



## **Independent limited assurance report on the Remuneration Report of Ericsson Nikola Tesla d.d.**

We were engaged by the Management Board of Ericsson Nikola Tesla d.d. (the "Company") to express limited assurance on the Remuneration Report for the year ended 31 December 2020, attached as an appendix. Our engagement is to form an independent limited assurance conclusion, based on our work performed and evidence obtained, that nothing has come to our attention that causes us to believe that the attached Remuneration Report is not prepared in accordance with the requirements specified in Paragraphs 1 and 2 of Article 272r of the Companies Act applicable in the Republic of Croatia ("Reporting Criteria").

### **Management and Supervisory Board responsibilities**

Management and Supervisory Board are responsible for the preparation and presentation of the Remuneration Report that is free from material misstatement in accordance with Paragraphs 1 and 2 of Article 272r of the Companies Act and for the information contained therein.

Management is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation and presentation of the Remuneration Report that is free from material misstatement, whether due to fraud or error;
- measurement and reporting of compensations in accordance with the Reporting Criteria;
- selecting and applying policies as well as making judgments and estimates that are reasonable in relation to the preparation of the Remuneration Report.

### **Our responsibility**

Our responsibility is to examine the Remuneration Report and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 - *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board. ISAE 3000 requires that we plan and perform our procedures to obtain a meaningful level of assurance about whether the Remuneration Report is prepared in accordance with the Reporting Criteria, in all material respects, as the basis for our limited assurance conclusion.

KPMG Croatia d.o.o. za reviziju complies with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and applies the International Standard on Quality Control 1 (ISQM 1). Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements and professional standards, including independence and other requirements founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour as well as applicable legal and regulatory requirements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

As part of this engagement, we have not performed any procedures by way of audit or review of the Remuneration Report nor of the underlying accounting and other records from which it was compiled.



## Independent limited assurance report on the Remuneration Report of Ericsson Nikola Tesla d.d. (continued)

### Reporting Criteria

The Reporting Criteria for the preparation of the Remuneration Report are the required information as specified in Paragraphs 1 and 2 of Article 272r of the Companies Act.

### Limitations in the preparation of the Remuneration Report

The interpretation of performance results is to some extent subjective because it takes into account both qualitative and quantitative aspects. Due to the inherent subjectivity in interpreting qualitative reward criteria, but also subjectivity applied in measuring quantitative goals (for example, related to measuring results for the year), different acceptable methodologies for measuring the achievement of individual goals are possible. Furthermore, various other estimates and judgments were used in the preparation of the Remuneration Report, including, but not limited to: compliance with the remuneration policy; the manner in which the members of the Management Board and the Supervisory Board support the long-term success of the Company and the manner in which the benchmarks for assessing that performance have been applied; an explanation of how workers' remuneration was taken into account in calculating average remuneration and what is the composition of workers included in that calculation.

### Statement of Management and Supervisory Board

The Management Board and the Supervisory Board state that the Remuneration Report for the year ended 31 December 2020 is accurate and complete and includes all required information as specified in Paragraphs 1 and 2 of Article 272r of the Companies Act.

### Our conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Remuneration Report for the year ended 31 December 2020 is not prepared, in all material respects, in compliance with the requirements specified in Paragraphs 1 and 2 of Article 272r of the Companies Act.

This conclusion should be considered in context with the remainder of our limited assurance report, especially in context with the *Limitations in the preparation of the Remuneration Report* and the *Restrictions on the use of our report* paragraphs.

### Restrictions on the use of our report

Our report is intended solely for the purpose specified in Article 272r of the Companies Act. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent limited assurance report, or for the conclusions we have reached.

KPMG Croatia d.o.o.

**KPMG Croatia d.o.o. za reviziju**  
Croatian registered auditors  
Eurotower, 17<sup>th</sup> floor  
Ivana Lučića 2a  
10000 Zagreb  
Croatia

23 April 2021

**Domagoj Hrkać**  
Director, Croatian registered auditor

This version of the Independent limited assurance report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

**Ericsson Nikola Tesla d.d.**

Pursuant to Article 272.f of the Companies Act, the Supervisory Board and Management Board of Ericsson Nikola Tesla d.d. (hereinafter: the Company) submits to the General Meeting:

## **Remuneration Report for Supervisory Board members and Management Board in 2020**

### **Remuneration for Supervisory Board**

The Supervisory Board consists of five members – four members are elected by the General Meeting, and one member is elected by the Company's employees.

The Members of the Supervisory Board in 2020:

|                               |                         |  |
|-------------------------------|-------------------------|--|
| Franck Pierre Roland Bouétard | Chairman                | Appointed on June 20, 2018   |
| Olgica Spevec                 | Member;<br>Deputy Chair | Appointed on June 13, 2019; elected<br>Deputy Chair on December 17, 2020 |
| Vidar Mohammar                | Member                  | Re-appointed on June 13, 2019  |
| Dubravko Radošević            | Member                  | Re-appointed on June 20, 2018; Deputy<br>Chair until December 17, 2020   |
| Vladimir Filipović            | Member                  | Appointed on November 29, 2018   |

Dubravko Radošević was the Chairman of the Audit Committee until December 17, 2020, when Olgica Spevec was appointed to that position.

The members of the Supervisory Board are entitled to monthly remuneration from the day they are appointed on duty, until the day of its termination.

Each member of the Supervisory Board is entitled to receive a monthly remuneration amounting to half of an average monthly gross salary paid in the Company in the month for which the remuneration is paid.

The member of the Supervisory Board, who is also a member of the Audit Committee, additionally receives a monthly amount of EUR 500.00 paid in HRK equivalent according to the middle exchange rate of the Croatian National Bank on proceeding date.

To maintain its independence and full objectivity, the remuneration of the members of the Supervisory Board are independent of the Company's results and do not include a variable part of compensation.

Members of the Supervisory Board are entitled to reimbursement of appropriate expenses incurred during the performance of their duties.

When defining a remuneration model for work various internal factors were taken into consideration, such as the Company's position and opportunities, practices of local companies in telecom industry, as well as salaries and remunerations policies in the Company and Ericsson Nikola Tesla Group.

Remunerations paid to individual members of the Supervisory Board in 2020  
(since January 1 to December 31, 2020):

|                    |                                      | Gross 1 (HRK) |
|--------------------|--------------------------------------|---------------|
| Olgica Spevec      | Member; Deputy Chair                 | 109,706.84    |
| Dubravko Radošević | Member                               | 145,956.26    |
| Vladimir Filipović | Member and employees' representative | 109,706.84    |

## Appendix: Remuneration Report for 2020

The members of the Supervisory Board proposed by the largest single shareholder, LM Ericsson, who are elected at the General Meeting of Shareholders, waive the right to receive the remuneration, in line with the policies of their employer.

The Company believes that the remuneration paid to the members of the Supervisory Board is in line with the engagement and tasks they perform within the Supervisory Board or Audit Committee, and the Company's position and business performance.

The Company did not provide any advance payments or loans to the members of the Supervisory Board, and there are no financial obligations of the Company towards the members of the Supervisory Board.

The Company did not give any gifts or benefits to the members of the Supervisory Board.

## Remuneration to the Management Board

Remuneration and evaluation of the work of the Management Board are focused on the sustainable development and growth of the Company.

The Management Board of the Company consists of one member:

- Gordana Kovačević – Management Board President (CEO)

During 2020, there were no changes in the membership of the Management Board.

The Management Board receives a monthly ie annual target salary and additional compensation elements, among other things, in the form of bonuses and benefits.

The annual target salary, work-related variable components and other elements of compensation and other non-monetary benefits and services may be set out in an individual employment contract.

In 2020, the Management Board of the Company was paid the following gross I amounts:

- |                                  |                  |
|----------------------------------|------------------|
| - Fixed part of the salary       | HRK 2,405,812.50 |
| - Short-term stimulation (bonus) | HRK 712,613.37   |

The ratio of fixed annual salary and bonus for Management Board paid in 2020. was 77.1% : 22.9%.

During 2020, the Management Board was not allocated any of the Company's own shares.

Additional perks of the job (company car, meals in the company, medical check-up,...) paid to Management Board in 2020. in amount HRK 43,050.90.

## Elements of the Management Board Remuneration

### Annual Target Salary

The amount of basic (contract) salary is determined based on responsibility level, complexity and size of the organization, diversity of business segments and technologies involved, taking into account companies in the labor market, relevant in terms of core business, size, and complexity. The monthly contract salary is agreed in the individual employment contracts.

The annual target salary includes the contract salary and the variable component for achieving the annual business targets at the Commitment level. The annual target salary is reviewed once a year and, if necessary, adjustments are made under the condition that there are assets in the budget secured for this purpose.

### Short-term stimulation

In addition to fixed basic salary, annual target salary for Management Board also includes a variable component, which depends on the performance, ie on the Company's achieved business goals.

STV bonus scheme is used for Management Board. It is used to reward the achievement of the Company's targets, mainly financial ones, over the course of one year.

The Management Board's goals are defined in line with the Company's business goals which have been approved for a certain year and strategic determinants of the future business development.

## Appendix: Remuneration Report for 2020

The ratio of the fixed basic annual salary and the annual bonus within one annual target salary for the Management Board is 80:20. In the case of achieving defined targets at the Stretch level, the ratio is 67:33.

The company business goals for 2020 were as follows:

- Orders Booked (OB)
- Net Sales (NS)
- Operating Income (OI)
- Operating Cash Flow (OCF)
- Working Capital Days (WCD)
- Profitability+

The Supervisory Board approves the Company's annual goals based on the approved Business Plan. Following the approval of annual financial reports, total performance is evaluated as the basis of calculation.

### Allocation of treasury shares

If treasury shares are allocated to the Management Board, such allocation is based on the decision made by the Company's Supervisory Board, usually for a period of 3-4 years, and is conditioned by exceptionally good results in the past period, ie high expectations for the coming period.

The option of allocating treasury shares is a long-term compensation instrument based on which the Management Board enters the ownership structure and enable them to benefit from the success of the share on the capital market.

During 2020, the Management Board was not allocated any of the Company's own shares.

### Additional perks of the job

In addition to the above components, compensation includes other additional perks of the job. Additional perks of the job are non-monetary benefits and services provided by the Company as well as receipts in kind, eg company car, meals in the company, medical check-up for, severance pay when leaving the company, various education, etc.

Additional perks of the job paid to Management Board in 2020 amounted to HRK 43,050.90.

The table below shows the average employee remuneration in the last five years, gross amount, which include fixed and variable part of salary, other compensation elements, salary in kind and all other payments related to employee employment status, divided by the average number of employees in full-time equivalent (FTE).

| Average remuneration per employee  | 2020        | 2019        | 2018        | 2017        | 2016        |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Ericsson Nikola Tesla d.d.</b>  |             |             |             |             |             |
| Annual Remuneration (HRK)          | 269,585     | 250,268     | 238,353     | 239,728     | 248,438     |
| Average FTE                        | 2,482       | 2,390       | 2,308       | 2,199       | 2,008       |
| <b>Business Results</b>            |             |             |             |             |             |
| <b>Ericsson Nikola Tesla d.d.</b>  | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| (KHRK)                             |             |             |             |             |             |
| Revenue                            | 1,440,263   | 1,568,686   | 1,421,401   | 1,472,389   | 1,585,921   |
| Profit                             | 76,491      | 95,552      | 111,848     | 64,283      | 109,567     |
| <b>Business Results</b>            |             |             |             |             |             |
| <b>Ericsson Nikola Tesla Group</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| (KHRK)                             |             |             |             |             |             |
| Revenue                            | 2,048,379   | 1,805,174   | 1,609,945   | 1,489,010   | 1,601,504   |
| Profit                             | 94,318      | 102,569     | 113,576     | 67,773      | 110,695     |

## Appendix: Remuneration Report for 2020

The Management Board has not received any payment or commitment from a third party in connection with the performance of its business during the last financial year.

The Company did not demand a refund of the payments to the Management Board.

The Company has not made any advances or loans to the Management Board nor are there any financial obligations in favor of the Management Board.

In case a contract is terminated by the Company due to personal/business reasons with a simultaneous termination of employment, the Company is obliged to give the Management Board severance pay in the amount of 60% of an average monthly gross contract salary paid over the 3 months preceding the termination of employment for every year of service with the Company, within 30 days from the day of termination of employment in the Company.

In case of retirement, severance pay is given in the amount of 18 average monthly contract gross salaries paid over the 3 months preceding the termination of employment.

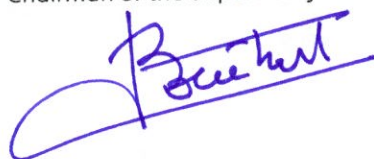
The employment contract stipulates a non-compete clause upon termination of the contract.

There are no additional fees for the Management Board when taking over the membership in the Supervisory Boards and similar positions / functions in companies in which the Company directly or indirectly owns its share, as well as in associations to which the Company belongs according to the scope of business.

In accordance with Article 247.a of the Companies Act, the Remuneration Report will be prepared for the General Assembly to be held in 2021.

Zagreb, 23 April 2021

Franck Pierre Roland Bouetard  
Chairman of the Supervisory Board



Gordana Kovačević  
Director

