0 | 0 | 1 | 0 | 0 | 0 |
| Total worktime lost | 1064 | 1098 | 0 | 0 | 115 | 0 | 0 | 0 |

| Ericsson Nikola Tesla Servisi d.o.o. | 2019 | | 2020 | |
|--|------|-----|------|---|
| | M | F | M | F |
| Total number of injuries | 7 | 1 | 5 | 0 |
| Work related injuries | 5 | 0 | 4 | 0 |
| Injuries during commuting to/from work | 2 | 1 | 1 | 0 |
| Major injuries | 2 | 1 | 1 | 0 |
| Minor injuries | 5 | 0 | 4 | 0 |
| Total worktime lost | 2256 | 432 | 2720 | 0 |

Explanation of injuries for Ericsson Nikola Tesla Servisi:
2019:

- 4 work related injuries on site (Dubrovnik, Split, Zagreb)
- 4 injuries in traffic (Zagreb, Rijeka, Šemovci, Split): 1 injury while driving on site (during work process) and 3 during regular commuting to/from work

2020:

- 4 work related injuries on site (Osijek, Zadar, Županja)
- 1 injury in traffic during regular commuting to/from work (Pula)



Environmental responsibility

Fighting climate change

As a socially responsible entrepreneur, Ericsson Nikola Tesla dedicates special attention to sustainable business, which also includes setting concrete goals in regard to climate and environmental protection, and act accordingly. Therefore, looking at our own impact on climate and the environment, and systemic optimization of spending all kinds of energy and other natural resources is an important part of the company culture and strategy. The fact that the Croatian capital is more often appearing on the list of European cities with the most polluted air, is just one of the arguments which supports the validity of the decision that decisive actions should start in "our own yard", more precisely, on our campus in Trešnjevka (Zagreb).

EU co-finances energy efficiency

Two and a half years after the signing of an agreement for granting funds from the European Structural and Investment Funds, within the "Competitiveness and Cohesion" Operational Program 2014-2020, a new period of sustainable business started, characterized by **annual energy savings of more than 4.6 million kWh, and at the same reduction of CO₂ emissions by almost 1400 tonnes**. For comparison, this is a reduction equivalent to savings that would be obtained by building a solar power plant with the surface of 8 soccer fields.

The project was implemented through a successful cooperation with the Ministry of Economy and Sustainable Development, the Environmental Protection and Energy Efficiency Fund and the Central Finance and Contracting Agency for the EU projects and programs.

Where there's a will and knowledge - there's a way

Nevertheless, when an agreement was signed in June 2018 on the co-financing of the "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.", no one could imagine, even in the worst scenario, that during its implementation, both pandemic and earthquake will take place. Despite all this, energy efficiency that comprised of eight completely different and very complex sub-projects, was finished timely and according to plan.



The plan's quantitative basis was made within the LIFE Program, focused on the contribution to the protection and improvement of quality of the environment, and reduction of the climate change impact through projects that will contribute to the transition to a low-carbon economy. Ericsson Nikola Tesla joined Life Clim'Foot project, and as the only large private company in Croatia, calculated its annual carbon footprint for 2017, and prepared a corresponding action plan to reduce it. A comprehensive and very complex calculation according to Bilan Carbone® model included a precise collection of data on numerous activities and own impacts on the environment. After several months of work, the results showed that in the company's total annual CO₂ emission, 47 percent are energy sources. This has quantitatively proven the belief of Management Board and Executive Management that in order to efficiently reduce carbon footprint, we must primarily focus on improvement of thermo technical plants with the corresponding infrastructure and physical characteristics of buildings.

In brief, the calculation confirmed that responsibility towards the environment, in addition to a "green" portfolio that includes solutions such as the ones in e-Health, Joint Information System of Land Registry and Cadaster or smart cities, must also encompass the improvement of energy efficiency from its own production processes. As the company has been for years continuously applying innovative measures of energy efficiency, precisely because the high energy consumption is a necessary prerequisite of production of the center for communication equipment and networks, whose market responsibility is continuously increasing, a comprehensive energy efficiency of a part of production resources presented itself as an optimum solution to reduce carbon footprint.

Adaptation of the Company's processes

A team of 600 participants worked on the energy consolidation of production site, the construction of the main heat exchange station with the corresponding substation and the main cooling station and outdoor connecting pipelines, as well as on the renewal of building envelopes of the two largest buildings, setting up the new heating, ventilation and air-conditioning systems and an installation of a significantly more efficient lighting system. Despite all the unexpected challenges, they managed to finish this large and a very complex project regarding coordination within



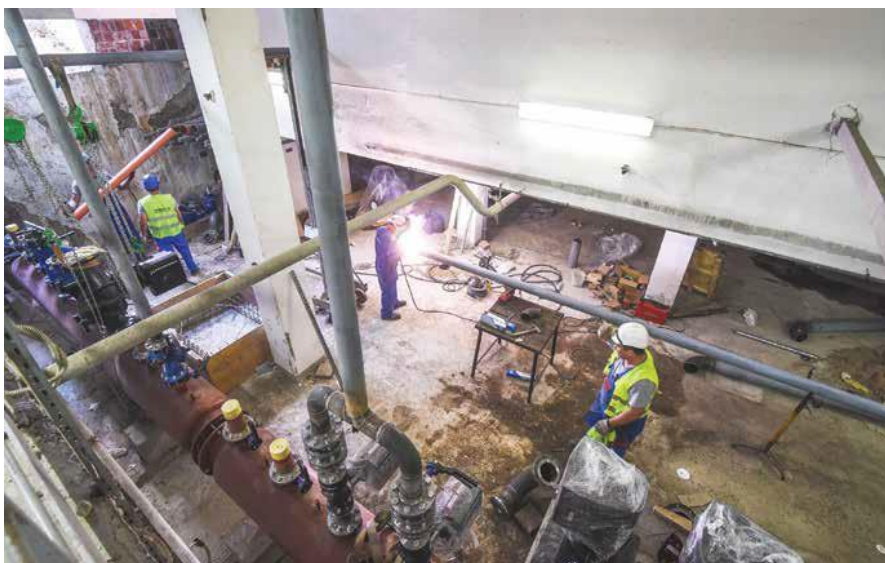
the agreed deadlines. During all implementation phases, the employees worked in full capacity and provided support to customers in conditions that were much harder than in the previous years and were able to achieve, with the EU grants and a great own investment, an important long-term objective.

A special challenge of this energy efficiency was the primary request regarding business continuity, and especially in the main production site that operates 24/7. Most works were invisible to the public eye, however, it had an important impact on our work, demanding a complex and a precisely coordinated adjustment of production process and several transfers of large amounts of equipment and employees, without any interruption in operations.

One of the largest energy efficiency projects in Croatia

By successfully implementing this project, one of the largest energy efficiency projects in Croatia was completed, co-financed by the EU funds. Since the beginning of 2021, we have been working with a significantly improved technological capacities. Thus, we have once again confirmed our strategic direction of reducing carbon footprint in line with the European Green Deal and the United Nations Sustainable Development Goals, as well as the responsibility towards the environment and the community in which we operate.

Through this concrete contribution and our own example, we have demonstrated that participating in the creation of public policies for calculation, and afterwards a consistent implementation of activities to reduce carbon footprint, despite all the organizational and financial efforts that follow this process, is the only rational response to the challenge of sustainable life and business.



ICT - support to sustainability in all sectors

Environmental pollution and climate change have been recognized as one of the biggest global threats, and to stop them, all economy sectors need to act. Therefore, smart application of ICT, that by itself does not cause significant pollution; however, its application can reduce the negative impact of almost all areas of operations, is also the key for sustainable future.

Many believe so nowadays, which is confirmed by the Ericsson ConsumerLab report dating May 2020. Based on the study of 12,000 Internet users worldwide, the report presents the current user attitudes on lifestyles that are environmentally sustainable. Solely in the last two decades, the concern regarding air and water pollution increased from 20 to almost 50 percent, while nowadays every other Internet user is concerned about climate change and global warming. Although, 8 out of 10 users believe that the governments are responsible for environmental protection, 70 percent believe that individuals are also responsible, whereby they see technology innovations as a key potential to tackle future environmental challenges. The respondents see the need for joint action and increase of individual positive impact, and half of them expect the companies to take their share of responsibility. It is interesting that the users who believe that technology will be crucial in solving future environmental challenges are almost two times more interested than others, for various ICT solutions that would help them to live more ecologically aware.

Remote work, remote medical treatment, which modern technology enables nowadays, implies less commuting to/from work, and results in decrease of CO₂ emissions, which COVID-19 pandemic also confirmed. However, this is not enough.

The potential of digital transformation

ICT solutions have much greater potential to increase sustainability by replacing physical products with digital products and services. Digitalization represents an enormous opportunity to increase productivity and sustainability, and ICT solutions, such as 5G, IoT, Artificial Intelligence, Virtual and Augmented reality, and Cloud implementation will be the most important ones to achieve a greater level of sustainability and profitability. In this regard, 2020 has by the virtue of decision, and primarily Force Majeure, truly became a turning point.



Digitalna transformacija transporta –

Despite the exponential growth of data transfer, for several years, the ICT industry's carbon footprint has been at the level of 1.4 percent out of the total global emissions, and the companies from this industry are globally also the biggest buyers of renewable electricity. These are often companies that influence others by their example, by setting demanding climate goals based on science and technology. They do not only reduce the emissions caused by their products and cooperation with others, but also invest directly or indirectly in renewable energy sources and reduction of carbon footprint from their own activities. Ericsson Nikola Tesla Group stands out in both areas.

Technologies, primarily 5G, are becoming the foundation of industry and society transformation that will enable an environmentally sustainable future. Until now, each previous mobile network generation has been increasing energy consumption and carbon emission, but 5G, as an energy most efficient standard ever developed, interrupted this trend in mobile sector. In addition, instead of suppressing activities with great emissions, Ericsson Nikola Tesla and other large companies in ICT industry, have been creating solutions that will efficiently replace many of these activities, primarily in energy supply, industry, transport, tourism, and agriculture.

Quality infrastructure as a basic prerequisite

Solutions, products and services, offered by Ericsson Nikola Tesla Group have a positive impact on business sustainability and the quality of people's lives and the environment. Since an important prerequisite for using any e-service is a quality infrastructure, we have intensified our cooperation with many telecom operators on their network modernization, and especially domestic operators. We became the exclusive supplier of 5G in the radio part of HT's network, and have also signed a contract on the delivery of microwave transport technology, which is a prerequisite for introducing 5G also in rural areas and on the islands. With A1 Hrvatska, we are working on the modernization and expansion of radio access network, as well as in core and transport network. With Telemach Hrvatska, we work on the expansion of capacities of microwave transport and core network.

In ICT solutions for Industry & Society, we continue improving services and systems in eHealth. We have contracted the delivery of new functionalities of the Central Healthcare Information System of the Republic of Croatia with the Ministry of Health. Furthermore, we contracted a business deal of the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus, thus confirming a significant position in developing and delivering innovative solutions in this segment, also in an international level.

Moreover, we have been working on the continuation of the implementation of the "Green Borders" project for the Ministry of the Interior, while for the State Geodetic Administration, we have been improving the Joint Information System for Land Registry and Cadaster.

All this enables a more efficient approach and data management, and often reduces the need to change location solely to perform some service, thus reducing the amount of greenhouse gas emissions that would, without the use of the mentioned systems and services, be emitted into the atmosphere.

We have also continued the projects related to e-Environment, primarily related to water protection, but also other natural resources, and the company's experts are also working on developing solutions for tourism and agriculture.

We expect that modern mobile communication networks, IoT and data science will significantly impact the transport industry as we know it today and bring a range of "green" solutions in the intelligent transport systems and logistics domain. Therefore, solutions for smart cities and e-transport are one of the segments that especially contribute to decarbonization in a modern, urban world.

In this segment, Ericsson Nikola Tesla, together with the Faculty of Transport and Traffic Science, University of Zagreb, and the City of Rijeka, works on the project SumBOOST (Sustainable Urban Mobility Boost Smart Toolbox), co-financed by EU grants. After project completion, Rijeka will have a new strategic foundation for realization of measures in the field of urban mobility, that will significantly improve the city's transport system, and direct it towards using sustainable forms of urban mobility.

Main risks include:

- Scarcity of materials and the change in regulatory requirements that may impact on the supplier ability to delivery components.
- Ericsson products at the end-of-life stage that do not enter the Product take-back program may end up in a poorly managed activities of waster treatment.
- Requirements of regulators and customers that are related to circular economy that may impact on the design of products and the strategy of development of Ericsson products.
- Slow-down or stopping the modernization of networks in certain locations and the introudction of 5G, due to unjustified fears of electromagnetic radiation.

Responsibility towards the environment

Ethics, responsibility, and sustainability are embedded in the foundations of business of Ericsson Nikola Tesla Group, and we strictly adhere to them in all our activities, and we expect our business partners to do the same. The norms defined by Ericsson Code of Conduct for Business Partners, 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, OHS, also imply responsibility towards the environment and fighting climate change. 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, starting from us to business partners and suppliers.

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



In line with the corresponding annual plans, we pay special attention to targeted evaluations (audits) of our suppliers and our own organizational units, including the evaluation according to ISO 14001. In this way, we actively evaluate our impact on the environment and contribute to increasing the overall quality of our management system. In line with the findings, when and if necessary, we provide education and/or suggest improvements, and in extreme cases, take radical corrective measures. We particularly insist on programs of improvement, which encompass plans and specific objectives of reducing the impact on the environment. We try to additionally improve our knowledge and experience, and transfer it to our suppliers/ contractors, business partners and the wider community.

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 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 have been continuously encouraging 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.

Therefore, Ericsson Nikola Tesla Group, in the conditions caused by pandemic that best demonstrate the importance of water in preserving health and saving lives, marked World Water Day, on March 22.

Since hand hygiene is crucial for limiting the spread of COVID-19 (as well as many other infectious diseases), and we are constantly reminded on the importance of regularly washing our hands, we have once again highlighted to our employees how important it is to have an adequate supply of clean water to protect ourselves, our loved ones and the community.

Although the responsibility for the biggest pollution lies in the domain of the international community, it does not amnesty us from failing to do so on a company and personal level. Ericsson Nikola Tesla and its partners carry out a series of activities that are related to the research of ICT applicability in collection of data and increase of information transparency related to water status. This also includes evaluation of risks related to the impact of water quality on public health and water ecosystems.

Furthermore, we encourage our employees to stop using single-use plastic products, and in cooperation with our service providers, we have already replaced most 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.

Main risks include:

- Uncertainties related to the long-term impacts of climate change, including extreme weather conditions and new or changed requirements and expectations from stakeholders or regulators.

Energy and water consumption

In addition to a “green” portfolio of solutions, products and services, our responsibility towards the environment also includes the renovation of our own infrastructure and improvement of business processes with the aim to rationalize the consumptions of energy and water, of which we regularly inform the public.

As knowledge is our most important product, we regularly use it to reduce the impact of our own work on the environment. The company has continuously been working on optimizing the consumption of all energy sources, and due to the innovations of our experts, we have been continuously realizing significant energy savings on our test systems, i.e. Test Environment, which is also our largest consumer of electricity.

Nevertheless, in this continuous, ever present process of improvement, last year is particularly highlighted, as in 2020 we completed an extensive energy efficiency project, co-financed by the EU’s Structural and Investment Funds within the “Competitiveness and Cohesion” Operational Program 2014-2020. Despite all the challenges, the works have been completed in due course, and therefore, this year the Company is entering a period in which it will realize reference energy savings of more than 4.6 million kWh, and at the same time reduce the emission of CO2 by almost 1400 tonnes.

Technological solutions of using heat pumps and using waste heat that appears when cooling equipment in test environment and new Data Center for the preparation of sanitary hot water, as well as for heating in transitional periods, will significantly contribute to long-term energy savings.

This strategic project is in line with the European Green Deal and United Nations Sustainable Development Goals, as well as with the Ericsson Nikola Tesla’s Action plan to reduce its carbon footprint, created three years ago within the European LIFE Clim’Foot project, in which the Company also participated.

We use intelligent tools to collaborate, which enables us to take additional care about the environment, in addition to customer satisfaction with the service provided, regardless of the fact that they are provided remotely. This primarily refers to services of network design and optimization, and integration and software network upgrade.

Furthermore, in our business operations, we use solely ZelEn (green) energy from renewable sources.

The production process, which is characterized by intellectual work of many experts, and equipping new work premises results in significant consumption of water and steam. Regardless of the continuous increase in the number of employees, the consumption of steam, and water even more, is significantly dropping, thus additionally contributing to the realization of our strategic goals regarding “green business” and sustainable development.

Quantitative indicators of a three-year consumption of water and energy for the Group’s location at Krapinska 45 are presented in the following table.

| year | water (m ³) | steam (tonnes) | electricity (MWh) |
|------|----------------------------|-------------------|----------------------|
| 2018 | 42,847 | 8,613 | 21,132 |
| 2019 | 21,195 | 6,921 | 22,467 |
| 2020 | 17,848 | 6,214 | 23,701 |

The data show how investing in infrastructure reconstruction, along with using the central system for monitoring, results in optimization of consumption of water and steam for heating purposes. Namely, despite extensive construction and electric energy works during the entire year, and a significant increase in the number of available workplaces, the trend of decrease in water and steam for heating purposes continued. Understandably, some of the decrease can be attributed to working from home. A slight increase in electricity consumption was caused by the works on the campus energy efficiency and increase of capacity in test environment of the center for communication equipment and networks.



Nova glavna rashladna stanica



Sustainable waste management

We manage waste in line with the Act on Sustainable Waste Management, and Ordinance on Waste Management which is in force as of July 2020.

We also apply all the corresponding regulations for special waste categories, and our internal procedures (which are published on intranet and available to all employees) 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. Waste management also includes the coordination with external contractors and monitoring the activities of collecting, sorting, temporary disposal, preparation of deliveries and deliveries of various types of waste.

We also meet all the obligations stipulated by the Ordinance on the Management of Waste of Electrical and Electronic Appliances and Equipment and take care of disposing electronic waste from our locations in the prescribed manner.

The main characteristic regarding facts and data on the waste collected at Ericsson Nikola Tesla location in Zagreb, Krapinska 45, during 2020 is a significant decrease in the amount of waste in almost every category. In addition to municipal solid waste, last year we collected, sorted and sent for recycling, i.e. corresponding treatment, a total of 13 types of waste: 9 non-hazardous and 4 hazardous types of waste (marked as * in the table). Some categories recorded an increased amount of waste, produced during intensive works on the project of "Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.", co-financed by the EU's Structural and Investment Funds within the "Competitiveness and Cohesion" Operational Program 2014-2020. This is primarily iron and steel, as the result of replacing a part of heating stations, as well as fluorescent pipes, that were replaced by a more efficient, and ecologically more acceptable, LED lighting.

A significant decrease in the amount of collected paper and cardboard, as well as wood and plastics, is the result of, among other things, a continuous work on raising awareness on the importance of responsible relation towards the environment and improving knowledge on sustainability among employees and suppliers, which is an important part of our business practice.

An increase in the amount of electronic waste and discarded equipment is the result of the change in technology and contracted services.

As an entrepreneur that is responsible for the environment, we have been continuously working on the improvement of processes, and waste sorting is the obligation of each employee.

Compared to a traditional, linear model based on the pattern “take-produce-spend-discard”, the basis of the circular approach is (almost) a closed loop, which includes reusing, repairing, renewing and recycling. Therefore, to support the recycling process, special, clearly marked containers for separate collection of paper, cardboard, batteries, etc., (which are regularly being emptied by external contractors) have been placed on many locations in work areas. Should there be a need to take care of a larger amount of waste than usual, for example, when moving, which was the case during the energy efficiency project, the employees have the corresponding support, provided by the Helpdesk of General Services.

Facts and figures:

Waste generated on Ericsson Nikola Tesla's location in Zagreb, Krapinska 45, in 2020.

| Key waste code | Waste name | Amount in tonnes |
|----------------|----------------------------------|------------------|
| 08 03 18 | waste printing toner | 0,38 |
| 15 01 01 | paper and cardboard packaging | 33,13 |
| 20 01 01 | paper and cardboard | 3,85 |
| 15 01 02 | plastic packaging | 18,84 |
| 15 01 03 | wooden packaging | 27,1 |
| 16 02 13* | discarded equipment - EE waste | 14,7 |
| 20 01 02 | glass | 0,72 |
| 17 04 05 | iron and steel | 18,82 |
| 20 01 33* | batteries and accumulators | 0,078 |
| 20 01 21* | fluorescent tubes | 0,4 |
| 16 06 01* | lead batteries | 0,53 |
| 16 06 05 | other batteries and accumulators | 0,04 |
| 20 03 07 | bulky waste | 0,7 |



Social
responsibility

Social responsibility

Regardless of the fact that understanding the importance of corporate social responsibility (CSR) advanced in the last few years among the companies and all the other actors of social and economic life, nothing could compare to the major rise of its affirmation and application as the two strong and long-lasting crisis that marked 2020. Covid-19 pandemic and disastrous earthquakes left a deep mark on people, business and the community; they jeopardized all the aspects of human life and business, to which responsible entrepreneurs reacted with a great amount of empathy and humanity.



Despite the mentioned crisis, the Group has also continued with the ongoing activities related to the Group's positive impact and changes in society, primarily through technology leadership and innovative ICT solutions for improving people's lives, as well as development of society and the economy. Advanced technologies have proved to be crucial in order for life and work to go on as normal as possible.

It is worth highlighting the fact that business entities with CSR as part of their strategy, and with it linked all detected target groups, goals and wanted relations, showed greater resilience to such difficult conditions, and were ready to adapt. The crisis generated completely new ways of life and work, business needs, skills, etc., that quickly became a necessity for sustainable business. Such scenario also happened in Ericsson Nikola Tesla Group, that maintained a stable business performance and at the same time took care of the health and safety of all stakeholders.

Therefore, through the example of its own stable and successful business performance, the Group has continued to strongly contribute to the national economy, has been developing its own economic sustainability and has the strength to invest in development and to promote positive practices in all business segments.

Deeply moved by the community's needs and aware of our comparative advantages, we have maintained the focus on three main areas:

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

Young people in focus

The link between young people and technology is twofold. On the one hand, it is clear that they are strongly focused on the use of all the technologies in their daily activities, which places them among the most active users. On the other hand, this is the group that has the highest potential to use all the benefits provided by this technology in a professional sense but has not been using this potential enough. Namely, despite the significant user experience, young people do not choose STEM professions, which causes a great, unfulfilled demand in the labor market for these types of professionals.

Therefore, for some time now, the Group's intention is to show all the advantages of choosing the so called "future professions" in an interesting and acceptable way for young people, and show them first-hand what a profession in advanced technologies' offers.

In a year in which many conferences and projects, such as Summer Camp, Open Door Program, fairs and workshops in schools and faculties, etc. had to be postponed in order to comply with the epidemiological measures of avoiding social contact, the Group's experts have found a way to convey these messages and to participate in quality projects. In addition to motivating young people for STEM professions, a special effort was given to attract future experts to work in Ericsson Nikola Tesla Group, as the employer of choice.

Incentive to programs at the University of Split



The University Department of Professional Studies at the University of Split has been implementing the project "Improvement and implementation of professional practice at the University Department of Professional Studies", which is co-funded by the EU funds. Ericsson Nikola Tesla is a project partner in the implementation of this project. The project aims to establish a service for professional practice that would improve the services of support for students, advance the professional practice models, strengthen the capacities of the University Department of Professional Studies and boost the level of students' knowledge and skills. The project is aimed at teaching and non-teaching staff, and students of undergraduate professional studies and specialist graduate studies. The upgrade of the existing programs will improve the quality of studies and students' competences, which they need to graduate and enter the labor market.

What does our R&D do?



In January, during the workshop held at the Faculty of Electrical Engineering and Computing in Zagreb, we were joined by students who wanted to find out more about our field of work, the kind of jobs we offer, but also about the development of 5G mobile networks in which Croatian experts actively participate together with their colleagues in Ericsson corporation. They showed the greatest interest in demo session. Ten experts from R&D Center answered numerous students' and professors' questions. The students were particularly interested in access devices from Ericsson 5G portfolio, MIMO, as well as new scientific papers related to beamforming, etc. Considering that FER students are among the profile of employees that is chronically lacking in the domestic labor market, it was important to show them that there are equally good research and development jobs in Croatia, and in this way motivate them not to search for their careers outside of our country, but in the largest domestic R&D Center.

"Postani i TI, djevojka IT" (Become a Girl in ICT)



On the occasion of the Declaration on Women in Digital, mid-February the Central State Office for the Development of Digital Society organized a round table titled "Postani i TI, djevojka IT" (Become a Girl in ICT) at the Faculty of Electrical Engineering, Computer Science and Information Technology (FERIT) in Osijek. Our Group also supported a greater engagement of women in digital world. The participants of round table discussion, female experts from various companies and institutions, talked about their professional journey to girls from senior grades of secondary schools, encouraging them in their decision to choose STEM professions.

Learning Java in Croatian schools



On the occasion of marking 25 years since the official presentation of Java, at the end of May, a virtual round table was held, aiming to popularize the learning of this language among pupils and students. The reason is clear: according to the number of jobs, Java is the number one in the market. The representatives of all levels of educational system in Croatia participated at the round table, from high schools to faculties. In addition to Algebra, Electrical Engineering Vocational School in Zagreb, the Faculty of Organization and Informatics, RIT Croatia, Polytechnic of Šibenik, as the representative of business sector, Ericsson Nikola Tesla also presented its view on Java.

New knowledge: Workshop on Embedded Systems



A more efficient way to popularize current technologies are also Group's partnerships in various activities for students. Such activity is Workshop on Embedded Systems (WES), a free professional workshop organized by EESTEC LC Zagreb. The fifth edition of the workshop was dedicated to design of an embedded system by using micro controllers and CAD tools. In addition to the theoretical part, the experienced engineers shared the issues they are faced with in practice, and the students tested their knowledge on a practical assignment.

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.

For better life and work

Our solutions regarding health care, public safety, e-Business, and in general in the field of digital transformation, nowadays, more than ever, due to extreme circumstances of business and life, help the entire community. In addition to solutions, as a necessary prerequisite for public services and connectivity, we also secure stable telecommunication networks, in order for smooth-running of activities. For example, the work of educational institutions in the conditions of on-line work is unimaginable without reliable networks that can withstand the greatest loads. This is similar in many other areas, in which we may not be directly responsible, however, as their work relies on a reliable infrastructure, our contribution is also significant.

Another good example is our partnership with the stakeholders that fight against COVID-19: in cooperation with the Ministry of Health, Croatian Institute for Public Health, APIS IT and Croatian Health Insurance Fund (HZZO), we have upgraded the Central Healthcare Information System of the Republic of Croatia, and in particular its safety infrastructure, so that it would enable the implementation of new, especially important web applications in fight against COVID-19 infection, that literally saved lives.

Gender equality of highly educated women in the workplace

The agenda to empower women is high on the list of goals of each advanced society, and the increased percentage of highly educated women and their equality in professional environment are proof of quality policies and measures to achieve this goal. Scientists from the Faculty of Economics and Business in Zagreb, Professors Nina Pološki Vokić, PhD, Alka Obadić, PhD, and Dubravka Sinčić Čorić, PhD, carried out a research of the current situation in Croatia, and presented the findings in the book, titled "Gender Equality in the Workplace: Macro and Micro Perspectives on the Status of Highly Educated Women".

Ericsson Nikola Tesla, and Gordana Kovačević as a leader were described among the companies with good practice when it comes to inclusion of women. The representatives of companies with good practices that were presented in the book, such as Ericsson Nikola Tesla and HT, participated in a round table discussion "Karijere i uključivanje žena – prakse organizacija u Hrvatskoj" (Careers and inclusion of women – practices of organizations in Croatia).

For the Group, gender equality is just one piece of the puzzle that makes a wider dedication of the company to diversity and inclusion in the workplace and in the society. In addition to equal opportunities for all, such as equal salary and parental leave for female and male employees, gender equality is encouraged through greater efforts in representation of women in the company, as well as in its management. With the purpose to achieve higher representation of women in ICT industry, we have been continuously involved in activities and initiatives, such as Girls in ICT Day, etc.



Helping the community

In 2020, perhaps more than ever, multiple crisis in the society encouraged Ericsson Nikola Tesla Group and its employees to solidarity and to take initiative. Through many concrete actions of support and help, we have demonstrated the Group's fundamental values.

Particularly sensitive to the needs of vulnerable groups in society, threat to health and safety of people and assets, the Group and the employees have always been ready to take a step further in situations that require a selfless engagement in dealing with the consequences of natural disasters, in improving the living and working conditions of vulnerable groups of citizens, etc. It is through social engagement and personal contribution that they contribute to a fairer society and a better life for all.



Support in fighting against COVID-19

In misfortune that affected the entire world and marked the life and work in 2020, the Group also extended a helping hand to the community. Ericsson Nikola Tesla's management decided to give multiple donations to the healthcare system, amounting to HRK 400,000. To improve the conditions of treating severely ill patients, a donation of HRK 100 thousand was given to each COVID-19 center - one in the Clinical Hospital Dubrava and the other one in the Clinical Hospital Center Osijek. We donated infusion pumps, worth more than HRK 100 thousand, to the University Hospital for Infectious Diseases "Fran Mihaljević" in Zagreb. Moreover, we donated computer equipment to health institutions across Croatia that have been fighting against Covid-19.

A great contribution was also given by the employees who, in their free time, produced protective equipment for medical staff, such as 3D visors.



Help to people hit by devastating earthquakes

In times when special measures were introduced throughout the entire country, due to the newly arrived virus, Zagreb was hit by another unprecedented disaster. At the end of March, the strongest earthquake in the last 140 years, with 5.5 magnitude on the Richter Scale, destroyed the city and took lives. In addition to many buildings and institutions, telecom infrastructure was also damaged, which additionally aggravated the situation. Through a quick and a professional action of 36 employees of Ericsson Nikola Tesla Servisi, the malfunction was promptly repaired, which was especially important for the operation of emergency services, as well as for the concerned citizens.

And when it seemed, at least from a psychological perspective, that the danger from earthquake passed, Croatia was hit by another, an even more deadly earthquake. An earthquake of 6.2 magnitude with epicenter close to Petrinja in Sisak-Moslavina County took eight human lives and left 36,000 damaged buildings. The aftershocks were felt for weeks, which additionally devastated the entire area. The Group also responded to the Government's call to help the reconstruction after the earthquake by donating HRK 400,000. The employees additionally engaged by joining numerous voluntary citizens' initiative, helping to clean up the consequences of earthquakes, working in voluntary centers, etc.

In devastating earthquakes, more than 60 of our employees lost their homes, or their homes were badly damaged. The employees have, with the Group's support, initiated a humanitarian action, "Kolegama sa srcem" ("For our colleagues from our hearts"), with the aim to voluntarily collect cash funds to repair the damages. With almost hrk 300 thousand collected, 12 colleagues started the reconstruction.

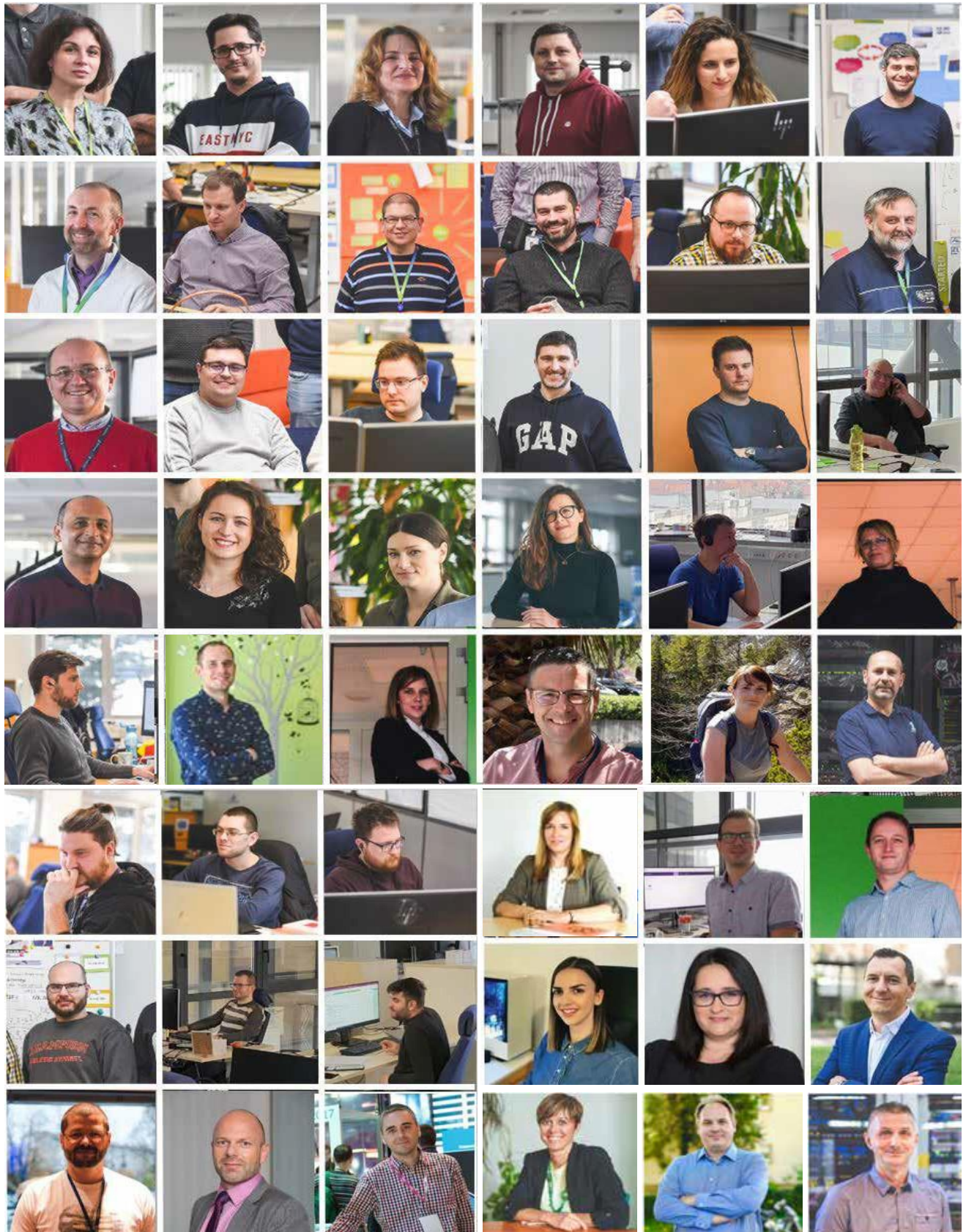
Helping the most vulnerable groups

Although the pandemic and natural disasters have increased the community's needs for help to maximum and the entrepreneurs have mainly focused their CSR activities on that, the Group did not forget about other vulnerable groups. Even in the circumstances as demanding as this, we have continued the tradition of donating funds for four soup kitchens: in Zagreb, Split, Osijek and Vukovar, where homeless people and socially deprived people receive help throughout the entire year in food and necessities.

Better residence and work conditions

Following the principles of sustainability and circular economy, a few years ago the Group has come up with a way to find a new, socially useful purpose for high-quality, second-hand office furniture. In cooperation with the community, potential users that could use such equipment for a more successful work and a more pleasant stay have been detected, and thus our office furniture is nowadays daily used in many institutions such as schools, educational workshops for children and elderly, etc. Therefore, in a very positive way, all the criteria of sustainability have been satisfied, opening new possibilities for various groups.

Big and connected team from Ericsson Nikola Tesla





Objectives,
achievements
and indicators

Collaborate with us

This report and all the important information about Ericsson Nikola Tesla can be found at: www.ericsson.hr. Department of Marketing, Communications and CSR is responsible for Non-financial reporting and sustainability.

If you wish to find out more, give your comments, opinions or suggestions, make sure to communicate with us:

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Awards and recognitions

- Awards of the Zagreb Stock Exchange in the categories:
 - share with the largest increase in turnover
 - Share with the largest increase in price
- Site Analytics, application, for the development of which a team of experts from Ericsson Nikola Tesla is responsible, won the award at Asia Communication Awards in the category Network Automation
- At the gathering of the Global Customer Unit Deutsche Telekom (GCU DT), our Project RAN modernization and commercial launch of 5G network, by implementing Ericsson Spectrum Sharing in HT's network, won the first place in the Best Project Execution category.
- Project Management Institute - PMI Croatia awarded the Recognition for the best young project manager in 2019 to Ericsson Nikola Tesla's expert in charge of customer project management.



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 impacts.

Positive impact objectives

| Long-term objective | 2020 achievement |
|---|--|
| Increase the representation of women up to 40% in Supervisory Board; 30% among the Executive Management, line managers and workforce by 2025. | Achieved: Supervisory Board 20%; the Executive Management 29.4%, line managers 21%, workforce 25% |
| Reduce CO ₂ emissions by offering and implementing new solutions in the portfolio | In cooperation with the Ministry of Health, Croatian Institute for Public Health, APIS IT and Croatian Health Insurance Fund, we have upgraded the Central Healthcare Information System of the Republic of Croatia (CEZIH). We have contracted the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus. These e-Health solutions reduce carbon footprint by eliminating the need to travel related to the services that are now available remotely. Furthermore, we participate in the project SumBOOST, through which the European Union co-finances the development of sustainable urban transport, among other things, also with the aim to reduce CO ₂ emission in urban traffic. |
| Encourage the reduction of impact on climate through the reduction of CO ₂ emissions in business-related activities | We have successfully finished the project "Increasing energy efficiency and using renewable energy sources at Ericsson Nikola Tesla d.d.", co-financed by the EU's Structural and Investment Funds. This will reduce annual CO ₂ emission by almost 1400 tonnes. |

Risk mitigation objectives

| Long-term objective | 2020 achievement |
|--|--|
| Responsible sourcing: 1. percentage of audits executed in total audits planned (with the weight of 40% in total result) 2. percentage of closed findings in total audit findings (with the weight of 60% in total result) | 96.25% (one finding was not closed during 2020) |
| Anti-corruption program | 100 percent of Ericsson Nikola Tesla's active employees completed an anti-corruption course (Anti-corruption 3.0) |
| Secure that Business Units adhere to Sales Compliance process | Business done 100% in line with the Sales Compliance process. |
| 1. Audits of suppliers regarding OHS; SRAN HT, Energy Efficiency, 12 audits based on priority 2. Awareness about the importance of reporting accidents and near misses through educational information that will be delivered to all employees 3. Internal auditors training for ISO 45001 (Occupational Health and Safety Management System), 3 internal auditors | <p>In 2020, 12 audits were carried out based on priority (3 audits on the project of energy efficiency, 7 internal audits for ISO 45001, 2 audits of external suppliers).</p> <p>Due to the situation regarding COVID-19 pandemic and earthquake in Croatia in Q1 2020, there was a re-arrangement of goals set, and the planned goals (2 and 3) and their realization, were rescheduled to 2021.</p> <p>In 2020, OHS focus of the entire ENT Group was aimed at protecting employee health in new conditions, and planning and realizing goals that derived from these conditions, such as crisis management (instructions, procedures, posters, health bulletin, etc.), new risk assessment, new plan of evacuation and saving in Zagreb (instructions in case of an earthquake) and successful certification of OHS system (ISO 45001). In addition, Energy Efficiency project was successfully finished, without OHS incidents.</p> <p>Although in aggravated conditions (restriction of movement – official pass, as well as restrictions of visits, gatherings, education and business travel, etc.), and the fact that the majority of employees worked from home, OHS realized exceptional results in a new, nonstandard situation. In addition to all the new activities that were carried out, at the same time all the legal prerequisites that represent regular activities of OHS were met.</p> |

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 Code 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 Code of Corporate Governance adopted by the Croatian Financial Services Agency (HANFA) and Zagreb Stock Exchange, and meets the obligations derived therefrom, with the exception of provisions whose application is not practical at a given moment.

Deviations from the Code of Corporate Governance are as follows:

- Chapter 3: Appointment of the members of Management Board and Supervisory Board

The role of the appointment committee

The Supervisory Board does not have an established appointment committee; the Chairman of the Supervisory Board carries out these activities.

- Chapter 4: The Supervisory Board and its Committees

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.

Committees of the Supervisory Board

The Supervisory Board has an Audit Committee: it does not have an established appointment committee and remuneration committee. The activities of these committees are carried out by the Chairman of the Supervisory Board.

- Chapter 5: Management Board

Composition of the Management Board

The Management Board has one member – Company's Managing Director. In its work, the Management Board closely cooperates with the Executive Management that includes, in addition to the Managing Director, the directors of main organizational units.

Management Board Duties

The Management Board does not have the adopted Rules of Procedure: responsibilities and ways of working of the Company's Managing Director are defined by the Company's Articles of Associations and internal acts. Ericsson Nikola Tesla's governance model defines the responsibilities and the way of working of the Executive Management.

- Chapter 6: Remuneration of Management Board and Supervisory Board

Reporting on remuneration

Remuneration policy for the members of the Supervisory Board and the Management Board will be presented for approval to the Company's General Meeting in 2021 and will be available on the Company's web pages.

The information regarding emoluments and other ways of remuneration of the Company's Supervisory Board and Executive Management are published in the Annual Report, in the total amount for all the members.

- Chapter 7: Risks, internal control and audit

The role of the Supervisory Board and the Management Board

The Company does not have an officially adopted policy that determines the nature and the scope of risks that the company must and is willing to take over ("prone to risk taking"). However, all the key risks have been identified, its nature and scope has been defined, and they are regularly discussed at the meetings of the Supervisory Board, Audit Committee and Executive Management, and are covered in the Group's Annual Report.

Risk management and internal control

The Company has established systems of internal control, including risk management, and the plan is to establish a function of an independent internal audit in 2021.



Consolidated Financial Statements and Auditors' report

Ericsson Nikola Tesla d.d.

Consolidated Financial
Statements and Auditors' report
31 December 2020

Ericsson Nikola Tesla Group

Profile of the Parent Company and its subsidiaries (the Group)

History and incorporation

Ericsson Nikola Tesla d.d. (the Parent Company) is a Croatian company with over seventy years of continuous operations. It is a leading supplier and exporter of specialized telecommunications equipment, ICT solutions, software and services in Central and Eastern Europe.

The Parent Company was founded on 13 May 1995, as a result of the privatization of the enterprise Nikola Tesla - Poduzeće za proizvodnju telekomunikacijskih sistema i uređaja, po.

Ericsson Nikola Tesla d.d. has prepared these consolidated financial statements for the Parent Company and its five active subsidiaries (of which two are domiciled in Croatia, one in Bosnia and Herzegovina, one in Kosovo and one in Belarus).

Principal activities

The principal activities of the Group are research and development of telecommunications software and services, design, testing and integration of total communications solutions, managed services, supply and maintenance of communications solutions and ICT solutions, towards customers within the Ericsson Group, customers in the Republic of Croatia, and Bosnia and Herzegovina, and several customers in Central and Eastern Europe.

Ericsson Nikola Tesla d.d. is a joint-stock company incorporated in Croatia. The headquarters of the Parent Company are in Zagreb, Krapinska 45.

Code of Corporate Governance

The Group applies the Code of Corporate Governance of the Zagreb Stock Exchange and meets the obligations derived therefrom, with the exception of provisions whose application is not practical at the moment.

Supervisory Board, Audit Committee, Management Board and executive management

Supervisory Board

The Supervisory Board members during 2020 and up to the release of these consolidated statements were:

| | | |
|-------------------------------|--------------------------------------|---|
| Franck Pierre Roland Bouétard | Chairman | Appointed on 20 June 2018 |
| Olgica Spevec | Member; Vice-Chairman | Appointed on 13 June 2019; elected for Vice-chairman of Supervisory Board on 17 December 2020 |
| Vidar Mohammar | Member | Reappointed on 13 June 2019 |
| Dubravko Radošević | Member | Reappointed on 20 June 2018; Vice-chairman until 17 December 2020 |
| Vladimir Filipović | Member and employees' representative | Appointed on 29 November 2018 |

Audit Committee

The Audit Committee members during 2020 and up to the release of these consolidated statements were:

| | | |
|--------------------|----------|--|
| Olgica Spevec | Chairman | Appointed on 17 December 2020 |
| Dubravko Radošević | Chairman | Chairman/member until 17 November 2020 |
| Vidar Mohammar | Member | Reappointed on 13 June 2019 |
| Vesna Vašiček | Member | Appointed on 21 February 2017 |

Ericsson Nikola Tesla Group

Profile of the Parent Company and its subsidiaries (the Group) (continued)

Management Board

The Management Board has one member:

| | | |
|-------------------|-----------|---------------------------------|
| Gordana Kovačević | President | Reappointed on 17 December 2019 |
|-------------------|-----------|---------------------------------|

Executive management

As at 31 December 2020, the executive management comprised:

| | |
|--------------------------|---|
| Gordana Kovačević | Company President |
| Branka Vučemilo Elezović | Director, Legal |
| Branko Dronjić | Director, IT&Test Environment Operations |
| Damir Bušić | Director, Finance, Sourcing and Commercial Management |
| Darko Huljenić | Director, Research |
| Dragan Fratrić | Director, General Services |
| Goran Ožbolt | Director, Sales and Marketing for Telemach Hrvatska and Alternative Operators |
| Hrvoje Benčić | Director, Digital Services and Operations, Networks and Media |
| Ivan Barać | Director, Sales and Marketing for Hrvatski Telekom and Crnogorski Telekom |
| Jagoda Barać | Director, Sales and Marketing for Export markets for Op. Seg. |
| Marijana Đuzel | Director, Human Resources |
| Milan Živković | Director, Strategy and Business Development & GIR |
| Miroslav Kantolić | Director, Sales and Marketing for A1 Croatia |
| Patrick Gerard Martin | Director, R&D Center |
| Snježana Bahtijari | Director, Marketing, Communications & Corporate Social Responsibility |
| Tihomir Fabeta | Director, ICT for Industry and Society |
| Vjeran Buća | Director, Sales and Marketing for Industry and Society |

Ericsson Nikola Tesla Group

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual consolidated financial statements

The Management Board is required to prepare consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such consolidated financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the business situation of the Group together with the annual consolidated financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements which will be presented to the General Assembly of Shareholders.

The consolidated financial statements set out below were authorized by the Management Board on 23 April 2021 for issue to the Supervisory Board and are signed below.

Gordana Kovačević
President
Ericsson Nikola Tesla
d.d.
Krapinska 45
10000
Zagreb
Croatia



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Ericsson Nikola Tesla d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2020, and its consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

REVENUE RECOGNITION

Revenue in 2020: HRK 2,022,953 thousand (2019: HRK 1,779,306 thousand). As at 31 December 2020: trade accounts receivable: HRK 193,332 thousand; contract assets: nil; contract liabilities: HRK 191,658 thousand (31 December 2019: trade accounts receivable: HRK 215,437 thousand; contract assets: HRK 3,239 thousand; contract liabilities: HRK 149,375 thousand).

Please refer to the Note 1 *Revenue recognition* of Significant accounting policies, Note 4 c) *Revenue recognition* of Critical accounting estimates and judgements, Note 5 *Sales revenue* and Note 6 *Segment reporting* in the financial statements.

| Key audit matter | How our audit addressed the matter |
|---|--|
| <p>In the year ended 31 December 2020, the Group's principal revenue streams included sales of products and software, as well as provision of services, including installation and integration services, maintenance and support.</p> <p>Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors:</p> <ul style="list-style-type: none">— In the Group's Networks and Digital services segment, goods and services with different revenue recognition patterns may be sold as part of one contract or several contracts accounted for as one arrangement. The Group applies significant judgment, among other things, in identifying contracts which require to be combined and accounted for as one arrangement, and identifying performance obligations therein, including those, if any, resulting from warranties and non-returnable upfront fees;— Each performance obligation requires evaluation of whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised products or services is transferred to customers. Note 6 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams; | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">— Updating our understanding of and evaluating the Group's revenue recognition process, and testing related key internal controls, in particular the controls associated with project feasibility and adequacy of approvals, segregation of duties, determination of revenue recognition pattern, fulfillment of contracts and procedures related to finalization of projects and acceptance by the customer;— Assessing the Group's revenue recognition policy for compliance with relevant provisions of the financial reporting standards;— For a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of project managers and relevant finance personnel in order to challenge the Group's:<ul style="list-style-type: none">○ Meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due;○ Identification of the contracts which require to be accounted for on a combined basis and of performance obligations within contracts. The procedure included, among other things, assessing the nature of the warranties provided to customers for potential consideration as performance obligations; |



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters *(continued)*

REVENUE RECOGNITION *(CONTINUED)*

| Key audit matter <i>(continued)</i> | How our audit addressed the matter <i>(continued)</i> |
|---|--|
| <p>— Although contracts with customers are usually agreed with fixed transaction price, significant judgement is required in allocating the transaction price to the performance obligations. The transaction price, which is the consideration the Group expects to receive for the transfer of products and services to the customer, is allocated to the performance obligations based on its relative standalone selling price;</p> <p>In the wake of the above factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.</p> | <ul style="list-style-type: none">○ Determination of total contract consideration, by reference to contracts with customers and any subsequent modifications to the frame agreement, if any;○ Allocation of the contract consideration to each of the identified performance obligations, based on their estimated stand-alone selling prices, also by reference to the sales department's data and the analysis of current transaction prices;○ Determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to sales invoices, inventory and shipping documents, customer acceptance forms and other documents as appropriate. <p>— For a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers, invoices, shipping documents and customer acceptance forms;</p> <p>— Examining whether the Group's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.</p> |

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Group's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. (continued) Report on the Audit of the Financial Statement

Other Information (continued)

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and the Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 26 June 2020 to audit the consolidated financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2020. Our total uninterrupted period of engagement is two years, covering the year ended 31 December 2019 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 April 2021;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

23 April 2021

Ericsson Nikola Tesla Group

Consolidated statement of comprehensive income

as at 31 December 2020

| | | 2020 | 2019 |
|--|----------|----------------|----------------|
| | Notes | HRK '000 | HRK '000 |
| Sales revenue | 5, 6 | 2,022,953 | 1,779,306 |
| Cost of sales | 7 | (1,848,582) | (1,614,851) |
| Gross profit | | 174,371 | 164,455 |
| Selling expenses | 7 | (40,122) | (47,107) |
| Administrative expenses | 7 | (43,707) | (34,721) |
| Other operating income | 7 | 23,185 | 20,199 |
| Impairment loss on financial assets | | (9,336) | (265) |
| Operating profit | | 104,391 | 102,561 |
| Finance income | 9 | 6,125 | 7,176 |
| Finance expense | 9 | (3,884) | (1,507) |
| Finance income/(expense), net | 9 | 2,241 | 5,669 |
| Profit before tax | | 106,632 | 108,229 |
| Income tax | 10 | (12,092) | (5,750) |
| Profit for the year | | 94,540 | 102,479 |
| Other comprehensive income | | | |
| Currency translation differences | | (222) | 90 |
| Total comprehensive income for the year | | 94,318 | 102,569 |
| Earnings per share (HRK) | 11 | 71.02 | 76.97 |

Ericsson Nikola Tesla Group

Consolidated statement of financial position

as at 31 December 2020

| | | 2020 | 2019 |
|---|--------|----------------|----------------|
| Assets | Notes | HRK '000 | HRK '000 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 153,802 | 143,776 |
| Right of use assets | 28 | 53,955 | 51,920 |
| Intangible assets | 13 | 4,522 | 4,412 |
| Loans and receivables | 14 | 37,867 | 53,772 |
| Deferred tax assets | 10 | 9,541 | 16,200 |
| Total non-current assets | | 259,687 | 270,080 |
| Current assets | | | |
| Inventories | 15 | 86,616 | 173,311 |
| Trade receivables | 16 | 193,332 | 215,437 |
| Receivables from related parties | 29 (c) | 89,002 | 112,861 |
| Contract assets | 27 | - | 3,239 |
| Other receivables | 17 | 6,226 | 18,123 |
| Income tax receivables | | 11,979 | 14,323 |
| Prepayments | | 33,411 | 11,654 |
| Financial assets at fair value through profit or loss | 18 | 32,966 | 37,892 |
| Cash and cash equivalents | 19 | 281,056 | 97,906 |
| Total current assets | | 734,588 | 684,746 |
| Total assets | | 994,275 | 954,826 |

Ericsson Nikola Tesla Group

Consolidated statement of financial position (continued)

as at 31 December 2020

| | | 2020 | 2019 |
|--------------------------------------|--------|----------------|----------------|
| Equity and liabilities | Notes | HRK '000 | HRK '000 |
| Equity | | | |
| Share capital | 20 (a) | 133,165 | 133,165 |
| Treasury shares | 20 (b) | (506) | (240) |
| Legal reserves | 20 (c) | 6,658 | 6,658 |
| Reserve for treasury shares | 20 (d) | 13,904 | 14,873 |
| Reserve of currency conversion | | (281) | (176) |
| Retained earnings | | 192,934 | 160,473 |
| Total equity | | 345,874 | 314,753 |
| Non-current liabilities | | | |
| Borrowings | 21 | 30,387 | 27,362 |
| Lease liabilities | 28 | 37,384 | 33,584 |
| Other non-current liabilities | 22 | 1,095 | 8,704 |
| Employee benefits | 23 (a) | 10,388 | 10,314 |
| Total non-current liabilities | | 79,254 | 79,964 |
| Current liabilities | | | |
| Payables to related parties | 29 (c) | 10,937 | 90,579 |
| Borrowings | 21 | 14,316 | 34 |
| Trade and other payables | 24 | 230,553 | 188,460 |
| Income tax payable | | 2,463 | 315 |
| Provisions | 25 | 13,718 | 16,376 |
| Accrued charges and deferred revenue | 26 | 87,262 | 95,913 |
| Contract liabilities | 27 | 192,322 | 149,375 |
| Lease liabilities | 28 | 17,576 | 19,057 |
| Total current liabilities | | 569,147 | 560,109 |
| Total liabilities | | 648,401 | 640,073 |
| Total equity and liabilities | | 994,275 | 954,826 |

Ericsson Nikola Tesla Group

Consolidated statement of changes in equity

for the year ended 31 December 2020

| | Share capital | Treasury shares | Legal reserves | Reserve for treasury shares | Translation reserve | Retained earnings | Total |
|--|----------------|-----------------|----------------|-----------------------------|---------------------|-------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January 2019 | 133,165 | (240) | 6,658 | 14,873 | (86) | 150,609 | 304,979 |
| Changes in equity for 2019 | | | | | | | |
| Total comprehensive income | - | - | - | - | (90) | 102,749 | 102,659 |
| Dividend distribution for 2018, Note 20 (e) | - | - | - | - | - | (94,000) | (94,000) |
| Equity-settled transactions, Note 23 (b) | - | - | - | - | - | 1,114 | 1,114 |
| Total contributions by and distributions to owners of the parent recognized directly in equity | - | - | - | - | - | (92,886) | (92,886) |
| As at 31 December 2019 | 133,165 | (240) | 6,658 | 14,873 | (176) | 160,473 | 314,753 |
| As at 1 January 2020 | 133,165 | (240) | 6,658 | 14,873 | (176) | 160,473 | 314,753 |
| Changes in equity for 2020 | | | | | | | |
| Reclassification | - | - | - | - | 117 | (117) | - |
| Total comprehensive income | - | - | - | - | (222) | 94,540 | 94,318 |
| Dividend distribution for 2019, Note 20 (e) | - | - | - | - | - | (65,231) | (65,231) |
| Purchase of treasury shares, Note 20 (b) | - | (1,235) | - | - | - | - | (1,235) |
| Share-based payments, Note 23 (b) | - | 969 | - | (969) | - | - | - |
| Equity-settled transactions, Note 23 (b) | - | - | - | - | - | 3,269 | 3,269 |
| Total contributions by and distributions to owners of the parent recognized directly in equity | - | (266) | - | (969) | - | (61,962) | (63,197) |
| As at 31 December 2020 | 133,165 | (506) | 6,658 | 13,904 | (281) | 192,934 | 345,874 |

Ericsson Nikola Tesla Group

Consolidated statement of cash flows

for the year ended 31 December 2020

| | | 2020 | 2019 |
|--|-----------|-----------------|-----------------|
| | Notes | HRK '000 | HRK '000 |
| Cash flows from operating activities | | | |
| Profit before tax | | 106,632 | 108,229 |
| Adjustments for: | | | |
| Depreciation and amortization | 7, 12, 13 | 55,686 | 57,534 |
| Effects of lease derecognition | | (217) | - |
| Impairment losses and reversals | | (8,715) | 4,052 |
| Gain on sale of property, plant and equipment | | (168) | (2,323) |
| Net loss on remeasurement of financial assets | | (265) | (497) |
| Amortization of discount | | 13 | (1,023) |
| Interest income | | (6,023) | (5,742) |
| Interest expense | | 1,943 | 1,565 |
| Foreign exchange gain/losses, net | | 4,823 | (2,699) |
| Equity-settled transactions | 23 (b) | 3,269 | (846) |
| | | 156,978 | 158,250 |
| Changes in working capital: | | | |
| In receivables | | 55,681 | (55,924) |
| In inventories | | 86,097 | (62,638) |
| In provisions | | (2,589) | (596) |
| In payables | | 15,112 | 35,854 |
| Cash generated from operations | | 311,279 | 74,946 |
| Interest paid | | (1,880) | (1,474) |
| Income taxes paid | | (1,299) | (4,526) |
| Net cash from operating activities | | 308,100 | 68,946 |
| Cash flows from investing activities | | | |
| Interest received | | 1,777 | 1,734 |
| Dividends received | | 59 | 70 |
| Proceeds from sale of property, plant and equipment | | 201 | 2,360 |
| Purchases of property, plant and equipment, and intangible assets | | (59,649) | (82,414) |
| Deposits given to financial institutions - net | | 789 | (3,440) |
| Receipt of government grant | | 11,261 | 4,794 |
| Net change of financial assets at fair value through profit and loss | | 5,013 | 10,956 |
| Net cash used in investing activities | | (40,549) | (65,940) |

Ericsson Nikola Tesla Group

Consolidated statement of cash flows (continued)

for the year ended 31 December 2020

| | | 2020 | 2019 |
|---|--------|-----------------|-----------------|
| | Notes | HRK '000 | HRK '000 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 21 | 53,182 | 21,656 |
| Repayment of borrowings | 21 | (46,369) | - |
| Purchase of treasury shares | 20 (b) | 1,235 | - |
| Dividends paid | 20 (e) | (65,231) | (94,000) |
| Payment of lease liabilities | 28 | (23,050) | (21,203) |
| Net cash used in financing activities | | (82,703) | (93,547) |
| Effects of exchange rate changes on cash and cash equivalents | | (1,698) | 559 |
| Net increase/(decrease) in cash and cash equivalents | | 183,150 | (89,982) |
| Cash and cash equivalents at the beginning of the year | | 97,906 | 187,888 |
| Cash and cash equivalents at the end of the year | 19 | 281,056 | 97,906 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group

1 Significant accounting policies

Reporting entity

Ericsson Nikola Tesla d.d. (the Parent Company) is a joint-stock company incorporated and domiciled in Croatia. The address of its registered office is Krapinska 45, 10000 Zagreb, the Republic of Croatia. The Parent Company's shares are listed on the Public Joint Stock Company listing on the Zagreb Stock Exchange. Ericsson Nikola Tesla d.d. has prepared these consolidated financial statements as at 31 December 2020 and for the year then ended for the Parent Company, its five active subsidiaries of which two are domiciled in Croatia, one in Bosnia and Herzegovina, one in Kosovo and one in Belarus (together "the Group"). A summary of the Group's principal accounting policies is set out below.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS). These consolidated financial statements also comply with the Croatian Accounting Act in effect on the date of issue of these consolidated financial statements. These consolidated financial statements are a translation of the official statutory IFRS consolidated financial statements.

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, with the exception of financial instruments which are carried at fair value. These comprise derivative financial instruments and financial assets and liabilities at fair value through profit or loss. Policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgements made by executive management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates are discussed in Note 2.

Going concern

The executive management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Parent Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" is a principle-based model of recognizing revenue from customer contracts. It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.

The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of the Group's business is for the sale of standard products and services.

Standard solution

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time from the delivery of the related products.

These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset.

Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Software licenses may be provided to the customer at a point in time, activated or ready to be activated by the customer at a later stage, therefore revenue is recognized when customer obtains control of the software.

Contractual terms vary, therefore judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement. Costs incurred relating to performance obligations not yet fully delivered are recognized as inventories.

Transaction prices under these contracts are usually fixed, and mostly billed upon delivery of the hardware or software and completion of installation services. Customer finance agreements may be agreed separately with some customers where payment terms exceed 179 days.

Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Costs incurred in delivering recurring services are recognized as cost of sales as they are incurred. Transaction prices under these contracts are billed over time, often on a quarterly basis.

Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears. Contract for standard products and services applies to business in all segments.

Customized solution

Some products and services are sold together as part of a customized solution to the customer. This type of contract requires significant installation and integration services to be delivered within the solution, normally over a period of more than 1 year. These products and services are viewed together as a combined performance obligation. This type of contract is usually sold as a firm contract in which the scope of the solution and obligations of both parties are clearly defined for the duration of the contract.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution (continued)

Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method determines revenue milestones over the duration of the contract, and it is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects. If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer. Costs incurred in delivering customized solutions are recognized as costs of sales when the related revenue milestone is recognized in the Income Statement. Costs incurred relating to future revenue milestones are recognized as Inventories and assessed for recoverability on a regular basis.

Transaction price under these contracts is usually a fixed fee, split into a number of progress payments or billing milestones as defined in the contract. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts. Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days. Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

The nature of Ericsson's promise is to provide a right to use Ericsson's IP as it exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all the remaining benefits from, the license at the point in time at which the license transfers.

Customer contract related balances

Trade receivables include amounts that have been billed in accordance with customer contract terms and amounts that the Group has an unconditional right to, with only passage of time before the amounts can be billed in accordance with the customer contract terms.

Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 30(d) for further information on credit risk management of trade receivables and customer finance credits. In accordance with IFRS 15, where significant financing is provided to the customer, revenue is adjusted to reflect the impact of the financing transaction. These transactions could arise from the customer finance credits above if the contracted interest rate is below the market rate or through implied financing transactions due to payment terms of more than one year from the date of transfer of control.

Contract asset is unbilled sales amount relating to performance obligation that has been satisfied under customer contract but is conditional on terms other than only the passage of time before payment of the consideration is due. Under previous standards these unbilled sales balances have been included within trade receivables.

Contract liability relates to amounts that are paid by or due from customers for which performance obligations are unsatisfied or partially satisfied. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Group concluded that the balances meet the definition of contract liability under IFRS 15. Advances from customers are also included in the contract liability balance.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are shown at cost or deemed cost, less accumulated depreciation and impairment losses.

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost over the estimated economic useful life of the assets. The estimated useful lives are as follows:

| | Useful lives |
|---------------------|--------------|
| Buildings | 5–30 years |
| Plant and equipment | 2–10 years |
| Other | 5–7 years |

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

Intangible assets

Intangible assets are stated on initial recognition at cost and subsequently at cost less accumulated amortization and impairment losses.

Amortization is provided on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets include acquired computer software and are amortized on a straight-line basis over their useful life of 2–4 years. Cost associated with maintaining computer software is recognized as an expense as incurred.

Impairment of non-financial assets

Assets that have an indefinite useful life (such as goodwill) are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Financial assets at amortized cost

Financial assets are classified as amortized cost if the contractual terms give rise to payments that are solely payments of principal and interest on the principal amount outstanding and the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows. These assets are subsequently measured at amortized cost using the effective interest method, minus impairment allowances. Interest income and gains and losses from financial assets at amortized cost are recognized in financial income.

Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term. Derivatives are classified as held for trading, unless they are designated as hedging instruments for the purpose of hedge accounting. Assets held for trading are classified as current assets. Debt instruments classified as FVTPL, but not held for trading, are classified on the balance sheet based on their maturity date (i.e. those with a maturity longer than one year are classified as non-current). Investments in shares and participations are classified as FVTPL and classified as non-current financial assets. Gains or losses arising from changes in the fair values of the FVTPL category (excluding derivatives and customer financing) are presented in the income statement within financial income in the period in which they arise. Gains and losses on derivatives are presented in the income statement as follows. Gains and losses on derivatives that hedge operating assets or liabilities, financial assets and financial liabilities are presented as cost of sales, financial income and financial expense, respectively. Gains and losses on customer financing are presented in the income statement as selling expenses. Dividends on equity instruments are recognized in the income statement as part of financial income when the Group's right to receive payments is established.

Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit and loss.

Impairment of cash, trade receivables and contract assets

Financial assets affected by the new model are cash and cash equivalents, deposits, trade receivables and contract assets. Two unified models were developed for relatable financial assets. Cash equivalents and deposits are assessed for impairment under one unified model and trade receivables and contract assets are assessed for impairment under another unified model. Cash equivalents and deposits are assessed based on probability of default as well as Group exposure to certain financial institution at the time of default. To determine probability of default, country credit rating of financial institution is used, as well as the rating of future outlook is used.

Expected loss on cash, cash equivalents and deposits for each financial institution gives the total expected credit loss. There were no significant changes to the model during the year. The Group has determined that credit risk largely depends on both the payment pattern of the customer as well as the risk in the country where the customer resides (e.g. ability to make cross-border payments).

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Impairment of cash, trade receivables and contract assets (continued)

Therefore, expected credit losses (ECLs) are calculated using a provision matrix that specifies a fixed rate depending both on the number of days past due and the country risk rating. The country risk ratings depend on the ratings used by all Export Credit Agencies within the OECD. The rates defined in the provision matrix are based on historical loss patterns for certain portfolio of customers. Each customer is regulatory monitored and these rates are adjusted for current conditions as well as management expectations for changes to political risks and payment patterns of certain customer in the future. There were no significant changes to the model during the year.

Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate.

Financial liabilities

Financial liabilities are recognized when the Group becomes bound to the contractual obligations of the instrument. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of other inventories is based on the First In First Out (FIFO) principle and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories, the cost includes materials, labor and related overhead, and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Slow-moving and obsolete inventories have been written down to their estimated realizable value.

Share capital

Share capital is stated in Croatian kuna at nominal value.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Parent Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders.

Income tax

The tax expense for the period is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Income tax (continued)

Deferred income tax is recognized by using the balance sheet liability method on temporary differences arising between tax basis of assets and liabilities and their carrying amount in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Foreign currencies

Transactions denominated in foreign currencies are translated into functional currency at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date have been translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are included in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency at foreign exchange rates ruling at the dates the values were determined. Non-monetary assets and items that are measured in terms of "historical cost of a foreign currency" are not retranslated.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Parent Company's functional and the Group's presentation currency.

The results and financial position of all the Group's entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Employee benefits

a) Long-term service benefits

The Group provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

b) Share-based payments

The Group operates an equity-settled, share-based compensation plan allowing the employees to receive shares according to internal policy. The fair value of the employee services received in exchange for the grant of the shares is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Parent Company revises its estimates of the number of shares that are expected to become granted. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity. When distributed upon vesting date, treasury shares are credited at average purchase cost and recorded against retained earnings.

c) Bonus plans

The Group recognizes a liability and an expense for bonuses as a provision where contractually obliged or where there is past practice that has created a constructive obligation.

Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The most significant provisions in the consolidated financial statements are provisions for warranty claims, penalty claims and litigation. If the effect is material and if the obligation is expected to be settled in a period of over 12 months, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The increase in the provision due to passage of time is recognized as interest expense.

Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Government grants

Grants from the government are recognized within "Other operating income" at their fair value where there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to property, plant and equipment are recognized in profit or loss over the periods and in the proportions in which depreciation on those assets is recognized. In statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognized in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

Dividend distribution

Dividend distribution to the shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the shareholders.

Consolidation and goodwill

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of identifiable acquiree's net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Leases

As a lessee

As a lessee, the Group leases property and vehicles. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The Group uses a number of practical expedients when applying IFRS 16 to leases. In particular, the Group:

- does not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- does not recognize right-of-use assets and liabilities for leases of low value assets; and
- excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate, the weighted average rate applied is 2.5%.

As a lessor

The Group leases out its own property and the Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Group sub-leases some of its properties. Under IFRS 16, the right-of-use assets recognized from the head leases are presented in investment property and measured at fair value at that date. The Group assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are operating leases under IFRS 16.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

2 Changes in accounting policies

There were no changes in accounting policies for the financial year ending as at 31 December 2020 in comparison with prior reporting period.

3 New accounting standards and interpretations

New standards and amendments to existing not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

4 Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and receivables

The Group reviews its receivables to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with parameters relevant to assets in the Group.

(b) Derecognition of receivables with off-balance sheet financing

In 2016, the Group entered into several new customer contracts in the foreign market. The contracts include delivery of equipment and sale of services with 15% up-front payment while remaining 85% have deferred payment terms up to 54 months.

The Group financed the sale of equipment through a Supplier credit arrangement.

The arrangement includes: (i) matching cash receipts from customer with payments to the bank, (ii) assignation of insurance policy to the bank, and (iii) ceding future cash receipts from the customer to the bank through special purpose accounts secured by special purpose deposits (Note 14).

By transferring to the bank its contractual right to receive the cash flows, the Group transferred the financial asset to the bank. In terms of derecognition criteria, the Group analyzed transfer of risk and rewards of the receivable, specifically related to credit risk and late payment risk.

The Credit risk is shifted from international customer to the risk from domestic insurance company default, which is considered as significant transfer in credit risk. The Group issued guarantees to the financing bank for risk of non-performance by the insurance company which is disclosed in Note 22. The issued guarantee for non-performance of the insurance company is recognized initially at fair value and subsequently at the higher of the unamortized balance of the initial fair value and the best estimate of expenditure required to settle the obligation under the guarantee.

Late payment risk was transferred based on the fact that the special purpose deposit covers the late payment charges and/or history of payments with the customer do not historically evidence late payment risk as substantial to the agreement.

Having transferred the right to cash flows and substantially all the risk and rewards relating to 90% of receivables, the management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 21).

Following derecognition, the residual difference between interest receivable from the customer and interest payable to the bank represents separate liability recognized at fair value and is disclosed in Note 21.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

4 Critical accounting estimates and judgements (continued)

(c) Revenue recognition

The Group uses estimates and judgments in determining the amount and timing of revenue under IFRS 15, particularly when determining the transaction price and its allocation to performance obligations identified under the contract.

Transaction price may consist of variable elements such as discounts and contract penalties. Transaction price, including variable considerations, is estimated at the commencement of the contract (and periodically thereafter). Judgment is used in the estimation process based on historical experience with the type of business and customer.

IFRS 15 also requires revenue to be allocated to each performance obligations by reference to their stand-alone selling prices. The Group considers that an adjusted market assessment approach should be used to estimate stand-alone selling prices for its products and services for the purposes of allocating transaction price. These estimates are comprised of prices set for similar customer and circumstances, adjusted to reflect appropriate profit margins for the market. Estimates are used to determine discounts that relate specifically to each performance obligations, thus impacting their stand-alone selling prices.

The management applies judgment when assessing the customer's ability and intention to pay in a contract. The assessment is based on the latest customer credit standing and the customer's past payment history. This assessment may change during the contract execution, and if there is evidence of deterioration in the customer's ability or intention to pay, then under IFRS 15 no further revenue shall be recognized until the collectability criteria is met. Conversely, this assessment may also change favorably over time, upon which revenue shall now be recognized on a contract that did not initially meet the collectability criteria.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights.

Control of an asset therefore refers to the ability to direct use of and obtain substantially all the remaining benefits from the asset. Control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly.

Judgment may be applied in determining whether risk and rewards have been transferred to the customer and whether the customer has accepted the products. In a sale of software license, judgment may also be applied to determine when the software is made available to the customer by considering when they can direct the use of, and obtain substantially all the benefits of, the license. Often all indicators of transfer of control are assessed together and an overall judgment formed as to when transfer of control has occurred in a customer contract.

Revenue for customized solutions shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. Judgments are applied when determining the appropriate revenue milestones that best reflect the progress of completion and are aligned with key acceptance stages within the contract.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

5 Sales revenue

Analysis of revenue by category:

| | 2020 | | | 2019 | | |
|-----------------------------|------------------|--------------------|----------------|------------------|--------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| | | At a point in time | Over time | | At a point in time | Over time |
| Sales revenue from products | 209,699 | 189,535 | 20,164 | 459,315 | 409,552 | 49,763 |
| Sales revenue from services | 1,813,254 | 1,510,814 | 302,440 | 1,319,991 | 1,195,517 | 124,474 |
| | <u>2,022,953</u> | <u>1,700,349</u> | <u>322,604</u> | <u>1,779,306</u> | <u>1,605,069</u> | <u>174,237</u> |

6 Segment reporting

The Group has determined the operating segments based on the reports reviewed by the Management Board that are used to make strategic decisions. The Management Board assesses the performance of the operating segments based on a measure of adjusted Operating profit. The measurement basis excludes the effects of gains/losses on operating exchange rate differences and administration expenses.

When determining the operating segments, the Group has looked at which market and to what type of customers the Group's products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development.

To best reflect the business focus and to facilitate comparability with the Ericsson Group, four operating segments are reported:

- Networks include radio and transport solutions with supporting services, based on industry standards and offered via scalable modular platforms. The portfolio enables customers to evolve their telecom networks across generations to 5G.
- Digital Services include products and services providing solutions for our Telecom and Industry & Society customers' digital transformation journeys across the support systems BSS and OSS, Telecom Core, and IT Cloud domains through a combination of products, technology and expertise in networks, software, cloud, and business processes.
- Managed Services are offered in three main areas: Networks, IT, and Network Design & Optimization.
- Other includes products and services that enable content owners, broadcasters, TV service providers and network operators to efficiently deliver, manage and monetize new TV experiences. In addition, segment Other includes iconectiv and emerging business such as Internet of Things and Unified Delivery Network (UDN).

The Management Board does not monitor assets and liabilities by segments and therefore this information is not disclosed.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

6 Segment reporting (continued)

Revenues determined based on the geographic location of customers are disclosed in this note. The Group's assets are located in Croatia and Bosnia and Herzegovina.

| | 2020 | | | 2019 | | |
|--|------------------|-----------------------------------|-----------------------|------------------|-----------------------------------|-----------------------|
| | HRK '000 | HRK '000 At a point in time | HRK '000 Over time | HRK '000 | HRK '000 At a point in time | HRK '000 Over time |
| Sales revenue in domestic market | 933,526 | 681,591 | 251,935 | 497,706 | 389,304 | 108,402 |
| Sales revenue in CIS countries | 128,839 | 94,355 | 34,484 | 92,977 | 68,527 | 24,450 |
| Sales revenue to Ericsson | 855,074 | 855,074 | - | 1,027,055 | 1,027,055 | - |
| Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo | 94,569 | 61,629 | 32,940 | 136,757 | 98,336 | 38,421 |
| Other export sales revenue | 10,945 | 7,700 | 3,245 | 24,811 | 21,847 | 2,964 |
| | <u>2,022,953</u> | <u>1,700,349</u> | <u>322,604</u> | <u>1,779,306</u> | <u>1,605,069</u> | <u>174,237</u> |

| | Networks | | Digital services | | Managed services | | Other | | Unallocated | | Total | |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2020 HRK '000 | 2019 HRK '000 | 2020 HRK '000 | 2019 HRK '000 | 2020 HRK '000 | 2019 HRK '000 | 2020 HRK '000 | 2019 HRK '000 | 2020 HRK '000 | 2019 HRK '000 | 2020 HRK '000 | 2019 HRK '000 |
| Sales revenue | 980,436 | 1,011,967 | 464,834 | 570,812 | 569,604 | 189,327 | 8,079 | 7,200 | - | - | 2,022,953 | 1,779,306 |
| Timing of revenue recognition: | | | | | | | | | | | | |
| At a point in time | 922,256 | 905,945 | 385,315 | 502,597 | 384,699 | 189,327 | 8,079 | 7,200 | - | - | 1,700,349 | 1,605,069 |
| Over time | 58,180 | 106,022 | 79,511 | 68,215 | 184,905 | - | - | - | - | - | 322,604 | 174,237 |
| Operating profit | <u>85,152</u> | <u>86,305</u> | <u>40,818</u> | <u>41,937</u> | <u>21,825</u> | <u>5,639</u> | <u>303</u> | <u>158</u> | <u>(43,707)</u> | <u>(31,479)</u> | <u>104,391</u> | <u>102,561</u> |
| Finance income/(expense), net | | | | | | | | | | | 2,241 | 5,668 |
| Profit before tax | | | | | | | | | | | 106,632 | 108,229 |
| Income tax | | | | | | | | | | | (12,029) | (5,750) |
| Profit for the year | | | | | | | | | | | <u>94,540</u> | <u>102,479</u> |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

7 Expenses by nature

Cost of sales, selling expenses and administrative expenses consist of the following expenses by nature:

| | 2020 | 2019 |
|--|------------------|------------------|
| | HRK '000 | HRK '000 |
| Changes in contract work in progress (Note 15) | 108,980 | (62,616) |
| Material and external services ⁽¹⁾ | 851,955 | 804,063 |
| Personnel expenses (Note 8) | 913,899 | 895,451 |
| Depreciation and amortization (Notes 12, 13, 28) | 55,686 | 57,534 |
| Value adjustments | 1,891 | 2,247 |
| | <u>1,932,411</u> | <u>1,696,679</u> |

⁽¹⁾Including fees to auditors of HRK 622 thousand (2019: HRK 636 thousand). Fees to auditors mainly relate to statutory audit services.

Other operating income

Other operating income consists of rent income in total amount of HRK 13,143 thousand (2019: HRK 13,963 thousand) and other in total amount of HRK 10,042 thousand (2019: HRK 5,971 thousand).

8 Personnel expenses

| | 2020 | 2019 |
|---|----------------|----------------|
| | HRK '000 | HRK '000 |
| Net salaries | 505,077 | 489,644 |
| Taxes and contributions | 344,870 | 333,988 |
| Other payroll-related costs | 60,683 | 70,705 |
| Equity-settled transactions (Note 23 (b)) | 3,269 | 1,114 |
| | <u>913,899</u> | <u>895,451</u> |

Personnel expenses include HRK 143,669 thousand (2019: HRK 139,851 thousand) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries (Gross I). Other payroll-related costs mainly relate to termination benefits in the amount of HRK 4,459 thousand (2019: HRK 4,696 thousand), and to transportation expenses and vacation accrual cost.

As at 31 December 2020, the total number of employees was 3,237 (2019: 3,224).

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

9 Finance income/(expense), net

| | 2020 | 2019 |
|--|----------------|----------------|
| | HRK '000 | HRK '000 |
| Interest income | 6,023 | 4,637 |
| Net foreign exchange rate result | - | 1,153 |
| Net change in fair value of financial assets at fair value through profit and loss | 102 | 471 |
| Other income | - | 913 |
| Finance income | 6,125 | 7,176 |
| Interest expense | (1,836) | (1,507) |
| Net foreign exchange rate loss | (2,035) | - |
| Other expenses | (13) | - |
| Finance expense | (3,884) | (1,507) |
| Finance income/(expense), net | 2,241 | 5,669 |

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rates applicable to profits in the respective countries.
Income tax expense recognized in the consolidated statement of comprehensive income comprises:

| | 2020 | 2019 |
|-------------------------------------|-----------------|----------------|
| | HRK '000 | HRK '000 |
| Current income tax expense | (5,433) | (592) |
| Total deferred tax income/(expense) | (6,659) | (5,158) |
| Total income tax expense | (12,092) | (5,570) |

Deferred tax from tax losses

The Group did not recognize deferred income tax assets of HRK 721 thousand (2019: HRK 721 thousand) in respect of cumulative tax losses amounting to HRK 7,208 thousand (2019: HRK 7,208 thousand) that can be carried forward against future taxable income.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

10 Income tax expense (continued)

Deferred tax from tax losses (continued)

A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

| | 2020 | 2019 |
|--|--------------|--------------|
| | HRK '000 | HRK '000 |
| Tax loss for 2016 – expires 31 December 2021 | 1,577 | 1,577 |
| Tax loss for 2017 – expires 31 December 2022 | 1,543 | 1,543 |
| Tax loss for 2018 – expires 31 December 2023 | 2,578 | 2,578 |
| Tax loss for 2019 – expires 31 December 2024 | 1,150 | 1,150 |
| | <u>7,208</u> | <u>7,208</u> |

Effective tax rate reconciliation

The tax on the profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | 2020 | 2019 |
|--|----------------|-----------------|
| | HRK '000 | HRK '000 |
| Profit before tax | <u>106,632</u> | <u>108,229</u> |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 18,759 | 19,143 |
| Tax effects of: | | |
| Permanent non-deductible expenses | 170 | 433 |
| Effects of temporary differences | 1,643 | (309) |
| Tax incentives | <u>(8,480)</u> | <u>(13,517)</u> |
| Tax charge | <u>12,092</u> | <u>5,750</u> |
| Effective tax rate | <u>11.3%</u> | <u>5.3%</u> |

Tax incentives totaling HRK 8,480 thousand (2019: HRK 13,517 thousand) include tax allowances for certain expenditure, as employment and education and training, as defined by Croatian tax legislation. The underlying expenditure is included in cost of sales.

The Croatian Income Tax Act is subject to different interpretations and changes in respect of certain expenses which reduce the tax base. The Management Board's interpretation of the law relating to these transactions and activities of the Group may be disputed by the relevant authorities. The Tax Authority may take a different view in interpreting the laws and judgments, and it is possible that those transactions and activities that have not been disputed in the past may be disputed now. The Tax Authority may carry out a tax audit within three years from the year in which the income tax liability for a certain financial period was established.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

10 Income tax expense (continued)

Deferred tax from other temporary differences

The Group recognized deferred tax assets in the amount of HRK 9,541 thousand (2019: HRK 16,200 thousand) relating to temporary differences arising from:

- Accrued interest expenses
- Impairment of receivables
- Accrued expenses from contracts
- Warranty provisions
- Provisions for jubilee awards and retirement
- Right of use asset and lease liabilities.

| | Impairments, provisions and accrued expenses HRK '000 |
|--------------------------------------|--|
| As at 1 January 2019 | 21,358 |
| Tax credited to the Income statement | 10,776 |
| Tax charged to the Income statement | (15,934) |
| As at 31 December 2019 | 16,200 |
| As at 1 January 2020 | 16,200 |
| Tax credited to the Income statement | 6,265 |
| Tax charged to the Income statement | (12,924) |
| As at 31 December 2020 | 9,541 |

11 Earnings per share

| | 2020 | 2019 |
|---|-----------|-----------|
| Profit for the year (HRK '000) | 94,540 | 102,479 |
| Weighted Average Number of Shares Outstanding at the year-end | 1,331,096 | 1,331,439 |
| Earnings per share (HRK) | 71.02 | 76.97 |

Basic and fully diluted earnings per share are the same since the Parent Company does not have any dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

12 Property, plant and equipment

| | Land and buildings | Plant and equipment | Asset under construction | Other | Total |
|--------------------------------------|-----------------------|------------------------|--------------------------------|-----------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January 2019 | | | | | |
| Cost or valuation | 171,418 | 392,420 | 832 | 327 | 564,997 |
| Accumulated depreciation | (125,283) | (324,801) | - | (259) | (450,343) |
| Net book amount | 46,135 | 67,619 | 832 | 68 | 114,654 |
| Year ended 31 December 2019 | | | | | |
| Opening net book amount | 46,135 | 67,619 | 832 | 68 | 114,654 |
| Transfer of asset under construction | - | 832 | (832) | - | - |
| Additions | 6,742 | 32,256 | 28,853 | - | 67,851 |
| Disposals | - | (2,348) | - | - | (2,348) |
| Depreciation charge | (3,619) | (32,755) | - | (7) | (36,381) |
| Closing net book amount | 49,258 | 65,604 | 28,853 | 61 | 143,776 |
| As at 31 December 2019 | | | | | |
| Cost or valuation | 175,163 | 387,879 | 28,853 | 328 | 592,223 |
| Accumulated depreciation | (125,905) | (322,275) | - | (267) | 448,447 |
| Net book amount | 49,258 | 65,604 | 28,853 | 61 | 143,776 |
| Year ended 31 December 2020 | | | | | |
| Opening net book amount | 49,258 | 65,604 | 28,853 | 61 | 143,776 |
| Transfer of asset under construction | 1,788 | 10,656 | (12,444) | - | - |
| Additions | 280 | 28,432 | 16,006 | - | 44,718 |
| Disposals | - | (175) | - | - | (175) |
| Depreciation charge | (3,644) | (30,865) | - | (8) | (34,517) |
| Closing net book amount | 47,682 | 73,652 | 32,415 | 53 | 153,802 |
| As at 31 December 2020 | | | | | |
| Cost or valuation | 177,231 | 359,598 | 32,415 | 328 | 569,572 |
| Accumulated depreciation | (129,549) | (285,946) | - | (275) | (415,770) |
| Net book amount | 47,682 | 73,652 | 32,415 | 53 | 153,802 |

As at 31 December 2020, the Group had contracts totaling HRK 524 thousand (2019: HRK 1,417 thousand) related to future equipment purchases. Asset under construction mostly relates to building energy reconstruction in Krapinska 45, Zagreb.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

12 Property, plant and equipment (continued)

The Group acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 8,239 thousand (2019: HRK 9,942 thousand) is included within land and buildings. These assets are depreciated at the same depreciation rates as other buildings. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Portions of the property which is held for rental could not be sold separately or leased out separately under finance lease. Consequently, the IAS 40 criteria for separate investment property recognition are not met.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

13 Intangible assets

The movement on intangible assets in the year ended 31 December 2020 may be analyzed as follows:

| | Application software HRK '000 | Goodwill (i) HRK '000 | Total HRK '000 |
|------------------------------------|-------------------------------------|--------------------------|-------------------|
| As at 1 January 2019 | | | |
| Cost or valuation | 5,388 | 4,173 | 9,561 |
| Accumulated amortization | (4,491) | - | (4,491) |
| Net book amount | 897 | 4,173 | 5,070 |
| Year ended 31 December 2019 | | | |
| Opening net book amount | 897 | 4,173 | 5,070 |
| Additions | - | - | - |
| Amortization charge | (658) | - | (658) |
| Closing net book amount | 239 | 4,173 | 4,412 |
| As at 31 December 2019 | | | |
| Cost or valuation | 5,047 | 4,173 | 9,220 |
| Accumulated amortization | (4,808) | - | (4,808) |
| Net book amount | 239 | 4,173 | 4,412 |
| Year ended 31 December 2020 | | | |
| Opening net book amount | 239 | 4,173 | 4,412 |
| Additions | 357 | - | 357 |
| Amortization charge | (247) | - | (247) |
| Closing net book amount | 349 | 4,173 | 4,522 |
| As at 31 December 2020 | | | |
| Cost or valuation | 5,404 | 4,173 | 9,577 |
| Accumulated amortization | (5,055) | - | (5,055) |
| Net book amount | 349 | 4,173 | 4,522 |

(i) In September 2014, the Group signed business unit transfer agreements by which the Group acquired a business from Hrvatski Telekom d.d. The agreements included transfer of 641 employees, supplier contracts, organizational structure, activities and operational processes. The business comprises acquired assets and assumed liabilities to employees.

Goodwill is tested annually for impairment as stated in Note 1.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The present value of future cash flows is calculated using a discount rate of 9.49%, based on the Group's weighted average cost of capital.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

14 Loans and receivables

| | 2020 | 2019 |
|---|----------|----------|
| | HRK '000 | HRK '000 |
| Deposits with financial institutions, denominated in foreign currency | 18,018 | 13,826 |
| Deposits with financial institutions, denominated in HRK | 5,800 | 18,160 |
| Non-current receivables from foreign customers, denominated in foreign currency | 18,050 | 14,381 |
| Loans given, Note 4 (b) | 3,912 | 9,119 |
| Receivables for sold apartments | 436 | 478 |
| Total loans and receivables | 46,216 | 55,964 |
| Impairment allowance on loans and receivables | (8,349) | (2,192) |
| | 37,867 | 53,772 |

Deposits with financial institutions in the amount of HRK 22,020 thousand (2019: 30,210 thousand) are used as a collateral for Supplier credit arrangement and performance guarantees disclosed in Note 4 (b), with interest rate from 0% to 2% and maturing in year 2026.

The rest of the deposits with financial institutions of HRK 1,799 thousand (2019: HRK 1,777 thousand) are placed as guarantee deposits for housing loans provided to the employees with a remaining maturity of over three years.

Loans and receivables from customers are partially secured with bank guarantees and letters of credit. The current portion of the non-current receivables is classified under current assets.

Receivables for sold apartments are linked to the counter value of euro, repayments are made by deduction from monthly salary and the loans are secured with collateral on the house or apartment. Receivables for sold apartments and housing loans provided to a limited number of employees bear fixed interest rates of up to 5% per annum.

Non-current portion of foreign and domestic loans and receivables from customers

| | 2020 | 2019 |
|------|----------|----------|
| Due | HRK '000 | HRK '000 |
| 2021 | - | 14,850 |
| 2022 | 21,666 | 8,650 |
| 2023 | 296 | - |
| | 21,962 | 23,500 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

15 Inventories

| | 2020 | 2019 |
|---------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Raw materials | 22,286 | - |
| Contract work in progress | 64,330 | 173,311 |
| | 86,616 | 173,311 |

Slow-moving or obsolete inventories have been written down to their estimated realizable value through an impairment allowance. The impairment allowance is included within other operating expenses in the consolidated statement of comprehensive income in total amount of HRK 598 thousand (2019: HRK 13 thousand)

16 Trade receivables

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Foreign trade receivables | 48,571 | 59,366 |
| Current portion of non-current foreign receivables | 10,805 | 12,678 |
| Total current foreign receivables | 59,376 | 72,044 |
| Domestic trade receivables | 134,399 | 143,976 |
| Total current domestic receivables | 134,399 | 143,976 |
| Impairment allowance on receivables | (443) | (583) |
| | 193,332 | 215,437 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

16 Trade receivables (continued)

Movements in impairment allowance on loans and receivables were as follows:

| | 2020 | 2019 |
|--|--------------|---------------|
| | HRK '000 | HRK '000 |
| As at 1 January | 4,467 | 20,006 |
| Impact of discounting non-current receivables | (2,046) | (1,389) |
| Receivables written off during the year as uncollectible | (1,339) | (16,338) |
| Impairment on receivables | 8,832 | 2,188 |
| As at 31 December ⁽¹⁾ | 9,914 | 4,467 |

¹⁾ Including impairment provision for receivables from related parties of 1,104 thousand (2019: HRK 1,686 thousand).

17 Other receivables

| | 2020 | 2019 |
|---------------------|--------------|---------------|
| | HRK '000 | HRK '000 |
| Advances given | 1,207 | 9,535 |
| Net VAT receivables | - | 1,020 |
| Other receivables | 5,019 | 7,568 |
| | 6,226 | 18,123 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

18 Financial assets at fair value through profit or loss

| | 2020 | 2019 |
|---|----------|----------|
| | HRK '000 | HRK '000 |
| Financial assets at fair value through profit or loss | | |
| - Equity securities | 1,503 | 1,612 |
| - Investment in open-ended investment funds | 31,463 | 36,280 |
| | 32,966 | 37,892 |

19 Cash and cash equivalents

| | 2020 | 2019 |
|------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Cash and demand deposits | 282,131 | 98,333 |
| Impairment loss (Note 30(d)) | (1,075) | (427) |
| | 281,056 | 97,906 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

20 Equity

(a) Share capital

As at 31 December 2020, the share capital is represented by 1,331,650 (2019: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2019: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2019: HRK 100). Holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly and are entitled to one vote per share at the General Assembly.

The shareholders as at 31 December are:

| | Number of shares | % held | Number of shares | % held |
|---------------------------------|------------------|---------------|------------------|---------------|
| | 2020 | | 2019 | |
| Telefonaktiebolaget LM Ericsson | 653,473 | 49.07 | 653,473 | 49.07 |
| Other shareholders | 677,771 | 50.90 | 677,966 | 50.91 |
| Treasury shares | 406 | 0.03 | 211 | 0.02 |
| | <u>1,331,650</u> | <u>100.00</u> | <u>1,331,650</u> | <u>100.00</u> |

(b) Treasury shares

These shares are initially held as "treasury shares" and are regularly granted to key management and other employees as a part of the share-based program established in 2004, as described in Note 23 (b). Shares transferred to employees are recognized on a first-in-first-out basis.

Movements in treasury shares are as follows:

| | Number of shares | Number of shares |
|---------------------------------|------------------|------------------|
| | 2020 | 2019 |
| As at 1 January (Note 20 (a)) | 211 | 211 |
| Purchased during the year | 1,000 | - |
| Distributed during the year | (805) | - |
| As at 31 December (Note 20 (a)) | <u>406</u> | <u>211</u> |

(c) Legal reserves

A legal reserve in the amount of 5% of total share capital was formed during previous periods by appropriation of 5% of net profit per annum up to a cap of 5% of share capital. The legal reserve may be used to cover losses if the losses are not covered by current net profit or if other reserves are not available. The Group recorded the required level of legal reserves in 2020 and no further allocation to legal reserves is required. Legal reserves up to 5% of total share capital are not distributable.

(d) Reserve for own shares

Reserve for own shares are separated by decision of General Assembly of the Company.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

20 Equity (continued)

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 9 December 2020, the General Assembly approved a dividend in respect of 2019 of HRK 49.00 per share, totaling HRK 65,231 thousand.

Cash dividends authorized and paid for previous years were as follows:

| | 2020 | 2019 |
|------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| HRK 49.00 per share for 2019 | 65,231 | - |
| HRK 70.60 per share for 2018 | - | 94,000 |
| | 65,231 | 94,000 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

21 Borrowings

| | 2020 | 2019 |
|----------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Loans | 42,588 | 21,728 |
| Borrowings, Note 4 (b) | 2,115 | 5,668 |
| Total liabilities for borrowings | 44,703 | 27,396 |
| Short term portion | (14,316) | (34) |
| Long term portion | 30,387 | 27,362 |

| Changes in liabilities from financing activities | Borrowings |
|--|------------|
| | HRK '000 |
| Year ended 31 December 2019 | |
| Opening net book amount | 5,770 |
| Cash transactions | |
| Proceeds from loans | 21,656 |
| Non-cash transactions | |
| Foreign exchange differences | 141 |
| Release of obligations (Note 4(b)) | (171) |
| Closing net book amount | 27,396 |
| Year ended 31 December 2020 | |
| Opening net book amount | 27,396 |
| Cash transactions | |
| Proceeds from loans | 53,182 |
| Repayment of loans and borrowings | (46,369) |
| Non-cash transactions | |
| Overtake of liability towards bank | 21,164 |
| Compensation of liability with deposit | (7,531) |
| Accrued interest | 147 |
| Foreign exchange differences | 127 |
| Release of obligations (Note 4(b)) | (3,413) |
| Closing net book amount | 44,703 |

Loan is taken due to the Energy Efficiency project for premises in Zagreb (Krapinska 45). Loan is taken with fixed interest rate. Borrowings movement reflect increase and repayment of the obligations toward banks arising from refinancing of customer credit. Non-cash item is generated by forming obligation toward banks for existing customer financing agreements.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

22 Other non-current liabilities

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Deferred revenue | 684 | 3,025 |
| Liabilities for issued guarantee, Note 4 (b) | 294 | 903 |
| Other non-current liabilities, Note 4 (b) | 117 | 4,776 |
| | 1,095 | 8,704 |

23 Employee benefits

(a) Long-term service benefits

The Group does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or management. In respect of all of the personnel, such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian Pension Insurance Institute to the Croatian employees upon their retirement. Additionally, in 2001 the Parent Company signed an Annex to the Union Agreement based on which employees are entitled to a benefit upon early retirement.

However, the Group pays a one-time benefit amounting to HRK 8,000 for each employee who retires. Additionally, the Group pays jubilee awards in respect of each 5 years of service of an employee, starting from the 10th year and ending in the 40th year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2020 were a 2.76% discount rate (2019: 2.76%) and a 7.37% (2019: 6.26%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

| | Jubilee awards | Retirement | Total | Jubilee awards | Retirement | Total |
|--------------------------------------|----------------|------------|----------|----------------|------------|----------|
| | 2020 | | | 2019 | | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January | 9,263 | 1,051 | 10,314 | 7,461 | 1,201 | 8,662 |
| Obligation created during the year | 1,442 | 91 | 1,533 | 2,650 | 9,946 | 12,596 |
| Obligation fulfilled during the year | (1,122) | (48) | (1,170) | (848) | (9,911) | (10,759) |
| Obligation reversed during the year | (223) | (66) | (289) | - | (185) | (185) |
| As at 31 December | 9,360 | 1,028 | 10,388 | 9,263 | 1,051 | 10,314 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

23 Employee benefits (continued)

(b) *Share-based payments*

In 2004, the Parent Company established its Loyalty program, a share-based scheme under key employees are entitled to receive the Parent Company's shares conditional on the employee completing certain years of service (the vesting period) from the grant date.

The treasury shares are distributed to eligible employees upon ratification at the General Assembly.

Part of the share-based program from 2014 relates to the right of employee to purchase certain shares, which are settled according to fair value relevant at the date of the purchase and the difference between the purchase price of the shares and selling price received from the employee has been recognized within retained earnings.

In 2019 the Parent Company continued its Loyalty program and granted additional shares to eligible employees under vesting condition related to years of service with the Parent Company.

Movements in shares under the Award and Loyalty programs are as follows:

| | 2020 | 2019 |
|-------------------|------------------|------------------|
| | Number of shares | Number of shares |
| As at 1 January | 7,915 | - |
| Granted | - | 7,915 |
| Exercised | (805) | - |
| Expired | (195) | - |
| As at 31 December | 6,915 | 7,915 |

Vesting conditions for shares granted under Loyalty program are two to five years of service.

The fair value of service received in return for shares granted is measured by reference to the observable market price of shares at the grant date.

During 2020, the Group had HRK 3,269 thousand expenses (2019: HRK 1,114 thousand) in respect of share-based payments, which are included in personnel expenses as disclosed in Note 8.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

24 Trade and other payables

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| | HRK '000 | HRK '000 |
| Trade payables | 103,432 | 54,360 |
| Liabilities to employees | 99,117 | 108,583 |
| VAT liabilities | 3,157 | 1,323 |
| Other current liabilities | 24,847 | 24,194 |
| | 230,553 | 188,460 |

25 Provisions

Movements in provisions were as follows:

| | Warranty reserve HRK '000 | Termination benefits HRK '000 | Other reserve HRK '000 | Total HRK '000 |
|---------------------------------|---------------------------------|-------------------------------------|------------------------------|-------------------|
| As at 1 January 2019 | 3,513 | 1,249 | 12,209 | 16,971 |
| Additional provisions | 1,661 | 23,567 | 8,626 | 33,854 |
| Unused provisions reversed | (182) | - | - | (182) |
| Provisions used during the year | (2,441) | (13,514) | (18,312) | (34,267) |
| As at 31 December 2019 | 2,551 | 11,302 | 2,523 | 16,376 |
| As at 1 January 2020 | 2,551 | 11,302 | 2,523 | 16,376 |
| Additional provisions | 548 | 10,042 | 5,723 | 16,313 |
| Unused provisions reversed | - | (4) | (1,876) | (1,880) |
| Provisions used during the year | (782) | (16,309) | - | (17,091) |
| As at 31 December 2020 | 2,317 | 5,031 | 6,370 | 13,718 |

The warranty reserve is established to cover the expected warranty claims on products sold during the year. Reversal of warranty reserves relates to expired warranties.

Followed by the prudence principle and based on the circumstances and other factors, including expectations of future events, additional provisions were made.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 Accrued charges and deferred revenue

| | 2020 | 2019 |
|---|---------------|---------------|
| | HRK '000 | HRK '000 |
| Deferred revenue | 5,766 | 8,330 |
| Accrued charges for unused holidays | 29,725 | 25,593 |
| Accrued charges in respect of service contracts | 22,058 | 32,106 |
| Other accrued charges | 29,713 | 29,884 |
| | <u>87,262</u> | <u>95,913</u> |

Deferred revenue represents mainly government grants relating to costs which are deferred and recognized in income statement in the same time when the relating costs are recognized. Accrued charges in respect of service contracts mainly represent costs incurred for which no invoice has been received from supplier or other external contractor at the balance sheet date.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

27 Contract assets and liabilities

The Group has recognized the following assets and liabilities arising from contracts with customers:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| | HRK '000 | HRK '000 |
| Contract assets from contracts with customers | - | 3,239 |
| Loss allowance | - | - |
| Total current contract assets | - | 3,239 |
| Contract liabilities – advances from customers | 10,513 | 6,611 |
| Contract liabilities – deferred revenue | 181,809 | 142,764 |
| Total current contract liabilities | 192,322 | 149,375 |

As at 31 December 2019 the Group has recognized contract assets net of impairment loss provisions (refer to Note 29) in respect of managed services contracts that relate to future service performance.

As at 31 December 2020 the Group recognized HRK 192,232 thousand of contract liabilities in respect of the following contracts related to modernization of mobile and fixed network, project-related services and support activities, e-Health Information Systems and other (as at 31 December 2019: HRK 149,375 thousand).

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| | HRK '000 | HRK '000 |
| Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied | 389,001 | 22,639 |
| Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied | 52,486 | 81,647 |
| | 441,487 | 104,286 |

The Group expects to recognize approximately 25% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2021, 40% as revenue in financial year 2022, 30% as revenues in financial year 2023, 3% as revenues in financial year 2024 and 2% as revenues in financial year 2025.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

28 Leases

a) Leases as lessee

The Group leases warehouse, office premises and parking lots. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The warehouse, office premises and parking lots were entered many years ago as combined leases of land and buildings.

The Group leases vehicles under a number of leases. The leases typically run for a period of 3 to 5 years.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Balance as at 1 January | 51,920 | 63,135 |
| Depreciation charge for the year | (21,844) | (20,495) |
| Increase of right-of-use assets | 32,451 | 9,280 |
| Derecognition of RoU assets | (8,572) | - |
| Balance as at 31 December | 53,955 | 51,920 |

Amounts recognized in Statement of comprehensive income

| Leases under IFRS 16 | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Interest on lease liabilities | 1,243 | 1,447 |
| Income from sub-leasing right-of-use assets presented in 'other revenue' | 30 | - |
| Expenses relating to short-term leases | 1,210 | 3,630 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

28 Leases (continued)

a) Leases as lessee (continued)

Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The following table sets out a movement in lease liability:

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Balance as at 1 January | 52,641 | 63,135 |
| Repaid lease liability | (23,050) | (21,203) |
| Additions to lease liability | 32,451 | 9,280 |
| Derecognition of lease | (8,789) | - |
| Interest expense | 1,243 | 1,447 |
| Interest paid | (1,243) | (1,447) |
| FX rate | 1,707 | 1,429 |
| Balance as at 31 December | 54,960 | 52,641 |

b) Leases as lessor

The Group leases out its property consisting of commercial properties. All leases are classified as operating leases from a lessor perspective.

Operating lease

The Group leases out its owned commercial properties. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognized by the Group during 2020 was HRK 13,103 thousand (2019: HRK 13,925 thousand).

The following table sets out a maturity analysis of lease payments to be received after the reporting date.

| Operating leases under IFRS 16 | 2020 | 2019 |
|--------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Less than one year | 6,809 | 10,051 |
| Between one and three years | 2,184 | 4,939 |
| Between three and five years | 3,513 | 4,354 |
| More than five years | 13,472 | 8,537 |
| Total | 25,978 | 27,881 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

29 Balances and transactions with related parties

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group is a related party to the Ericsson Group via the 49.07% (2019: 49.07%) shareholding by Telefonaktiebolaget LM Ericsson, which is also the ultimate parent of the Ericsson Group.

The Group has related-party relationships with Telefonaktiebolaget LM Ericsson, Ericsson Group subsidiaries and associates, the Supervisory Board, the Management Board and other executive management.

(a) Key transactions with the related parties

Major transactions with the Ericsson Group companies may be summarized as follows:

| | Telefonaktiebolaget LM Ericsson | | Other Ericsson Group consolidated companies | | Total | |
|---------------------------------|---------------------------------|----------|---|-----------|----------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Sales of goods and services | | | | | | |
| Sales revenue | - | - | 855,074 | 1,027,055 | 855,074 | 1,027,055 |
| Other income | - | - | 3,370 | 7,964 | 3,370 | 7,964 |
| | - | - | 858,444 | 1,035,019 | 858,444 | 1,035,019 |
| Purchases of goods and services | | | | | | |
| Licenses | 5,734 | 3,688 | 18,637 | 19,401 | 24,371 | 23,089 |
| Cost of sales | - | - | 290,368 | 436,860 | 290,368 | 436,860 |
| | 5,734 | 3,688 | 309,005 | 456,261 | 314,739 | 459,949 |

The sales of goods and services transactions have been directly negotiated between the involved parties and agreed on an individual basis. The Group pays: (i) license fees on sales of services and wireline products, (ii) corporate trademark licenses, (iii) support services, (iv) R&D tools and (v) IS/IT fee. The license fee is paid as a percentage of sales of services and sales of wireline products.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

29 Balances and transactions with related parties (continued)

(b) Key management compensation

The key management include the executive management listed under Company profile, comprising the Management Board member and directors of main organizational units.

| | 2020 | 2019 |
|---|---------------|---------------|
| | HRK '000 | HRK '000 |
| Salaries and other short-term employee benefits | 25,672 | 22,173 |
| Other long-term benefits | - | 1,114 |
| | <u>25,672</u> | <u>23,287</u> |

The members of the executive management and the Supervisory Board held 4,711 ordinary shares at the year-end (2019: 5,090 shares).

In addition, the Group paid remuneration totaling HRK 393 thousand (2019: HRK 349 thousand) to the Supervisory Board and Audit Committee members during 2020.

(c) Year-end balances arising from sales and purchases of goods and services

Year-end balances arising from key transactions with Ericsson Group companies may be summarized as follows:

| | Receivable | | Payable | |
|---|---------------|----------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder | - | - | - | 728 |
| Other Ericsson Group companies | <u>89,002</u> | <u>112,861</u> | <u>10,937</u> | <u>89,851</u> |
| | <u>89,002</u> | <u>112,861</u> | <u>10,937</u> | <u>90,579</u> |

The Group recorded a non-current receivable (Note 12) of HRK nil thousand (2019: HRK 0 thousand) and a non-current portion of deferred revenue (Note 22) of HRK nil thousand (2019: HRK 3,025 thousand) and current portion of deferred revenue of HRK 1,028 thousand (2019: HRK 1,833 thousand) from Ericsson Services d.o.o. (ESK) relating to the five-year managed services contract with Hrvatski Telekom.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Risk management is carried out by a treasury department and its principal role is to actively manage investment of excess liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures. The Group also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to the Group. Risk management policies that relate to financial instruments can be summarized as follows:

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to US dollars and to the euro, as a substantial proportion of receivables and foreign revenues are denominated in these currencies. Risk management relies on attempts to match, as much as possible, revenues in each currency with the same currency expenditure. The Group may enter into foreign currency forward contracts to hedge economically its exposure to currency risk arising on operating cash flows.

As at 31 December 2020, if the euro and US dollar had weakened/strengthened by 1% (2019: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 939 thousand higher/lower (2019: HRK 297 thousand), mainly as a result of foreign exchange losses/gains on translation of cash, cash equivalents, deposits, trade payables, customer receivables and customer financing denominated in euro.

Other currencies to which the Group is exposed are: SEK, BAM, PLN, GBP.

The Group continues to focus on securing natural hedges and active currency management and to minimize impacts from currency moves. The Group's exposure to foreign currencies is shown in the table below.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(a) Currency risk (continued)

The tables below present the currency analysis and the resulting gap.

| 2020 | EUR | USD | Other currency | Total foreign currencies | HRK | Total |
|---|------------------|----------------|-------------------|--------------------------------|------------------|------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 11,666 | 20,538 | - | 32,204 | 5,663 | 37,867 |
| Trade and other receivables | 137,124 | 2,265 | 15,710 | 155,099 | 146,615 | 301,714 |
| Financial assets at fair value through profit or loss | - | - | 1,291 | 1,291 | 31,646 | 32,937 |
| Cash and cash equivalents | 58,374 | 12,073 | 10,624 | 81,071 | 204,027 | 285,098 |
| | <u>207,164</u> | <u>34,876</u> | <u>27,625</u> | <u>269,665</u> | <u>387,951</u> | <u>657,616</u> |
| Borrowings and lease liabilities | (37,873) | (2) | - | (37,875) | (44,211) | (82,086) |
| Trade and other payables | (88,563) | (1,784) | (538) | (90,885) | (154,278) | (245,163) |
| | <u>(126,436)</u> | <u>(1,786)</u> | <u>(538)</u> | <u>(128,760)</u> | <u>(198,489)</u> | <u>(327,249)</u> |
| Currency gap | 80,963 | 30,090 | 27,087 | 140,905 | 189,462 | 330,367 |

| 2019 | EUR | USD | Other currency | Total foreign currencies | HRK | Total |
|---|------------------|-----------------|-------------------|--------------------------------|------------------|------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 16,426 | 31,633 | - | 48,059 | 5,713 | 53,772 |
| Trade and other receivables | 147,375 | 12,398 | 8,097 | 167,870 | 196,113 | 363,983 |
| Financial assets at fair value through profit or loss | - | - | - | - | 37,892 | 37,892 |
| Cash and cash equivalents | 22,211 | 4,220 | 11,757 | 38,188 | 59,718 | 97,906 |
| | <u>186,012</u> | <u>48,251</u> | <u>19,854</u> | <u>254,117</u> | <u>299,436</u> | <u>553,553</u> |
| Borrowings and lease liabilities | (14,002) | (3,450) | - | (17,452) | (62,585) | (80,037) |
| Trade and other payables | (86,807) | (13,025) | (32) | (99,864) | (188,194) | (288,058) |
| | <u>(100,809)</u> | <u>(16,475)</u> | <u>(32)</u> | <u>(117,316)</u> | <u>(250,779)</u> | <u>(368,095)</u> |
| Currency gap | 85,203 | 31,776 | 19,822 | 136,801 | 48,657 | 185,458 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group mainly has its customer financing at a fixed interest rate and only a small portion of customer financing is affected by possible changes in market interest rates, the risk of fluctuating market interest rates is considered low. The Group also has deposits in financial institutions at a variable interest rate.

As at 31 December 2020:

– if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 15 thousand higher/lower (2019: HRK 15 thousand);

– if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 50 thousand higher/lower (2019: HRK 297 thousand);

– if the effective USD interest rate on USD deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 43 thousand higher/lower (2019: HRK 99 thousand).

The following table presents the annual average interest rates exposure of financial assets.

| | Average interest rates | Average interest rates |
|---------------------------|------------------------|------------------------|
| | 2020 | 2019 |
| | % | % |
| Loans and receivables | 0.48 | 0.84 |
| Cash and cash equivalents | 0.04 | 0.03 |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(c) Price risk

The Group has insignificant exposure to debt securities price risk due to low investments and all classified on the balance sheet at fair value through profit or loss (investments funds).

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Significant risk is associated with high level of customer finance receivables.

The internal directives to manage the credit risks have been tightened during 2015 with the implementation of updated credit management framework and implementation of credit evaluation tools to manage credit risks.

Credit Management function within the Group Treasury has been established to further assist the Group in managing its credit risk exposure. New customers are only accepted on satisfactory completion of a detailed credit check of the customer and a review of the related country risk. Outstanding credit arrangements are monitored on a quarterly or annual basis depending on risk category. Impairment losses are calculated by discounting receivables. Additionally, there is credit concentration risk as the Group has a significant portion of receivables outstanding from a small number of customers. As at 31 December 2020, the five largest customers represent 69% of total net trade receivables (2019: 66%). The Group considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 14 and 16) and other receivables (Note 17), not impaired as doubtful. Ageing analysis of these receivables is within the maturity analysis table shown further in this note.

Letters of credit are used as a method for securing payments from customers operating in certain markets, in particular in markets with unstable political and/or economic environments. By having banks confirming the letters of credit, the political and commercial credit risk exposures are mitigated.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating (for political and commercial risk) of each transaction. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

The Group defines customer financing as any credit period longer than 179 days. The Group is working closely with Croatian Bank for Reconstruction and Development (HBOR) and partnership banks to secure risk mitigation. Provisions related to customer finance risk exposures are only made when they are reliably measurable and where, after the financing arrangement has become effective, certain events occur which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. the borrower's deteriorating creditworthiness.

Security arrangements for customer finance facilities normally include pledges of equipment and pledges of certain of the borrower's assets. If available, third-party risk coverage may also be arranged. "Third-party risk coverage" means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. It may also be a credit risk transfer under the so-called "sub-participation arrangement" with a bank, whereby the credit risk and the funding is taken care of by the bank for the part covered by the bank. A credit risk cover from a third party may also be issued by an insurance company.

a) Impairment of receivables and contract assets

Cash equivalents amounted to HRK 285,096 thousand as at 31 December 2020 (31 December 2019: HRK 97,906 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 1,075 thousand as at 31 December 2020 (31 December 2019: HRK 427 thousand). The Group's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 284,252 thousand as at 31 December 2020 (31 December 2019: HRK 331,537 thousand). Provisions for expected credit losses on trade receivables, receivables from related party and contract assets amounted to HRK 8,349 thousand as at 31 December 2020 (31 December 2019: HRK 2,269 thousand). The Group's write-offs have historically been low.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(d) Credit risk (continued)

The following tables provide an ageing detail of current and overdue amounts in respect of all customer loans and receivables as at 31 December 2020.

Table 1 Payment due date for total customer loans and receivables

| | Due balance | Up to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|--|--------------|----------------|--------------------|---------------|--------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 2020 | | | | | | |
| Foreign receivables | 216 | 26,998 | 19,559 | 1,365 | - | 48,138 |
| Domestic receivables | 4,643 | 92,947 | 35,821 | 27 | - | 133,438 |
| Receivables from related parties * | 4,114 | 84,888 | - | - | - | 89,002 |
| Contract assets | - | - | - | - | - | - |
| | <u>8,973</u> | <u>204,833</u> | <u>55,380</u> | <u>1,392</u> | <u>-</u> | <u>270,578</u> |
| * excluding impairment allowance in the amount of HRK 1,686 thousand | | | | | | |
| 2019 | | | | | | |
| Foreign receivables | 200 | 31,780 | 39,929 | 23,543 | 93 | 95,545 |
| Domestic receivables | 2,681 | 139,002 | 2,293 | - | - | 143,976 |
| Receivables from related parties * | 7,033 | 83,301 | 24,213 | - | - | 114,547 |
| Contract assets | - | 3,239 | - | - | - | 3,239 |
| | <u>9,914</u> | <u>257,322</u> | <u>66,435</u> | <u>23,543</u> | <u>93</u> | <u>357,307</u> |

* include non-current portion of domestic receivables in the amount of HRK 862 thousand

Table 2 Ageing of total due customer loans and receivables

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|----------------------------------|----------------|--------------------|--------------|--------------|--------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 2020 | | | | | |
| Foreign receivables | 216 | - | - | - | 216 |
| Domestic receivables | 3,360 | 1,188 | 95 | - | 4,643 |
| Receivables from related parties | <u>3,862</u> | <u>(55)</u> | <u>211</u> | <u>96</u> | <u>4,114</u> |
| | <u>7,438</u> | <u>1,133</u> | <u>306</u> | <u>96</u> | <u>8,973</u> |
| 2019 | | | | | |
| Foreign receivables | 200 | - | - | - | 200 |
| Domestic receivables | 2,442 | 144 | 95 | - | 2,681 |
| Receivables from related parties | <u>6,240</u> | <u>49</u> | <u>607</u> | <u>137</u> | <u>7,033</u> |
| | <u>8,882</u> | <u>193</u> | <u>702</u> | <u>137</u> | <u>9,914</u> |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Group has no significant commitments in financial instruments, the risk lies only in its daily operations. The Group has a strong focus on its cash flow with daily updates on actual development and monthly updated forecasts. The Group's maturity profile demonstrates the strong liquidity position of the Group and therefore the risk is considered low. The table below presents the maturity analysis and the resulting gap.

The Group has a revolving credit facility with our core banks should an extraordinary liquidity need arise. As at 31 December 2020, the facility remained untapped.

| 2020 | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|-----------------------------|-----------------------|------------------------|----------------------|------------------------|---------------------|-----------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 514 | 5 | 9,730 | 25,902 | 1,799 | 37,950 |
| Trade and other receivables | 178,049 | 62,481 | 63,847 | 1,392 | - | 305,769 |
| Current financial assets | 32,937 | - | - | - | - | 32,937 |
| Cash and cash equivalents | 281,056 | - | - | - | - | 281,056 |
| | <u>492,558</u> | <u>62,486</u> | <u>73,577</u> | <u>27,294</u> | <u>1,799</u> | <u>657,714</u> |
| Borrowings | (147) | - | (42,356) | (2,200) | - | (44,703) |
| Lease liabilities | - | - | (17,576) | (37,384) | - | (54,960) |
| Trade and other payables | <u>(130,074)</u> | <u>(113,994)</u> | <u>-</u> | <u>(1,095)</u> | <u>-</u> | <u>(245,163)</u> |
| | <u>(130,221)</u> | <u>(113,994)</u> | <u>(59,932)</u> | <u>(40,679)</u> | <u>-</u> | <u>(344,826)</u> |
| Maturity gap | <u>362,337</u> | <u>(51,508)</u> | <u>13,645</u> | <u>(13,385)</u> | <u>1,799</u> | <u>312,888</u> |

| 2019 | Up to 1 month | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|-----------------------------|-----------------------|-----------------------|-----------------------|------------------------|---------------------|-----------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 916 | 1,668 | 10,287 | 38,647 | 2,254 | 53,772 |
| Trade and other receivables | 255,859 | 105,235 | 2,705 | 184 | - | 363,983 |
| Current financial assets | 37,892 | - | - | - | - | 37,892 |
| Cash and cash equivalents | 97,906 | - | - | - | - | 97,906 |
| | <u>392,573</u> | <u>106,903</u> | <u>12,992</u> | <u>38,831</u> | <u>2,254</u> | <u>553,553</u> |
| Borrowings | (34) | - | - | (27,328) | - | (27,362) |
| Lease liabilities | - | - | (19,057) | (33,584) | - | (52,641) |
| Trade and other payables | <u>(279,354)</u> | <u>-</u> | <u>-</u> | <u>(8,704)</u> | <u>-</u> | <u>(288,058)</u> |
| | <u>(279,388)</u> | <u>-</u> | <u>(19,057)</u> | <u>(69,616)</u> | <u>-</u> | <u>(368,061)</u> |
| Maturity gap | <u>113,185</u> | <u>106,963</u> | <u>(6,065)</u> | <u>(30,785)</u> | <u>2,254</u> | <u>185,492</u> |

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(f) Fair value estimation

Financial assets at fair value through profit and loss are carried at fair value at the balance sheet date. The fair value is estimated by reference to their quoted active market price at the balance sheet date which represents Level 1 input (Note 18).

A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. There are no financial assets derived from level 2 inputs which represent different valuation techniques based on observable market data or from level 3 inputs which represent different valuation techniques based on no observable market data.

The Group's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, non-current loans and receivables, trade and other payables and borrowings.

The fair value of loans and receivables and the fair value of borrowings are calculated based on the Management's best estimate of discounted expected future principal and interest cash flows, using the market-related rate for a similar instrument at the balance sheet date as a discount rate. Fair values and carrying amounts are not significantly different as the loans and receivables were granted at market rates, which were not substantially different from market rates at the end of the reporting year. Current financial assets are stated at fair value that is based on quoted prices at the balance sheet date without any deduction for transaction costs.

The carrying amount of cash and cash equivalents and of bank deposits reflects fair value due to the short-term maturity of these financial instruments. Similarly, the amortized cost carrying amounts of trade receivables and payables with remaining life of less than one year and which are all subject to normal trade credit terms reflect fair values. In 2020 0,59% (2019: 0,59%) interest rates were used for determining fair values, which are based on available market rates for similar financial instruments.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

30 Financial risk management (continued)

(g) Capital management

The Group's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide adequate requirements for capital resources, as far as possible, by the retention of profit;
- To maintain a prudent balance sheet with adequate component of cash and short-term assets, as well as equity and other investments; and
- To secure adequate back-up funding facilities should a need arise.

The Group is generating sufficient cash from operations to fund liabilities as they become due, finance customers when required and budgeted investments, and pay dividends.

The Group monitors capital using the statutory minimum capital requirement. Shareholders' equity is disclosed in Note 20 to the consolidated financial statements.



Financial statements and Auditors' report

Ericsson Nikola Tesla d.d.

Financial Statements
and Auditors' report
31 December 2020

Ericsson Nikola Tesla d.d.

Company profile

History and incorporation

Ericsson Nikola Tesla d.d. (the Company) is a Croatian company with over seventy years of continuous operations. It is a leading supplier and exporter of specialized telecommunications equipment, ICT solutions, software and services in Central and Eastern Europe.

The Company was founded on 13 May 1995, as a result of the privatization of the enterprise Nikola Tesla - Poduzeće za proizvodnju telekomunikacijskih sistema i uređaja, po.

According to the ownership structure as at 31 December 2020, Telefonaktiebolaget LM Ericsson (Ericsson) holds 49.07% of the Company's shares. Other shareholders own the remaining 50.91% of the Company's shares and 0.03 % is held as treasury shares.

Principal activities

The principal activities of the Company are research and development of telecommunications software and services, design, testing and integration of total communications solutions, and supply and maintenance of communications solutions and ICT solutions towards customers within the Ericsson Group, customers in the Republic of Croatia, and Bosnia and Herzegovina, and several customers in Central and Eastern Europe.

Ericsson Nikola Tesla d.d. is a joint-stock company incorporated in Croatia. The headquarters of the Company are in Zagreb, Krapinska 45.

Code of Corporate Governance

The Company applies the Code of Corporate Governance of the Zagreb Stock Exchange and meets the obligations derived therefrom, with the exception of provisions whose application is not practical at the moment.

Supervisory Board, Audit Committee, Management Board and Executive management

Supervisory Board

The Supervisory Board members during 2020 and up to the release of these statements were:

| | | |
|-------------------------------|--------------------------------------|---|
| Franck Pierre Roland Bouétard | Chairman | Appointed on 20 June 2018 |
| Olgica Spevec | Member; Vice-Chairman | Appointed on 13 June 2019; elected for Vice-chairman of Supervisory board on 17 December 2020 |
| Vidar Mohammar | Member | Reappointed on 13 June 2019 |
| Dubravko Radošević | Member | Reappointed on 20 June 2018; Vice-chairman until 17 December 2020 |
| Vladimir Filipović | Member and employees' representative | Appointed on 29 November 2018 |

Audit Committee

The Audit Committee members during 2020 and up to the release of these statements were:

| | | |
|--------------------|----------|--|
| Olgica Spevec | Chairman | Appointed on 17 December 2020 |
| Dubravko Radošević | Chairman | Chairman/member until 17 November 2020 |
| Vidar Mohammar | Member | Reappointed on 13 June 2019 |
| Vesna Vašiček | Member | Appointed on 21 February 2017 |

Ericsson Nikola Tesla d.d.

Company profile (continued)

Management Board

The Management Board has one member:

| | | |
|-------------------|-----------|---------------------------------|
| Gordana Kovačević | President | Reappointed on 17 December 2019 |
|-------------------|-----------|---------------------------------|

Executive management

As at 31 December 2020, the Company's executive management comprised:

| | |
|--------------------------|---|
| Gordana Kovačević | Company President |
| Branka Vučemilo Elezović | Director, Legal |
| Branko Dronjić | Director, IT&Test Environment Operations |
| Damir Bušić | Director, Finance, Sourcing and Commercial Management |
| Darko Huljenić | Director, Research |
| Dragan Fratrić | Director, General Services |
| Goran Ožbolt | Director, Sales and Marketing for Telemach Hrvatska and Alternative Operators |
| Hrvoje Benčić | Director, Digital Services and Operations, Networks and Media |
| Ivan Barać | Director, Sales and Marketing for Hrvatski Telekom and Crnogorski Telekom |
| Jagoda Barać | Director, Sales and Marketing for Export markets for Op.Seg. |
| Marijana Đuzel | Director, Human Resources |
| Milan Živković | Director, Strategy and Business Development & GIR |
| Miroslav Kantolić | Director, Sales and Marketing for A1 Croatia |
| Patrick Gerard Martin | Director, R&D Center |
| Snježana Bahtijari | Director, Marketing, Communications & Corporate Social Responsibility |
| Tihomir Fabeta | Director, ICT for Industry and Society |
| Vjeran Buća | Director, Sales and Marketing for Industry and Society |

Ericsson Nikola Tesla d.d.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the business situation of the Company together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements which will be presented to the General Assembly of Shareholders.

The financial statements set out below were authorized by the Management Board on 23 April 2021 for issue to the Supervisory Board and are signed below.

Gordana Kovačević

President

Ericsson Nikola Tesla d.d.

Krapinska 45

10000 Zagreb

Croatia



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Ericsson Nikola Tesla d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2020, and its separate statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2020 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

REVENUE RECOGNITION

Sales revenue in 2020: HRK 1,417,214 thousand (2019: HRK 1,545,299 thousand). As at 31 December 2020: trade receivables: HRK 81,353 thousand; contract assets: nil; contract liabilities: HRK 167,119 thousand (31 December 2019: trade receivables: HRK 207,009 thousand; contract assets: HRK 3,239 thousand; contract liabilities: HRK 149,375 thousand).

Please refer to the Note 1 *Revenue recognition* of Significant accounting policies, Note 4 c) *Revenue recognition* of Critical accounting estimates and judgements, Note 5 *Sales revenue* and Note 6 *Segment reporting* in the financial statements.

| Key audit matter | How our audit addressed the matter |
|--|---|
| <p>In the year ended 31 December 2020, the Company's principal revenue streams included sales of products and software, as well as provision of services, including installation and integration services, maintenance and support.</p> <p>Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors:</p> <ul style="list-style-type: none"> — In the Company's Networks and Digital services segment, goods and services with different revenue recognition patterns may be sold as part of one contract or several contracts accounted for as one arrangement. The Company applies significant judgment, among other things, in identifying contracts which require to be combined and accounted for as one arrangement, and identifying performance obligations therein, including those, if any, resulting from warranties and non-returnable upfront fees; — Each performance obligation requires evaluation of whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised products or services is transferred to customers. Note 6 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams; | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> — Obtaining understanding of and evaluating the Company's revenue recognition process, and testing related key internal controls in particular the controls associated with project feasibility and adequacy of approvals, segregation of duties, determination of revenue recognition pattern, fulfillment of contracts and procedures related to finalization of projects and acceptance by the customer; — Assessing the Company's revenue recognition policy for compliance with relevant provisions of the financial reporting standards; — For a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of project managers and relevant finance personnel in order to challenge the Company's: <ul style="list-style-type: none"> ○ Meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due; ○ Identification of the contracts which require to be accounted for on a combined basis and of performance obligations within contracts. The procedure included, among other things, assessing the nature of the warranties provided to customers for potential consideration as performance obligations; |



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

REVENUE RECOGNITION (CONTINUED)

| Key audit matter (continued) | How our audit addressed the matter (continued) |
|---|--|
| <p>— Although contracts with customers are usually agreed with fixed transaction price, significant judgement is required in allocating the transaction price to the performance obligations. The transaction price, which is the consideration the Company expects to receive for the transfer of products and services to the customer, is allocated to the performance obligations based on its relative standalone selling price;</p> <p>In the wake of the above factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.</p> | <ul style="list-style-type: none"> ○ Determination of total contract consideration, by reference to contracts with customers and any subsequent modifications to the frame agreement, if any; ○ Allocation of the contract consideration to each of the identified performance obligations, based on their estimated stand-alone selling prices, also by reference to the sales department's data and the analysis of current transaction prices; ○ Determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to sales invoices, inventory and shipping documents, customer acceptance forms and other documents as appropriate. <p>— For a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Company's records by inspecting the underlying documentation such as contracts with customers, invoices, shipping documents and customer acceptance forms;</p> <p>— Examining whether the Company's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.</p> |



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Annual Report of the Company, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and the Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.



Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 26 June 2020 to audit the separate financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2020. Our total uninterrupted period of engagement is two years, covering the year ended 31 December 2019 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 April 2021;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

23 April 2021

Domagoj Hrkać
Director, Croatian Certified Auditor

Ericsson Nikola Tesla d.d.

Statement of comprehensive income

for the year ended 31 December 2020

| | | 2020 | 2019 |
|--|-------|----------------|----------------|
| | Notes | HRK '000 | HRK '000 |
| Sales revenue | 5, 6 | 1,417,214 | 1,545,299 |
| Cost of sales | 7 | (1,272,263) | (1,392,796) |
| Gross profit | | 144,951 | 152,503 |
| Selling expenses | 7 | (39,710) | (43,663) |
| Administrative expenses | 7 | (33,714) | (31,589) |
| Other operating income | 7 | 20,301 | 16,591 |
| Impairment loss on financial assets | | (9,336) | (265) |
| Operating profit | | 82,492 | 93,577 |
| Finance income | 9 | 6,133 | 7,466 |
| Finance expense | 9 | (3,385) | (670) |
| Finance income/(expense), net | 9 | 2,748 | 6,796 |
| Profit before tax | | 85,240 | 100,373 |
| Income tax | 10 | (8,749) | (4,821) |
| Profit for the year | | 76,491 | 95,552 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 76,491 | 95,552 |
| Basic and diluted earnings per share (HRK) | 11 | 57.46 | 71.77 |

Ericsson Nikola Tesla d.d.

Statement of financial position

as at 31 December 2020

| Assets | Notes | 2020 | 2019 |
|---|--------|----------------|----------------|
| | | HRK '000 | HRK '000 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 148,687 | 138,436 |
| Right of use assets | 29 | 37,780 | 27,572 |
| Intangible assets | 13 | 347 | 226 |
| Loans and receivables | 14 | 37,867 | 53,772 |
| Investments in subsidiaries | 15 | 1,053 | 1,053 |
| Deferred tax assets | 10 | 8,397 | 15,449 |
| Total non-current assets | | 234,131 | 236,508 |
| Current assets | | | |
| Inventories | 16 | 44,179 | 170,522 |
| Trade receivables | 17 | 81,353 | 207,009 |
| Receivables from related parties | 30 (c) | 97,933 | 121,316 |
| Contract assets | 28 | - | 3,239 |
| Other receivables | 18 | 5,729 | 12,472 |
| Income tax receivable | | 11,651 | 13,870 |
| Financial assets at fair value through profit or loss | 19 | 32,936 | 38,899 |
| Prepayments | | 32,379 | 11,057 |
| Cash and cash equivalents | 20 | 245,833 | 81,833 |
| Total current assets | | 551,993 | 660,217 |
| Total assets | | 786,124 | 896,725 |

Ericsson Nikola Tesla d.d.

Statement of financial position (continued)

as at 31 December 2020

| | | 2020 | 2019 |
|--------------------------------------|--------|----------------|----------------|
| Equity and liabilities | Notes | HRK '000 | HRK '000 |
| Equity | | | |
| Share capital | 21 (a) | 133,165 | 133,165 |
| Treasury shares | 21 (b) | (506) | (240) |
| Legal reserves | 21 (c) | 6,658 | 6,658 |
| Reserve for treasury shares | 21 (d) | 13,904 | 14,873 |
| Retained earnings | | 153,872 | 139,344 |
| Total equity | | 307,093 | 293,800 |
| Non-current liabilities | | | |
| Borrowings | 22 | 30,292 | 27,324 |
| Employee benefits | 24 (a) | 7,335 | 7,080 |
| Lease liabilities | 29 | 26,559 | 17,830 |
| Other non-current liabilities | 23 | 411 | 5,679 |
| Total non-current liabilities | | 64,597 | 57,913 |
| Current liabilities | | | |
| Payables to related parties | 30 (c) | 29,759 | 104,505 |
| Borrowings | 22 | 14,236 | - |
| Trade and other payables | 25 | 112,735 | 162,425 |
| Provisions | 26 | 13,598 | 13,104 |
| Accrued expense and deferred revenue | 27 | 65,300 | 105,552 |
| Contract liabilities | 28 | 167,119 | 149,375 |
| Lease liabilities | 29 | 11,687 | 10,051 |
| Total current liabilities | | 414,434 | 545,012 |
| Total liabilities | | 479,031 | 602,925 |
| Total equity and liabilities | | 786,124 | 896,725 |

Ericsson Nikola Tesla d.d.

Statement of changes in equity

for the year ended 31 December 2020

| | Share capital | Treasury shares | Legal reserves | Reserve for treasury shares | Retained earnings | Total |
|--|------------------|--------------------|-------------------|-----------------------------------|----------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January 2019 | 133,165 | (240) | 6,658 | 14,873 | 136,678 | 291,134 |
| Changes in equity for 2019 | | | | | | |
| Profit for the year | - | - | - | - | 95,552 | 95,552 |
| <i>Transactions with owners</i> | | | | | | |
| Dividend distribution for 2018, Note 21 (e) | - | - | - | - | (94,000) | (94,000) |
| Equity settled transactions, Note 24 (b) | - | - | - | - | 1,114 | 1,114 |
| Total contributions by and distributions to owners recognized directly in equity | - | - | - | - | (92,886) | (92,886) |
| As at 31 December 2019 | 133,165 | (240) | 6,658 | 14,873 | 139,344 | 293,800 |
| As at 1 January 2020 | 133,165 | (240) | 6,658 | 14,873 | 139,344 | 293,800 |
| Changes in equity for 2020 | | | | | | |
| Profit for the year | - | - | - | - | 76,491 | 76,491 |
| <i>Transactions with owners</i> | | | | | | |
| Dividend distribution for 2019, Note 21 (e) | - | - | - | - | (65,231) | (65,231) |
| Equity settled transactions, Note 24 (b) | - | - | - | - | 3,268 | 3,268 |
| Purchase of treasury shares, Note 21 (b) | - | (1,235) | - | - | - | (1,235) |
| Shared-based payments, Note 24 (b) | - | 969 | - | (969) | - | - |
| Total contributions by and distributions to owners recognized directly in equity | - | (266) | - | (969) | (61,963) | (63,198) |
| As at 31 December 2020 | 133,165 | (506) | 6,658 | 13,904 | 153,872 | 307,093 |

Ericsson Nikola Tesla d.d.

Statement of cash flows

for the year ended 31 December 2020

| | | 2020 | 2019 |
|--|------------|-----------------|-----------------|
| | Notes | HRK '000 | HRK '000 |
| Cash flows from operating activities | | | |
| Profit before tax | | 85,240 | 100,372 |
| Adjustments for: | | | |
| Depreciation and amortization | 7,12,13,29 | 42,734 | 41,590 |
| Impairment losses and reversals | | 9,934 | 4,050 |
| Gain on sale of property, plant and equipment | | (25) | (2,322) |
| Net loss on remeasurement of financial assets | | (265) | (497) |
| Amortization of discount | | 13 | (1,019) |
| Interest income | | (6,031) | (5,831) |
| Interest expense | | 1,291 | 669 |
| Foreign exchange gain/losses | | 4,783 | (5,597) |
| Equity-settled transaction | 24 (b) | 3,268 | 846 |
| | | 140,942 | 132,261 |
| Changes in working capital: | | | |
| In receivables | | 135,657 | (53,090) |
| In inventories | | 125,746 | (61,824) |
| In provisions | | 748 | (3,770) |
| In payables | | (125,472) | 31,019 |
| Cash generated from operations | | 277,621 | 44,596 |
| Interest paid | | (1,224) | (656) |
| Income taxes paid | | (407) | (3,968) |
| Net cash from operating activities | | 275,990 | 39,972 |
| Cash flows from investing activities | | | |
| Proceeds from loans given | | 16,014 | - |
| Loans given | | (15,000) | - |
| Interest received | | 1,784 | 1,734 |
| Dividends received | | 59 | 70 |
| Proceeds from sale of property, plant and equipment | | 169 | 2,360 |
| Purchases of property, plant and equipment, and intangible assets | | (59,252) | (78,142) |
| Deposits given to financial institutions - net | | 789 | (3,440) |
| Receipt of government grant | | 11,261 | (4,794) |
| Net change of financial assets at fair value through profit and loss | | 5,013 | 10,955 |
| Net cash used in investing activities | | (39,163) | (71,669) |

Ericsson Nikola Tesla d.d.

Statement of cash flows (continued)

for the year ended 31 December 2020

| | | 2020 | 2019 |
|---|--------|-----------------|------------------|
| | Notes | HRK '000 | HRK '000 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 22 | 20,609 | 23,716 |
| Repayment of borrowings | 22 | (13,796) | - |
| Purchase of treasury shares | 21 (b) | (1,235) | - |
| Dividends paid | 21 (e) | (65,231) | (94,000) |
| Payment of lease liabilities | 29 | (11,502) | (9,190) |
| Net cash used in financing activities | | (71,155) | (79,474) |
| Effects of exchange rate changes on cash and cash equivalents | | (1,672) | 560 |
| Net increase (decrease) in cash and cash equivalents | | 164,000 | (100,610) |
| Cash and cash equivalents at the beginning of the year | | 81,833 | 182,443 |
| Cash and cash equivalents at the end of the year | 20 | 245,833 | 81,833 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d.

1 Significant accounting policies

Reporting entity

Ericsson Nikola Tesla d.d. (the Company) is a joint-stock company incorporated and domiciled in Croatia. The address of its registered office is Krapinska 45, 10000 Zagreb, the Republic of Croatia. The Company's shares are listed on the Public Joint-Stock Company listing on the Zagreb Stock Exchange. A summary of the Company's principal accounting policies is set out below.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRSs). These financial statements also comply with the Croatian Accounting Act in effect on the date of issuing of these financial statements. These financial statements are a translation of the official statutory IFRS financial statements.

Basis of preparation

The financial statements are prepared on the historical cost basis, with the exception of financial instruments which are carried at fair value. These comprise derivative financial instruments and financial assets and liabilities at fair value through profit or loss. Policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3). The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgements made by the executive management in the application of IFRSs that have significant effect on the financial statements and estimates are discussed in Note 4. The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2020 and for the year then ended in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 23 April 2021. In the consolidated financial statements, subsidiary undertakings (listed in Note 15) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2020 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Going concern

The executive management have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Functional and presentational currency

The Company's financial statements have been prepared in Croatian kuna (HRK), which is the currency of the primary economic environment in which the entity operates (the functional currency) and the presentation currency and have been rounded to the nearest thousand. The closing exchange rate as at 31 December 2020 was HRK 6.139039 per USD 1 (2019: HRK 6.649911) and HRK 7.536898 per EUR 1 (2019: HRK 7.442580).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" is a principle-based model of recognizing revenue from customer contracts. It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.

The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of the Company's is for the sale of standard products and services.

Standard solution

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time, from the delivery of the related products.

These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset.

Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Software licenses may be provided to the customer at a point in time, activated or ready to be activated by the customer at a later stage, therefore revenue is recognized when customer obtains control of the software.

Contractual terms may vary; therefore, judgment will be applied when assessing the indicators of transfer of control.

Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement.

Costs incurred relating to performance obligations not yet fully delivered are recognized as inventories.

Transaction prices under these contracts are usually fixed, and mostly billed upon delivery of the hardware or software and completion of installation services. Customer finance agreements may be agreed separately with some customers where payment terms exceed 179 days.

Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Costs incurred in delivering recurring services are recognized as cost of sales as they are incurred. Transaction prices under these contracts are billed over time, often on a quarterly basis.

Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears. Contract for standard products and services applies to business in all segments.

Customized solution

Some products and services are sold together as part of a customized solution to the customer. This type of contract requires significant installation and integration services to be delivered within the solution, normally over a period of more than 1 year. These products and services are viewed together as a combined performance obligation. This type of contract is usually sold as a firm contract in which the scope of the solution and obligations of both parties are clearly defined for the duration of the contract.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution (continued)

Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method determines revenue milestones over the duration of the contract, and it is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects. If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer. Costs incurred in delivering customized solutions are recognized as costs of sales when the related revenue milestone is recognized in the Income Statement. Costs incurred relating to future revenue milestones are recognized as Inventories and assessed for recoverability on a regular basis.

Transaction price under these contracts is usually a fixed fee, split into a number of progress payments or billing milestones as defined in the contract. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts.

Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days.

Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

The nature of Ericsson's promise is to provide a right to use Ericsson's IP as it exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all the remaining benefits from, the license at the point in time at which the license transfers.

Customer contract related balances

Trade receivables include amounts that have been billed in accordance with customer contract terms and amounts that the Company has an unconditional right to, with only passage of time before the amounts can be billed in accordance with the customer contract terms.

Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 31 (d) for further information on credit risk management of trade receivables and customer finance credits.

In accordance with IFRS 15, where significant financing is provided to the customer, revenue is adjusted to reflect the impact of the financing transaction. These transactions could arise from the customer finance credits above if the contracted interest rate is below the market rate or through implied financing transactions due to payment terms of more than one year from the date of transfer of control. The Company has elected to use the practical expedient not to adjust revenue for transactions with payment terms, measured from the date of transfer of control, of one year or less.

Contract asset is unbilled sales amount relating to performance obligation that has been satisfied under customer contract but is conditional on terms other than only the passage of time before payment of the consideration is due. Under previous standards these unbilled sales balances have been included within trade receivables.

Contract liability relates to amounts that are paid by or due from customers for which performance obligations are unsatisfied or partially satisfied. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Company concluded that the balances meet the definition of contract liability under IFRS 15. Advances from customers are also included in the contract liability balance.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are shown at cost or deemed cost, less accumulated depreciation and impairment losses. The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost over the estimated economic useful life of the assets. The estimated useful lives are as follows:

| | Useful lives |
|---------------------|--------------|
| Buildings | 5 – 30 years |
| Plant and equipment | 2 – 10 years |
| Other | 5 – 7 years |

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income.

Intangible assets

Intangible assets are stated on initial recognition at cost and subsequently at cost less accumulated amortization and impairment losses.

Amortization is provided on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets include acquired computer software and are amortized on a straight-line basis over their useful life of 2-4 years. Cost associated with maintaining computer software is recognized as an expense as incurred.

Impairment of non-financial assets

Assets that have an indefinite useful life (such as goodwill) are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Financial assets at amortized cost

Financial assets are classified as amortized cost if the contractual terms give rise to payments that are solely payments of principal and interest on the principal amount outstanding and the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows. These assets are subsequently measured at amortized cost using the effective interest method, less impairment allowances. Interest income and gains and losses from financial assets at amortized cost are recognized in financial income.

Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term. Derivatives are classified as held for trading, unless they are designated as hedging instruments for the purpose of hedge accounting. Assets held for trading are classified as current assets. Debt instruments classified as FVTPL, but not held for trading, are classified on the balance sheet based on their maturity date (i.e. those with a maturity longer than one year are classified as non-current). Investments in shares and participations are classified as FVTPL and classified as non-current financial assets. Gains or losses arising from changes in the fair values of the FVTPL category (excluding derivatives and customer financing) are presented in the income statement within financial income in the period in which they arise. Gains and losses on derivatives are presented in the income statement as follows.

Gains and losses on derivatives that hedge operating assets or liabilities, financial assets and financial liabilities are presented as cost of sales, financial income and financial expense, respectively. Gains and losses on customer financing are presented in the income statement as selling expenses. Dividends on equity instruments are recognized in the income statement as part of financial income when the Company's right to receive payments is established.

Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit and loss.

Impairment of cash, trade receivables and contract assets

Financial assets affected by the new model are cash and cash equivalents, deposits, trade receivables and contract assets. Two unified models were developed for relatable financial assets. Cash equivalents and deposits are assessed for impairment under one unified model and trade receivables and contract assets are assessed for impairment under another unified model. Cash equivalents and deposits are assessed based on probability of default as well as the Company's exposure to certain financial institution at the time of default. To determine probability of default, country credit rating of financial institution is used, as well as the rating of future outlook.

Expected loss on cash, cash equivalents and deposits for each financial institution gives the total expected credit loss. There were no significant changes to the model during the year. The Company has determined that credit risk largely depends on both the payment pattern of the customer as well as the risk in the country where the customer resides (e.g. ability to make cross-border payments).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Impairment of cash, trade receivables and contract assets (continued)

Therefore, expected credit losses (ECLs) are calculated using a provision matrix that specifies a fixed rate depending both on the number of days past due and the country risk rating. The country risk ratings depend on the ratings used by all Export Credit Agencies within the OECD. The rates defined in the provision matrix are based on historical loss patterns for certain portfolio of customers. Each customer is regulatory monitored and these rates are adjusted for current conditions as well as management expectations for changes to political risks and payment patterns of certain customer in the future. There were no significant changes to the model during the year.

Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortised cost using the effective interest rate.

Financial liabilities

Financial liabilities are recognized when the Company becomes bound to the contractual obligations of the instrument. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of other inventories is based on the First In First Out (FIFO) principle and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories, the cost includes materials, labor and related overhead, and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Slow-moving and obsolete inventories have been written down to their estimated realizable value.

Share capital

Share capital is stated in HRK at nominal value.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Income tax

The tax expense for the period is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Income tax (continued)

Deferred income tax is recognized by using the balance sheet liability method on temporary differences arising between tax basis of assets and liabilities and their carrying amount in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Foreign currencies

Transactions denominated in foreign currencies are translated into HRK at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date have been translated to HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are included in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to HRK at foreign exchange rates ruling at the dates the values were determined. Non-monetary assets and items that are measured in terms of "historical cost of a foreign currency" are not retranslated.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Employee benefits

b) Long-term service benefits

The Company provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

c) Share-based payments

The Company operates an equity-settled, share-based compensation plan allowing the Company's employees to receive shares. The fair value of the employee services received in exchange for the grant of the Company's shares is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Company revises its estimates of the number of shares that are expected to become granted. It recognizes the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity. When distributed upon vesting date, treasury shares are credited at average purchase cost and recorded against retained earnings.

d) Bonus plans

The Company recognizes a liability and an expense for bonuses as a provision where contractually obliged or where there is past practice that has created a constructive obligation.

Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The most significant provisions in the financial statements are provisions for warranty claims, penalty claims and litigation. If the effect is material and if the obligation is expected to be settled in a period of over 12 months, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The increase in the provision due to passage of time is recognized as interest expense.

Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Government grants

Grants from the government are recognized within "Other operating income" at their fair value where there is reasonable assurance that the grant will be received, and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to property, plant and equipment are recognized in profit or loss over the periods and in the proportions in which depreciation on those assets is recognized. In statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognized in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Investments in subsidiaries

Investments in subsidiaries in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

Dividend income is recognized when the right to receive payment is established.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Leases

As a lessee

As a lessee, the Company leases property and vehicles. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The Company uses a number of practical expedients when applying IFRS 16 to leases. In particular, the Company:

- does not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- does not recognize right-of-use assets and liabilities for leases of low value assets; and
- excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate, the weighted-average rate applied is 2.5%.

As a lessor

The Company leases out its own property and the Company has classified these leases as operating leases.

The Company sub-leases some of its properties. Under IFRS 16, the right-of-use assets recognized from the head leases are presented in investment property and measured at fair value at that date. The Company assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are operating leases under IFRS 16.

The Company has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

2 Changes in accounting policies

There were no changes in accounting policies for the financial year ending as at 31 December 2020 in comparison with prior reporting period.

3 New accounting standards and interpretations

New standards and amendments to existing not yet adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

4 Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and receivables

The Company reviews its receivables to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with parameters relevant to assets in the Company.

(b) Derecognition of receivables with off-balance sheet financing

In 2016, the Company entered into several new customer contracts in the foreign market. The contracts include delivery of equipment and sale of services with 15% up-front payment while remaining 85% have deferred payment terms up to 54 months.

The Company financed the sale of equipment through a Supplier credit arrangement. The arrangement includes:

(i) matching cash receipts from customer with payments to the bank, (ii) assignment of insurance policy to the bank, and (iii) ceding future cash receipts from the customer to the bank through special purpose accounts secured by special purpose deposits (Note 14).

By transferring to the bank its contractual right to receive the cash flows, the Company transferred the financial asset to the bank. In terms of derecognition criteria, the Company analyzed transfer of risk and rewards of the receivable, specifically related to credit risk and late payment risk.

The credit risk is shifted from international customer to the risk from domestic insurance company default which is considered as significant transfer in credit risk. The Company issued guarantees to the financing bank for risk of non-performance by

the insurance company which is disclosed in Note 23. The issued guarantee for non-performance of the insurance company is recognized initially at fair value and subsequently at the higher of the unamortized balance of the initial fair value and the best estimate of expenditure required to settle the obligation under the guarantee.

Late payment risk was transferred based on the fact that the special purpose deposit covers the late payment charges and/or history of payments with the customer do not historically evidence late payment risk as substantial to the agreement.

Having transferred the right to cash flows and substantially all the risk and rewards relating to 90% of receivables, management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 22).

Following derecognition, the residual difference between interest receivable from the customer and interest payable to the bank represents separate liability recognized at fair value and is disclosed in Note 22.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

4 Critical accounting estimates and judgements (continued)

(c) Revenue recognition

The Company uses estimates and judgments in determining the amount and timing of revenue under IFRS 15, particularly when determining the transaction price and its allocation to performance obligations identified under the contract.

Transaction price may consist of variable elements such as discounts and contract penalties. Transaction price, including variable considerations, is estimated at the commencement of the contract (and periodically thereafter). Judgment is used in the estimation process based on historical experience with the type of business and customer.

IFRS 15 also requires revenue to be allocated to each performance obligations by reference to their stand-alone selling prices. The Company considers that an adjusted market assessment approach should be used to estimate stand-alone selling prices for its products and services for the purposes of allocating transaction price. These estimates are comprised of prices set for similar customer and circumstances, adjusted to reflect appropriate profit margins for the market. Estimates are used to determine discounts that relate specifically to each performance obligations, thus impacting their stand-alone selling prices.

The Management applies judgment when assessing the customer's ability and intention to pay in a contract. The assessment is based on the latest customer credit standing and the customer's past payment history. This assessment may change during the contract execution, and if there is evidence of deterioration in the customer's ability or intention to pay, then under IFRS 15 no further revenue shall be recognized until the collectability criteria is met. Conversely, this assessment may also change favorably over time, upon which revenue shall now be recognized on a contract that did not initially meet the collectability criteria.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights.

Control of an asset therefore refers to the ability to direct use of and obtain substantially all the remaining benefits from the asset. Control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. Judgment may be applied in determining whether risk and rewards have been transferred to the customer and whether the customer has accepted the products. In a sale of software license, judgment may also be applied to determine when the software is made available to the customer by considering when they can direct the use of, and obtain substantially all the benefits of, the license. Often all indicators of transfer of control are assessed together and an overall judgment formed as to when transfer of control has occurred in a customer contract.

Revenue for customized solutions shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. Judgment are applied when determining the appropriate revenue milestones that best reflect the progress of completion and are aligned with key acceptance stages within the contract.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

5 Sales revenue

Analysis of revenue by category:

| | 2020 | | | 2019 | | |
|-----------------------------|--------------------|------------------|----------------|--------------------|------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| | At a point in time | | Over time | At a point in time | | Over time |
| Sales revenue from products | 178,046 | 160,744 | 17,302 | 420,776 | 373,230 | 47,546 |
| Sales revenue from services | 1,239,168 | 1,125,102 | 114,066 | 1,124,523 | 999,688 | 124,835 |
| | <u>1,417,214</u> | <u>1,285,846</u> | <u>131,368</u> | <u>1,545,299</u> | <u>1,372,918</u> | <u>172,381</u> |

6 Segment reporting

The Company has determined the operating segments based on the reports reviewed by the Management Board that are used to make strategic decisions. The Management Board assesses the performance of the operating segments based on a measure of adjusted Operating profit. The measurement basis excludes the effects of gains/losses on operating exchange rate differences and administration expenses.

When determining the operating segments, the Company has looked at which market and to what type of customers the Company's products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development.

To best reflect the business focus and to facilitate comparability with the Ericsson Group, four operating segments are reported:

- Networks include radio and transport solutions with supporting services, based on industry standards and offered via scalable modular platforms. The portfolio enables customers to evolve their telecom networks across generations to 5G.
- Digital Services include products and services providing solutions for our Telecom and Industry & Society customers' digital transformation journeys across the support systems BSS and OSS, Telecom Core, and IT Cloud domains through a combination of products, technology and expertise in networks, software, cloud, and business processes.
- Managed Services are offered in three main areas: Networks, IT, and Network Design & Optimization.
- Other includes products and services that enable content owners, broadcasters, TV service providers and network operators to efficiently deliver, manage and monetize new TV experiences. In addition, segment Other includes iconectiv and emerging business such as Internet of Things and Unified Delivery Network (UDN).

The Management Board does not monitor assets and liabilities by segments and therefore this information is not disclosed.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

6 Segment reporting (continued)

Revenues determined based on the geographic location of customers are disclosed in this note. All the Company's assets are located in Croatia.

| | 2020 | | | 2019 | | |
|--|------------------|--------------------|----------------|------------------|--------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| | | At a point in time | Over time | | At a point in time | Over time |
| Sales revenue in domestic market | 372,543 | 305,513 | 67,030 | 496,993 | 388,591 | 108,402 |
| Sales revenue in former CIS countries | 127,000 | 94,355 | 32,645 | 92,977 | 68,527 | 24,450 |
| Sales revenue to Ericsson | 855,102 | 855,102 | - | 841,480 | 841,480 | - |
| Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo | 51,624 | 23,176 | 28,448 | 89,038 | 52,472 | 36,566 |
| Other export sales revenue | 10,945 | 7,700 | 3,245 | 24,811 | 21,848 | 2,963 |
| | 1,417,214 | 1,285,846 | 131,368 | 1,545,299 | 1,372,918 | 172,381 |

| | Networks | | Digital services | | Managed services | | Other | | Unallocated | | Total | |
|-------------------------------|---------------|---------------|------------------|---------------|------------------|--------------|------------|------------|-----------------|-----------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Sales revenue | 938,021 | 971,110 | 455,870 | 563,321 | 15,244 | 3,668 | 8,078 | 7,200 | - | - | 1,417,214 | 1,545,299 |
| Timing of revenue recognition | | | | | | | | | | | | |
| At a point in time | 885,232 | 866,195 | 377,292 | 495,855 | 15,244 | 3,668 | 8,078 | 7,200 | - | - | 1,285,846 | 1,372,918 |
| Over time | 52,789 | 104,915 | 78,578 | 67,466 | | - | | - | - | - | 131,368 | 172,381 |
| Operating profit | 76,921 | 82,569 | 38,195 | 38,692 | 792 | 2,612 | 298 | 158 | (33,714) | (30,454) | 82,492 | 93,577 |
| Finance income/(expense), net | | | | | | | | | | | 2,748 | 6,796 |
| Profit before tax | | | | | | | | | | | 85,240 | 100,373 |
| Income tax | | | | | | | | | | | (8,749) | (4,821) |
| Profit for the year | | | | | | | | | | | 76,491 | 95,552 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

7 Expenses by nature

Cost of sales, selling expenses and administrative expenses consist of the following expenses by nature:

| | 2020 | 2019 |
|--|------------------|------------------|
| | HRK '000 | HRK '000 |
| Changes in contract work in progress (Note 16) | 126,344 | (61,802) |
| Material and external services ⁽¹⁾ | 399,441 | 743,631 |
| Personnel expenses (Note 8) | 775,277 | 742,382 |
| Depreciation and amortization (Notes 12, 13, 29) | 42,749 | 41,590 |
| Value adjustments | 1,876 | 2,247 |
| | <u>1,345,687</u> | <u>1,468,048</u> |

(1) Including fees to auditors of HRK 466 thousand (2019: HRK 543 thousand). Fees to auditors mainly relate to statutory audit services.

Other operating income

Other operational income consists of rent income in total amount of HRK 14,470 thousand (2019: HRK 15,348 thousand), and other in total amount of HRK 5,831 thousand (2019: HRK 978 thousand).

8 Personnel expenses

| | 2020 | 2019 |
|---|----------------|----------------|
| | HRK '000 | HRK '000 |
| Net salaries | 427,907 | 407,320 |
| Taxes and contributions | 299,735 | 285,469 |
| Other payroll-related costs | 44,367 | 48,479 |
| Equity-settled transactions (Note 24 (b)) | 3,268 | 1,114 |
| | <u>775,277</u> | <u>742,382</u> |

Personnel expenses include HRK 123,255 thousand (2019: HRK 117,914 thousand) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries (Gross I).

Other payroll-related costs relate to transportation expenses, vacation accrual cost and other personnel provisions as well as to termination benefits that amount HRK 4,899 thousand (2019: HRK 3,633 thousand).

As at 31 December 2020, total number of employees was 2,571 (2019: 2,515).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

9 Finance income/(expense), net

| | 2020 | 2019 |
|--|----------------|--------------|
| | HRK '000 | HRK '000 |
| Interest income | 6,031 | 4,663 |
| Net foreign exchange rate gain | - | 1,419 |
| Net gain in fair value of financial assets at fair value through profit and loss | 102 | 471 |
| Other income | - | 913 |
| Finance income | 6,133 | 7,466 |
| Interest expense | (1,291) | (670) |
| Net foreign exchange rate loss | (2,081) | - |
| Other expenses | (13) | - |
| Finance expense | (3,385) | (670) |
| Finance income/(expense), net | 2,748 | 6,796 |

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rate of 18% (2019: 18%). Income tax expense recognized in the consolidated statement of comprehensive income comprises:

| | 2020 | 2019 |
|-------------------------------------|----------------|----------------|
| | HRK '000 | HRK '000 |
| Current income tax expense | (1,697) | 473 |
| Total deferred tax income/(expense) | (7,052) | (5,294) |
| Total income tax expense | (8,749) | (4,821) |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

10 Income tax expense (continued)

Effective tax rate reconciliation

The reconciliation between tax expense and accounting profit is shown as follows:

| | 2020 | 2019 |
|-----------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Profit before tax | 85,240 | 100,373 |
| Income tax at 18% (2019: 18%) | 15,343 | 18,067 |
| Tax effects of: | | |
| Permanent non-deductible expenses | 390 | 273 |
| Effects of temporary differences | 1,493 | (14) |
| Tax incentives | (8,473) | (13,505) |
| Tax charge | 8,753 | 4,821 |
| Effective tax rate | 10.3% | 4.8% |

Tax incentives totaling HRK 8,473 thousand (2019: HRK 13,505 thousand) include tax allowances for certain expenditure, as employment and education and training, as defined by Croatian tax legislation. The underlying expenditure is included in cost of sales.

The Croatian Income Tax Act is subject to different interpretations and changes in respect of certain expenses which reduce the tax base. The Management Board's interpretation of the law relating to these transactions and activities of the Company may be disputed by the relevant authorities. The Tax Authority may take a different view in interpreting the laws and judgments, and it is possible that those transactions and activities that have not been disputed in the past may be disputed now. The Tax Authority may carry out a tax audit within three years from the year in which the income tax liability for a certain financial period was established.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

10 Income tax expense (continued)

Deferred tax from other temporary differences

The Company recognized deferred tax assets in the amount of HRK 8,397 thousand (2019: HRK 15,449 thousand) relating to temporary differences arising from:

- Accrued interest expenses
- Impairment of receivables
- Accrued expenses from contracts
- Warranty provisions and
- Provisions for jubilee awards and retirement
- Right of use asset and lease liabilities.

| | Impairments, provisions and accrued expenses HRK '000 |
|--------------------------------------|--|
| As at 1 January 2019 | 20,743 |
| Tax credited to the Income statement | 10,566 |
| Tax charged to the Income statement | (15,860) |
| As at 31 December 2019 | 15,449 |
| As at 1 January 2020 | 15,449 |
| Tax credited to the Income statement | 5,595 |
| Tax charged to the Income statement | (12,646) |
| As at 31 December 2020 | 8,397 |

11 Earnings per share

| | 2020 | 2019 |
|-----------------------------------|-----------|-----------|
| Profit for the year (HRK '000) | 76,491 | 95,552 |
| Weighted Average Number of Shares | 1,331,096 | 1,331,439 |
| Earnings per share (HRK) | 57.46 | 71.77 |

Basic and fully diluted earnings per share are the same since the Company does not have any dilutive potential ordinary shares.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

12 Property, plant and equipment

| | Land and buildings HRK '000 | Plant and equipment HRK '000 | Asset under construction HRK '000 | Other HRK '000 | Total HRK '000 |
|--------------------------------------|-----------------------------------|------------------------------------|---|-------------------|-------------------|
| As at 1 January 2019 | | | | | |
| Cost | 171,394 | 369,848 | 2 | 327 | 541,571 |
| Accumulated depreciation | (125,259) | (308,537) | - | (259) | (434,055) |
| Net book amount | 46,135 | 61,311 | 2 | 68 | 107,516 |
| Year ended 31 December 2019 | | | | | |
| Opening net book amount | 46,135 | 61,311 | 2 | 68 | 107,516 |
| Transfer of asset under construction | - | 2 | (2) | - | - |
| Additions | 6,742 | 30,008 | 28,292 | - | 65,042 |
| Disposals | - | (2,345) | - | - | (2,345) |
| Depreciation charge | (3,619) | (28,150) | - | (8) | (31,777) |
| Closing net book amount | 49,258 | 60,826 | 28,292 | 60 | 138,436 |
| As at 31 December 2019 | | | | | |
| Cost | 175,140 | 364,869 | 28,292 | 327 | 568,628 |
| Accumulated depreciation | (125,882) | (304,043) | - | (267) | (430,192) |
| Net book amount | 49,258 | 60,826 | 28,292 | 60 | 138,436 |
| Year ended 31 December 2020 | | | | | |
| Opening net book amount | 49,258 | 60,826 | 28,292 | 60 | 138,436 |
| Transfer of asset under construction | 1,788 | 10,656 | (12,444) | - | - |
| Additions | 280 | 25,092 | 16,006 | - | 41,378 |
| Disposals | - | (109) | - | - | (109) |
| Depreciation charge | (3,644) | (27,366) | - | (8) | (31,018) |
| Closing net book amount | 47,682 | 69,099 | 31,854 | 52 | 148,687 |
| As at 31 December 2020 | | | | | |
| Cost | 177,208 | 336,705 | 31,854 | 327 | 546,094 |
| Accumulated depreciation | (129,526) | (267,606) | - | (275) | (397,407) |
| Net book amount | 47,682 | 69,099 | 31,854 | 52 | 148,687 |

As at 31 December 2020, the Company had contracts totaling HRK 498 thousand (2019: HRK 1,417 thousand) related to future equipment purchases.

Asset under construction relates to building energy reconstruction in Krapinska 45, Zagreb.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

12 Property, plant and equipment (continued)

The Group acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 8,239 thousand (2019: HRK 7,434 thousand) is included within land and buildings.

These assets are depreciated at the same depreciation rates as other buildings. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Portions of the property which is held for rental could not be sold separately or leased out separately under finance lease. Consequently, the IAS 40 criteria for separate investment property recognition are not met.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

13 Intangible assets

The movement on intangible assets in the year ended 31 December 2020 may be analyzed as follows:

| | Application software HRK '000 |
|------------------------------------|-------------------------------------|
| As at 1 January 2019 | |
| Cost or valuation | 3,332 |
| Accumulated amortization | <u>(2,642)</u> |
| Net book amount | <u>690</u> |
| Year ended 31 December 2019 | |
| Opening net book amount | 690 |
| Amortization charge | <u>(464)</u> |
| Closing net book amount | <u>226</u> |
| As at 31 December 2019 | |
| Cost or valuation | 2,991 |
| Accumulated amortization | <u>(2,765)</u> |
| Net book amount | <u>226</u> |
| Year ended 31 December 2020 | |
| Opening net book amount | 226 |
| Additions | 357 |
| Amortization charge | <u>(236)</u> |
| Closing net book amount | <u>347</u> |
| As at 31 December 2020 | |
| Cost or valuation | 3,348 |
| Accumulated amortization | <u>(3,001)</u> |
| Net book amount | <u>347</u> |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

14 Loans and receivables

| | 2020 | 2019 |
|---|----------|----------|
| | HRK '000 | HRK '000 |
| Deposits with financial institutions, denominated in foreign currency | 18,018 | 13,826 |
| Deposits with financial institutions, denominated in HRK | 5,800 | 18,160 |
| Non-current receivables from foreign customers, denominated in foreign currency | 18,050 | 14,381 |
| Loans given, Note 4 (b) | 3,912 | 9,119 |
| Receivables for sold apartments | 436 | 477 |
| Total loans and receivables | 46,216 | 55,963 |
| Impairment allowance on loans and receivables | (8,349) | (2,191) |
| | 37,867 | 53,772 |

Deposits with financial institutions in the amount of HRK 22,020 thousand (2019: 30,209 thousand) are used as a collateral for Supplier credit arrangement and performance guarantees disclosed in Note 4 (b), with interest rate from 0% to 2% and maturing in year 2026.

The remainder of the deposits with financial institutions in the amount of HRK 1,799 thousand (2019: HRK 1,777 thousand) are placed as guarantee deposits for housing loans provided to the employees, and with a remaining maturity of over three years.

Loans and receivables from customers are partially secured with bank guarantees and letters of credit. The current portion of the non-current receivables is classified under current assets.

Receivables for sold apartments are linked to the counter value of euro, repayments are made by deduction from monthly salary and the loans are secured with collateral on the house or apartment. Receivables for sold apartments and housing loans provided to a limited number of employees bear fixed interest rates of up to 5% per annum.

Non-current portion of foreign and domestic loans and receivables from customers

| | 2020 | 2019 |
|------|----------|----------|
| | HRK '000 | HRK '000 |
| Due | | |
| 2021 | - | 14,850 |
| 2022 | 21,666 | 8,650 |
| 2023 | 296 | - |
| | 21,962 | 23,500 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

15 Investments in subsidiaries

| | | 2020 | 2019 |
|--|-----------|----------|----------|
| | | HRK '000 | HRK '000 |
| | Ownership | | |
| Ericsson Nikola Tesla BY d.o.o. | 100% | 1,020 | 1,020 |
| Ericsson Nikola Tesla Servisi d.o.o. | 100% | 20 | 20 |
| Libratel d.o.o | 100% | 5 | 5 |
| Ericsson Nikola Tesla BH d.o.o | 100% | 7 | 7 |
| Ericsson Nikola Tesla d.d. – Branch office of Kosovo | 100% | 1 | 1 |
| | | 1,053 | 1,053 |

16 Inventories

| | 2020 | 2019 |
|---------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Contract work in progress | 44,179 | 170,522 |
| | 44,179 | 170,522 |

Slow-moving or obsolete inventories have been written down to their estimated realizable value through an impairment allowance. The impairment allowance is included within other operating expenses in the statement of comprehensive income in total amount of HRK 598 thousand (2019: HRK 14 thousand).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

17 Trade receivables

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Foreign trade receivables | 48,571 | 59,366 |
| Current portion of non-current foreign receivables | 10,805 | 12,678 |
| Total current foreign receivables | 59,376 | 72,044 |
| Domestic trade receivables | 22,420 | 135,548 |
| Impairment allowance on receivables | (443) | (583) |
| | 81,353 | 207,009 |

Movements in impairment allowance on loans and receivables were as follows:

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| As at 1 January | 4,467 | 20,006 |
| Impact of discounting non-current receivables | (2,046) | (1,389) |
| Receivables written off during the year as uncollectible | (1,339) | (16,338) |
| Impairment on receivables | 8,832 | 2,188 |
| As at 31 December ⁽¹⁾ | 9,914 | 4,467 |

⁽¹⁾ Including impairment provision for receivables from related parties of HRK 1,119 thousand (2019: HRK 1,686 thousand)

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

18 Other receivables

| | 2020 | 2019 |
|---------------------|--------------|---------------|
| | HRK '000 | HRK '000 |
| Advances given | 1,034 | 9,455 |
| Net VAT receivables | - | 2,497 |
| Other receivables | 4,695 | 520 |
| | <u>5,729</u> | <u>12,472</u> |

19 Financial assets at fair value through profit or loss

| | 2020 | 2019 |
|---|---------------|---------------|
| | HRK '000 | HRK '000 |
| Financial assets at fair value through profit or loss | | |
| - Equity securities | 1,503 | 1,612 |
| - Investment in open-ended investment funds | 31,433 | 36,280 |
| - Other financial asset | - | 1,007 |
| | <u>32,936</u> | <u>38,899</u> |

20 Cash and cash equivalents

| | 2020 | 2019 |
|-------------------------------|----------------|---------------|
| | HRK '000 | HRK '000 |
| Cash and demand deposits | 246,908 | 82,260 |
| Impairment loss (Note 31 (d)) | (1,075) | (427) |
| | <u>245,833</u> | <u>81,833</u> |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

21 Equity

(a) Share capital

As at 31 December 2020, the share capital of the Company is represented by 1,331,650 (2019: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2019 HRK 133,165 thousand). The nominal value of one share is HRK 100 (2019: HRK 100). The holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly and are entitled to one vote per share at the General Assembly.

The Company's shareholders as at 31 December are:

| | Number of shares | % held | Number of shares | % held |
|---------------------------------|------------------|---------------|------------------|---------------|
| | | 2020 | | 2019 |
| Telefonaktiebolaget LM Ericsson | 653,473 | 49.07 | 653,473 | 49.07 |
| Other shareholders | 677,771 | 50.90 | 677,966 | 50.91 |
| Treasury shares | 406 | 0.03 | 211 | 0.02 |
| | <u>1,331,650</u> | <u>100.00</u> | <u>1,331,650</u> | <u>100.00</u> |

(b) Treasury shares

These shares are held initially as "treasury shares" and are regularly granted to key management and other employees as a part of the share-based program established during 2004, as described in Note 24 (b). Shares transferred to employees are recognized on a first-in-first-out basis.

Movements in treasury shares are as follows:

| | Number of shares | Number of shares |
|-----------------------------|------------------|------------------|
| | 2020 | 2019 |
| As at 1 January | 211 | 211 |
| Purchased during the year | 1,000 | - |
| Distributed during the year | (805) | - |
| As at 31 December | <u>406</u> | <u>211</u> |

(c) Legal reserves

A legal reserve in the amount of 5% of total share capital was formed during previous periods by appropriation of 5% of net profit per annum up to a cap of 5% of share capital. The legal reserve may be used to cover losses if the losses are not covered by current net profit or if other reserves are not available. The Company recorded the required level of legal reserves in 2000 and no further allocation to legal reserves is required. Legal reserves up to 5% of total share capital are not distributable.

(d) Reserve for own shares

Reserve for own shares are separated by decision of General Assembly of the Company.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

21 Equity (continued)

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 9 December 2020, the General Assembly approved a regular dividend in respect of 2019 of HRK 49.00 per share, totaling HRK 65,231 thousand.

Cash dividends authorized and paid for previous years were as follows:

| | 2020 | 2019 |
|------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| HRK 49.00 per share for 2019 | 65,231 | - |
| HRK 70.60 per share for 2018 | - | 94,000 |
| | 65,231 | 94,000 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

22 Borrowings

| | 2020 | 2019 |
|----------------------------------|----------|----------|
| | HRK '000 | HRK '000 |
| Loans | 42,412 | 21,656 |
| Borrowings, Note 4 (b) | 2,115 | 5,668 |
| Total liabilities for borrowings | 44,528 | 27,324 |
| Short term portion | 14,236 | - |
| Long term portion | 30,292 | 27,324 |

Changes in liabilities from financing activities

Borrowings

| | HRK '000 |
|--|----------|
| Year ended 31 December 2019 | |
| Opening net book amount | 5,668 |
| Cash transactions | |
| Proceeds from loans | 21,656 |
| Non-cash transactions | |
| Foreign exchange differences | 171 |
| Release of obligations (Note 4(b)) | (171) |
| Closing net book amount | 27,324 |
| Year ended 31 December 2020 | |
| Opening net book amount | 27,324 |
| Cash transactions | |
| Proceeds from loans | 20,609 |
| Repayment of loans and borrowings | (13,796) |
| Non-cash transactions | |
| Overtake of liability towards bank | 21,164 |
| Compensation of liability with deposit | (7,531) |
| Accrued interest | 147 |
| Foreign exchange differences | 24 |
| Release of obligations (Note 4(b)) | (3,413) |
| Closing net book amount | 44,528 |

Loan is taken due to the Energy Efficiency project for premises in Zagreb (Krapinska 45). Loan has fixed interest rate. Borrowings movement reflect increase and repayment of the obligations toward banks arising from refinancing of customer credit.

Recognition of liabilities is generated by forming obligation toward banks for existing customer financing agreements.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

23 Other non-current liabilities

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Liabilities for issued guarantee, Note 4 (b) | 294 | 902 |
| Other non-current liabilities, Note 4 (b) | 117 | 4,777 |
| | 411 | 5,679 |

24 Employee benefits

(a) Long-term service benefits

The Company does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or management. In respect of all of the Company's personnel, such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian Pension Insurance Institute to the Croatian employees upon their retirement. Additionally, in 2001 the Company signed an Annex to the Union Agreement based on which employees are entitled to a benefit upon early retirement.

However, the Company pays a one-time benefit amounting to HRK 8,000 for each employee who retires. Additionally, the Company pays jubilee awards in respect of each 5 years of service, of an employee, starting from the 10th year and ending in the 40th year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2020 were a 2.76% discount rate (2019: 2.76%) and a 7.37% (2019: 6.26%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

| | 2020 | | | 2019 | | |
|--------------------------------------|----------------|------------|----------|----------------|------------|----------|
| | Jubilee awards | Retirement | Total | Jubilee awards | Retirement | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January | 6,327 | 753 | 7,080 | 4,758 | 822 | 5,580 |
| Obligation created during the year | 1,141 | 48 | 1,189 | 2,048 | 43 | 2,091 |
| Obligation fulfilled during the year | (821) | (48) | (869) | (479) | (8) | (487) |
| Obligation reversed during the year | - | (65) | (65) | - | (104) | (104) |
| As at 31 December | 6,647 | 688 | 7,335 | 6,327 | 753 | 7,080 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

24 Employee benefits (continued)

(b) Share based payments

In 2004, the Company established its Loyalty program, a share-based scheme under which key employees are entitled to receive the Company's shares conditional on the employee completing certain years of service (the vesting period) from the grant date.

The treasury shares are distributed to eligible employees upon ratification at the General Assembly.

Part of the share-based program from 2014 relates to the right of employee to purchase certain shares, which are settled according to fair value relevant at the date of the purchase and the difference between the purchase price of the shares and selling price received from the employee has been recognized within retained earnings.

In 2019 the Company continued its Loyalty program and granted additional shares to eligible employees under vesting condition related to years of service with the Company.

Movements in shares under the Award and Loyalty programs are as follows:

| | 2020 | 2019 |
|-------------------|------------------|------------------|
| | Number of shares | Number of shares |
| As at 1 January | 7,915 | - |
| Granted | - | 7,915 |
| Exercised | (805) | - |
| Expired | (195) | - |
| As at 31 December | 6,915 | 7,915 |

Vesting conditions for shares granted under Loyalty program are one to four years of service.

The fair value of service received in return for shares granted is measured by reference to the observable market price of shares at the grant date.

During 2020, the Company had HRK 3,268 thousand expenses (2019: HRK 1,114) in respect of share-based payments, which would be included in personnel expenses as disclosed in Note 8.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

25 Trade and other payables

| | 2020 | 2019 |
|---------------------------|----------------|----------------|
| | HRK '000 | HRK '000 |
| Trade payables | 3,481 | 47,258 |
| Liabilities to employees | 84,092 | 94,323 |
| VAT liabilities | 3,826 | - |
| Other current liabilities | 21,336 | 20,844 |
| | <u>112,735</u> | <u>162,425</u> |

26 Provisions

Movements in provisions were as follows:

| | Warranty reserve | Termination benefits | Other reserve | Total |
|---------------------------------|------------------|----------------------|-----------------|-----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| As at 1 January 2019 | <u>3,513</u> | <u>1,249</u> | <u>12,112</u> | <u>16,874</u> |
| Additional provisions | 1,544 | 10,298 | 8,626 | 20,468 |
| Unused provisions reversed | (183) | - | - | (183) |
| Provisions used during the year | <u>(2,441)</u> | <u>(3,306)</u> | <u>(18,308)</u> | <u>(24,055)</u> |
| As at 31 December 2019 | <u>2,433</u> | <u>8,241</u> | <u>2,430</u> | <u>13,104</u> |
| As at 1 January 2020 | <u>2,433</u> | <u>8,241</u> | <u>2,430</u> | <u>13,104</u> |
| Additional provisions | 543 | 3,226 | 5,723 | 9,492 |
| Unused provisions reversed | - | (4) | (1,778) | (1,783) |
| Provisions used during the year | <u>(781)</u> | <u>(6,434)</u> | <u>-</u> | <u>(7,215)</u> |
| As at 31 December 2020 | <u>2,195</u> | <u>5,029</u> | <u>6,374</u> | <u>13,598</u> |

The warranty reserve is established to cover the expected warranty claims on products sold during the year. Reversal of warranty reserves relates to expired warranties.

Followed by the prudence principle and based on the circumstances and other factors, including expectations of future events, additional provisions were made.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

27 Accrued charges and deferred revenue

| | 2020 | 2019 |
|---|---------------|----------------|
| | HRK '000 | HRK '000 |
| Deferred revenue | 5,766 | 8,330 |
| Accrued charges for unused holidays | 25,573 | 21,428 |
| Accrued charges in respect of service contracts | 17,837 | 52,276 |
| Other accrued charges | 16,124 | 23,518 |
| | <u>65,300</u> | <u>105,552</u> |

Deferred revenue represents mainly government grants relating to costs which are deferred and recognized in income statement in the same time when the relating costs are recognised.

Accrued charges in respect of service contracts mainly represent costs incurred for which no invoice has been received from supplier or other external contractor at reporting date.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

28 Contract assets and contract liabilities

The Company has recognized the following assets and liabilities arising from contracts with customers:

| | 31 December 2020 | 31 December 2019 |
|--|------------------|------------------|
| | HRK '000 | HRK '000 |
| Contract assets from contracts with customers | - | 3,239 |
| Loss allowance | - | - |
| Total current contract assets | - | 3,239 |
| Contract liabilities – advances from customers | 10,512 | 6,611 |
| Contract liabilities – deferred revenue | 156,607 | 142,764 |
| Total current contract liabilities | 167,119 | 149,375 |

As at 31 December 2019 the Company has recognized contract assets net of impairment loss provisions in respect of managed services contracts that relate to future service performance.

As at 31 December 2020 the Company recognized HRK 167,029 thousand of contract liabilities in respect of the following contracts related to modernization of mobile and fixed network, project-related services and support activities, e-Health Information Systems and other (as at 31 December 2019: HRK 149,375 thousand).

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| | HRK '000 | HRK '000 |
| Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied | 389,001 | 22,248 |
| Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied | 47,108 | 75,766 |
| | 436,109 | 98,014 |

The Company expects to recognize approximately 24% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2021, 40% as revenues in the financial year 2022, and 30% as revenues in the financial year 2023, 3% as revenues in the financial year 2024 and 2% as revenues in the financial year 2025.

All other contracts are for periods of one year or less or are billed based on time incurred.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

29 Leases

a) Leases as lessee

The Company leases warehouse, office premises and parking lots. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

The warehouse, office premises and parking lots were entered many years ago as combined leases of land and buildings.

The Company leases vehicles under a number of lease contracts. The leases typically run for a period of 3 to 5 years.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Balance as at 1 January | 27,572 | 27,909 |
| Depreciation charge for the year | (11,495) | (9,349) |
| Increase of right-of-use assets | 21,704 | 9,012 |
| Balance as at 31 December | 37,780 | 27,572 |

Amounts recognized in Statement of comprehensive income

| | 2020 | 2019 |
|--|----------|----------|
| | HRK '000 | HRK '000 |
| Interest on lease liabilities | 798 | 656 |
| Income from sub-leasing right-of-use assets presented in 'other revenue' | 132 | - |
| Expenses relating to short-term leases | 36 | 687 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

29 Leases (continued)

Leases as lessee (continued)

Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility.

The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The following table sets out a movement in lease liability

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Balance as at 1 January | 27,881 | 27,909 |
| Repaid lease liability | (11,502) | (9,190) |
| Additions to lease liability | 21,159 | 9,012 |
| Interest expense | 798 | 656 |
| Interest paid | (798) | (656) |
| FX rate | 708 | 150 |
| Balance as at 31 December | 38,246 | 27,881 |

Leases as lessor

The Company leases out its property consisting of commercial properties. All leases are classified as operating leases from a lessor perspective.

Operating lease

The Company leases out its owned commercial properties. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Rental income recognized by the Company during 2020 was HRK 14,470 thousand (2019: HRK 15,348 thousand).

The following table sets out a maturity analysis of lease payments to be received after the reporting date.

| Operating leases under IFRS 16 | 2020 | 2019 |
|--------------------------------|---------------|---------------|
| | HRK '000 | HRK '000 |
| Less than one year | 7,705 | 10,051 |
| Between one and three years | 3,079 | 4,939 |
| Between three and five years | 4,110 | 4,354 |
| More than five years | 13,472 | 8,537 |
| Total | 28,366 | 27,881 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

30 Balances and transactions with related parties

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company is a related party to the Ericsson Group via the 49.07% (2019: 49.07%) shareholding by Telefonaktiebolaget LM Ericsson, which is also the ultimate parent of the Ericsson Group.

The Company has related-party relationships with Telefonaktiebolaget LM Ericsson, Ericsson Group subsidiaries and associates, the Supervisory Board, the Management Board and other executive management.

(a) Key transactions with the related parties

Major transactions with the Ericsson Group companies may be summarized as follows:

| | Telefonaktiebolaget LM Ericsson | | Other Ericsson Group consolidated companies | | ENT Group consolidated companies | | Total | |
|---------------------------------|------------------------------------|----------|---|----------|--|----------|----------|----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Sales of goods and services | | | | | | | | |
| Sales revenue | - | - | 855,102 | 841,480 | 14,464 | 17,304 | 869,566 | 858,784 |
| Other income | - | - | 61,686 | 5,586 | 132 | 243 | 61,818 | 5,829 |
| | - | - | 916,788 | 847,066 | 14,596 | 17,547 | 931,384 | 864,613 |
| Purchases of goods and services | | | | | | | | |
| Licenses | 2,747 | 3,454 | 18,341 | 19,255 | - | - | 21,088 | 22,709 |
| Cost of sales | - | - | 288,541 | 607,902 | 24,355 | 24,061 | 312,896 | 631,963 |
| Other expenses | - | - | - | - | - | 26 | - | 26 |
| | 2,747 | 3,454 | 306,882 | 627,157 | 24,355 | 24,087 | 333,984 | 654,698 |

The sales of goods and services transactions have been directly negotiated between the involved parties and agreed on an individual basis. The Company pays: (i) license fees on sales of services and wireline products, (ii) corporate trademark licenses, (iii) support services, (iv) R&D tools and (v) IS/IT fee. The license fee is paid as a percentage of sales of services and sales of wireline products.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

30 Balances and transactions with related parties (continued)

(b) Key management compensation

The Company's key management include the executive management listed under Company profile, comprising the Management Board member and directors of the main organizational units.

| | 2020 | 2019 |
|---|----------|----------|
| | HRK '000 | HRK '000 |
| Salaries and other short-term employee benefits | 21,730 | 19,054 |
| Other long-term benefits | - | 1,114 |
| | 21,730 | 20,168 |

The members of the executive management and the Supervisory Board held 4,711 ordinary shares at the year-end (2019: 5,090 shares).

In addition, the Company paid remuneration totaling HRK 393 thousand (2019: HRK 349 thousand) to the Supervisory Board and Audit Committee members during 2020.

(c) Year-end balances arising from sales and purchases of goods and services

Year-end balances arising from key transactions with Ericsson Group companies may be summarized as follows:

| | Trade receivable | | Trade payable | |
|---|------------------|----------|---------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder | - | - | - | 728 |
| Other Ericsson Group companies | 87,903 | 112,862 | 6,598 | 89,431 |
| Subsidiaries: | | | | |
| Ericsson Nikola Tesla BH d.o.o | 7,377 | 682 | - | 345 |
| Ericsson Nikola Tesla Servisi d.o.o. | 2,282 | 7,696 | 23,105 | 13,620 |
| Ericsson Nikola Tesla d.d. – Branch office of Kosovo | 76 | 76 | - | - |
| Libratel d.o.o. | - | - | - | - |
| Ericsson Nikola Tesla BY | 295 | - | 56 | 381 |
| | 97,933 | 121,316 | 29,759 | 104,505 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. Exposure to currency, interest rate and credit risk arises in the normal course of the Company's business. Risk management is carried out by a treasury department and its principal role is to actively manage investment of excess liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures. The Company also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to the Company. Risk management policies that relate to financial instruments can be summarized as follows:

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to US dollars and to the euro, as a substantial proportion of receivables and foreign revenues are denominated in these currencies. Risk management relies on attempts to match, as much as possible, revenues in each currency with the same currency expenditure. The Company may enter into foreign currency forward contracts to hedge economically its exposure to currency risk arising on operating cash flows.

As at 31 December 2020, if the euro and US dollar had weakened/strengthened by 1% (2019: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 952 thousand higher/lower for the Company (2019: HRK 284 thousand), mainly as a result of foreign exchange losses/gains on translation of cash, cash equivalents, deposits, trade payables, customer receivables and customer financing denominated in euro.

Other currencies to which The Group is exposed are: SEK, BAM, PLN, GBP.

The Company continues to focus on securing natural hedges and active currency management and to minimize impacts from currency moves. The Company's exposure to foreign currencies is shown in the table below.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(a) Currency risk (continued)

The tables below present the currency analysis and the resulting gap.

| 2020 | EUR | USD | Other currency | Total foreign currencies | HRK | Total |
|--|------------------|----------------|-------------------|--------------------------------|------------------|------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 11,666 | 20,465 | - | 32,131 | 5,736 | 37,867 |
| Trade and other receivables | 142,890 | 2,515 | 2,126 | 147,531 | 49,122 | 196,653 |
| Financial assets at fair value through profit or loss | - | - | 1,291 | 1,291 | 31,645 | 32,936 |
| Cash and cash equivalents | <u>42,773</u> | <u>12,073</u> | <u>10,624</u> | <u>65,470</u> | <u>180,363</u> | <u>245,833</u> |
| | <u>197,329</u> | <u>35,053</u> | <u>14,041</u> | <u>246,423</u> | <u>266,866</u> | <u>513,289</u> |
| Borrowings | (34,658) | (2) | - | (34,660) | (48,112) | (82,772) |
| Trade and other payables | <u>(86,728)</u> | <u>(2,075)</u> | <u>(619)</u> | <u>(89,422)</u> | <u>(53,482)</u> | <u>(142,904)</u> |
| | <u>(121,386)</u> | <u>(2,077)</u> | <u>(619)</u> | <u>(124,082)</u> | <u>(101,594)</u> | <u>(225,676)</u> |
| Currency gap | <u>75,943</u> | <u>32,976</u> | <u>13,422</u> | <u>122,341</u> | <u>165,272</u> | <u>287,613</u> |

| 2019 | EUR | USD | Other currency | Total foreign currencies | HRK | Total |
|--|------------------|-----------------|-------------------|--------------------------------|------------------|------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 16,426 | 31,633 | - | 48,059 | 5,713 | 53,772 |
| Trade and other receivables | 139,336 | 12,529 | 14,036 | 165,901 | 192,005 | 357,906 |
| Financial assets at fair value through profit or loss | 1,008 | - | - | 1,008 | 37,891 | 38,899 |
| Cash and cash equivalents | <u>16,821</u> | <u>4,220</u> | <u>7,209</u> | <u>28,250</u> | <u>53,583</u> | <u>81,833</u> |
| | <u>173,591</u> | <u>48,382</u> | <u>21,245</u> | <u>243,218</u> | <u>289,192</u> | <u>532,410</u> |
| Borrowings | (15,414) | (3,450) | - | (18,864) | (36,341) | (55,205) |
| Trade and other payables | <u>(89,249)</u> | <u>(56,094)</u> | <u>(57)</u> | <u>(145,400)</u> | <u>(127,209)</u> | <u>(272,609)</u> |
| | <u>(104,663)</u> | <u>(59,544)</u> | <u>(57)</u> | <u>(164,264)</u> | <u>(163,550)</u> | <u>(327,814)</u> |
| Currency gap | <u>68,928</u> | <u>(11,162)</u> | <u>21,188</u> | <u>78,954</u> | <u>125,642</u> | <u>204,596</u> |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Company mainly has its customer financing at a fixed interest rate and only a small portion of customer financing is affected by possible changes in market interest rates, the risk of fluctuating market interest rates is considered low. The Company also has deposits in financial institutions at a variable interest rate.

As at 31 December 2020:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 15 thousand higher/lower (2019: HRK 15 thousand).
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 50 thousand higher/lower (2019: HRK 297 thousand).
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2019: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 43 thousand higher/lower (2019: USD 99 thousand).

The following table presents the annual average interest rates exposure of financial assets and liabilities:

| | Average interest rates | Average interest rates |
|---------------------------|------------------------|------------------------|
| | 2020 | 2019 |
| | % | % |
| Loans and receivables | 0,48 | 0,84 |
| Cash and cash equivalents | 0,04 | 0,03 |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(c) Price risk

The Company has insignificant exposure to debt securities price risk due to low investments and all classified on the balance sheet at fair value through profit or loss (investments funds).

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Significant risk is associated with a high level of customer finance receivables.

The internal directives to manage the credit risks have been tightened during 2015 with the implementation of updated credit management framework and implementation of credit evaluation tools to manage credit risks.

Credit Management function within the Treasury has been established to further assist the Company in managing its credit risk exposure. New customers are only accepted on satisfactory completion of a detailed credit check of the customer and a review of the related country risk. Outstanding credit arrangements are monitored on a quarterly or annual basis depending on risk category. Impairment losses are calculated by discounting receivables. Additionally, there is credit concentration risk as the Company has a significant portion of receivables outstanding from a small number of customers. As at 31 December 2020, the five largest customers represent 69% of total net trade receivables (2019: 66%). The Company considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 14 and 17) and other receivables (Note 18), not impaired as doubtful receivables. Ageing analysis of these receivables is within the maturity analysis table shown further in this note.

Letters of credit are used as a method for securing payments from customers operating in certain markets, in particular in markets with unstable political and/or economic environments. By having banks confirming the letters of credit, the political and commercial credit risk exposures are mitigated.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating for political and commercial risk of each transaction. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

The Company defines customer financing as any credit period longer than 179 days. The Company is working closely with Croatian Bank for Reconstruction and Development (HBOR) and partnership banks to secure risk mitigation.

Provisions related to customer finance risk exposures are only made when they are reliably measurable and where, after the financing arrangement has become effective, certain events occur which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political normally outside the control of the borrower or commercial, e.g. the borrower's deteriorating creditworthiness.

Security arrangements for customer finance facilities normally include pledges of equipment and pledges of certain of the borrower's assets. If available, third-party risk coverage may also be arranged. "Third-party risk coverage" means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. It may also be a credit risk transfer under the so-called "sub-participation arrangement" with a bank, whereby the credit risk and the funding is taken care of by the bank for the part covered by the bank. A credit risk cover from a third party may also be issued by an insurance company.

Impairment of receivables and contract assets in year 2020

Cash equivalents amounted to HRK 245,833 thousand as at 31 December 2020 (31 December 2019: HRK 81,833 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 1,075 thousand as at 31 December 2020 (31 December 2019: HRK 427 thousand). The Company's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 181,204 thousand as at 31 December 2020 (HRK 331,564 as at 31 December 2019). Provisions for expected credit losses on trade receivables, receivables from related party and contract assets amounted to HRK 8,349 thousand as at 31 December 2020 (HRK 2,269 as at 31 December 2019). The Company's write-offs have historically been low.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(d) Credit risk (continued)

The following tables provide an ageing detail of current and overdue amounts in respect of all customer loans and receivables as at 31 December 2020 and 2019.

Table 1 Payment due date for total customer loans and receivables

| | Due balance | Up to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|-----------------------------------|--------------|----------------|--------------------|--------------|--------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 2020 | | | | | | |
| Foreign receivables | 216 | 18,527 | 40,097 | 1,365 | - | 60,205 |
| Domestic receivables | 1,553 | 12,531 | 7,466 | 27 | - | 21,577 |
| Receivables from related parties* | 4,086 | 84,656 | 9,177 | - | - | 97,919 |
| Contract asset | - | - | - | - | - | - |
| | <u>5,855</u> | <u>115,714</u> | <u>56,740</u> | <u>1,392</u> | <u>-</u> | <u>179,701</u> |

*excluding impairment allowance in the amount of HRK 1.686 thousand

| | | | | | | |
|-----------------------------------|--------------|----------------|---------------|---------------|-----------|----------------|
| 2019 | | | | | | |
| Foreign receivables | 200 | 31,780 | 39,929 | 23,543 | 93 | 95,545 |
| Domestic receivables | 1,109 | 132,146 | 2,293 | - | - | 135,548 |
| Receivables from related parties* | 7,637 | 91,151 | 24,213 | - | - | 123,001 |
| Contract asset | - | 3,239 | - | - | - | 3,239 |
| | <u>8,946</u> | <u>258,316</u> | <u>66,435</u> | <u>23,543</u> | <u>93</u> | <u>357,333</u> |

* excluding impairment allowance in the amount of HRK 862 thousand

Table 2 Ageing of total due customer loans and receivables

| | Up to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|----------------------------------|----------------|--------------------|--------------|--------------|--------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 2020 | | | | | |
| Foreign receivables | 216 | - | - | - | 216 |
| Domestic receivables | 785 | 673 | 95 | - | 1,553 |
| Receivables from related parties | <u>3,838</u> | <u>(59)</u> | <u>211</u> | <u>96</u> | <u>4,086</u> |
| | <u>4,839</u> | <u>614</u> | <u>306</u> | <u>96</u> | <u>5,855</u> |
| 2019 | | | | | |
| Foreign receivables | 200 | - | - | - | 200 |
| Domestic receivables | 870 | 144 | 95 | - | 1,109 |
| Receivables from related parties | <u>5,873</u> | <u>391</u> | <u>1,277</u> | <u>96</u> | <u>7,637</u> |
| | <u>6,943</u> | <u>535</u> | <u>1,372</u> | <u>96</u> | <u>8,946</u> |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company has no commitments in financial instruments, the risk lies only in its daily operations. The Company has a strong focus on its cash flow with daily updates on actual development and monthly updated forecasts. The Company's maturity profile demonstrates the strong liquidity position of the Company and therefore the risk is considered low. The table below presents the maturity analysis and resulting gap.

The Company has a revolving credit facility with our core banks should an extraordinary liquidity need arise. As at 31 December 2020, the facility remained untapped.

| 2020 | Up to 1 month | 1–3 months | 3–12 months | 1–5 Years | Over 5 years | Total |
|-----------------------------|-----------------------|------------------------|------------------------|-------------------|-----------------|-----------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | - | 5 | 9,730 | 28,132 | - | 37,867 |
| Trade and other receivables | 133,980 | 36,541 | 24,755 | 1,392 | - | 196,668 |
| Current financial assets | 32,937 | - | - | - | - | 32,937 |
| Cash and cash equivalents | <u>245,835</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>245,835</u> |
| | <u>412,752</u> | <u>36,546</u> | <u>34,485</u> | <u>29,524</u> | <u>-</u> | <u>513,307</u> |
| Borrowings | - | - | (42,412) | (2,114) | - | (44,526) |
| Lease liabilities | - | - | (11,687) | (26,559) | - | (38,246) |
| Trade and other payables | <u>(85,016)</u> | <u>(57,017)</u> | <u>(460)</u> | <u>(411)</u> | <u>-</u> | <u>(142,904)</u> |
| | <u>(85,016)</u> | <u>(57,017)</u> | <u>(54,559)</u> | <u>(29,084)</u> | <u>-</u> | <u>(225,676)</u> |
| Maturity gap | <u>327,736</u> | <u>(20,471)</u> | <u>(20,074)</u> | <u>440</u> | <u>-</u> | <u>287,631</u> |

| 2019 | Up to 1 month | 1–3 months | 3–12 months | 1–5 Years | Over 5 years | Total |
|-----------------------------|-----------------------|------------------------|-------------------|------------------------|---------------------|-----------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans and receivables | 914 | 1,668 | 10,287 | 39,126 | 1,777 | 53,772 |
| Trade and other receivables | 242,776 | 111,522 | 3,424 | 184 | - | 357,906 |
| Current financial assets | 38,899 | - | - | - | - | 38,899 |
| Cash and cash equivalents | <u>81,833</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>81,833</u> |
| | <u>364,422</u> | <u>113,190</u> | <u>13,711</u> | <u>39,310</u> | <u>1,777</u> | <u>532,410</u> |
| Borrowings | - | - | - | (27,324) | - | (27,324) |
| Lease liabilities | - | - | (10,051) | (17,830) | - | (27,881) |
| Trade and other payables | <u>(138,944)</u> | <u>(124,098)</u> | <u>(3,888)</u> | <u>(5,679)</u> | <u>-</u> | <u>(272,609)</u> |
| | <u>(138,944)</u> | <u>(124,098)</u> | <u>(13,939)</u> | <u>(50,833)</u> | <u>-</u> | <u>(327,814)</u> |
| Maturity gap | <u>225,478</u> | <u>(10,908)</u> | <u>228</u> | <u>(11,523)</u> | <u>1,777</u> | <u>204,596</u> |

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(f) Fair value estimation

Financial assets at fair value through profit and loss are carried at fair value at the balance sheet date. The fair value is estimated by reference to their quoted active market price at the balance sheet date which represents Level 1 input (Note 19).

A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price.

There are no financial assets derived from level 2 inputs which represent different valuation techniques based on observable market data or from level 3 inputs which represent different valuation techniques based on no observable market data.

The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, non-current loans and receivables, trade and other payables and borrowings. The fair value of loans and receivables and the fair value of borrowings are calculated based on the Management's best estimate of discounted expected future principal and interest cash flows, using the market-related rate for a similar instrument at the balance sheet date as a discount rate. Fair values and carrying amounts are not significantly different as the loans and receivables were granted at market rates, which were not substantially different from market rates at the end of reporting year. Current financial assets are stated at fair value that is based on quoted prices at the balance sheet date without any deduction for transaction costs.

The carrying amount of cash and cash equivalents and of bank deposits reflects fair value due to the short-term maturity of these financial instruments. Similarly, the amortized cost carrying amounts of trade receivables and payables with remaining life of less than one year and which are all subject to normal trade credit terms reflect fair values. In 2020 0.59% (2019: 0.59%) interest rates were used for determining fair values, which are based on available market rates for similar financial instruments.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(g) Capital management

The Company's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide adequate requirements for capital resources, as far as possible, by the retention of profit;
- To maintain a prudent balance sheet with adequate component of cash and short-term assets, as well as equity and other investments; and
- To secure adequate back-up funding facilities should a need arise.

The Company is generating sufficient cash from operations to fund liabilities as they become due, finance customers when required and budgeted investments, and pay dividends.

The Company monitors capital using the statutory minimum capital requirement. Shareholders' equity is disclosed in Note 21 to the financial statements.

