



Ericsson Nikola Tesla Group
Annual report
2021



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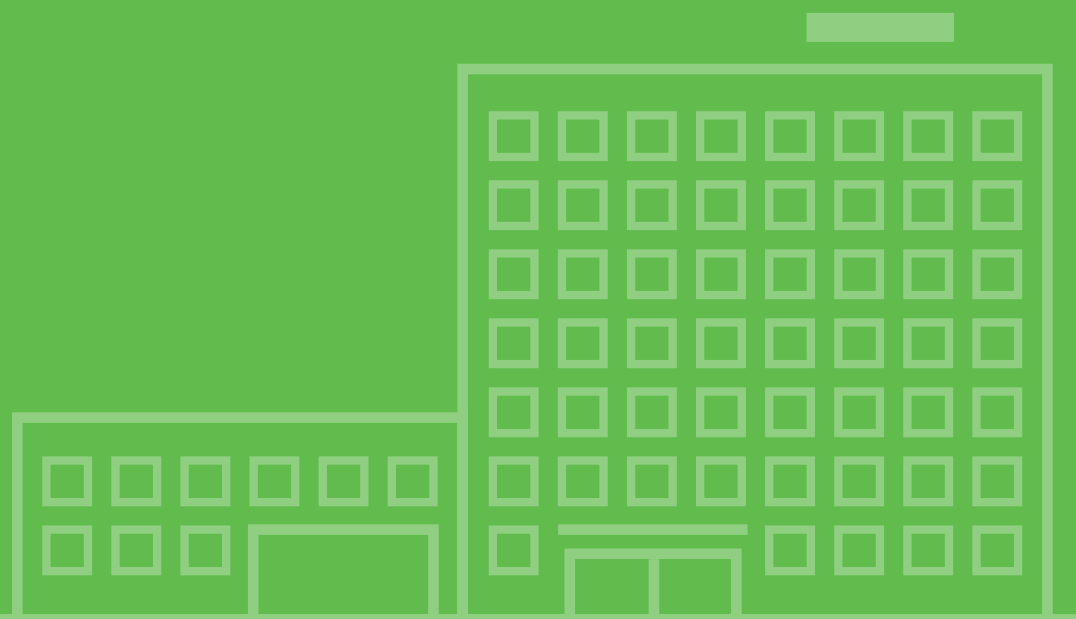
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Annual report 2021
Ericsson Nikola Tesla Group

1 | General report

Ericsson Nikola Tesla Group in brief

Parent company

Ericsson Nikola Tesla d.d.

Core business	Provider of modern information and communications products, solutions, software and services
Address	Krapinska 45, PO Box 93, HR-10 002 Zagreb Poljička cesta 39, HR-21 000 Split Ulica Hrvatske Republike 29, HR-31 000 Osijek
Telephone	Zagreb / +385 1 36 53 535 Split / +385 21 20 58 00 Osijek / +385 1 36 53 535
Fax	Zagreb / +385 1 36 53 156 Split / +385 21 43 58 34 Osijek / +385 1 36 53 156
E-mail	etk.company@ericsson.com pravni.poslovi@ericsson.com
Web	https://www.ericsson.hr/en/
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	LM Ericsson 49.07 percent, other shareholders 50.41 percent treasury shares 0.52 percent (as at 31 December 2021)
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 / Managing Director	Gordana Kovačević, MSc
Chairperson of the Supervisory Board	Franck Pierre Roland Bouétard

subsidiaries

Ericsson Nikola Tesla Serviši d.o.o.

Core business	Provider of network infrastructure build and maintenance services
Address	Krapinska 45, HR-10 002 Zagreb
Telephone	+385 1 30 38 503
Fax	+385 1 30 38 601
E-mail	ehr.company@ericsson.com
Web	https://www.ericsson.hr/en/ericsson-nikola-tesla-serviši-doo
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.

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 <https://www.ericsson.hr/en/ericsson-nikola-tesla-bh-en>

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

Web <https://www.ericsson.hr/en/libratel-en>

Personal identification number (OIB) 97566215530

Commercial court registration number (MBS) 080300404

Ownership structure Ericsson Nikola Tesla d.d.
100 percent

IBAN ZABA HR7623600001101211096

Director Branko Dronjić

Ericsson Nikola Tesla d.d. - Branch office Kosovo

Address Vicianum Arbëria 3 Veranda C2.7
LI.II Lok.5, Pristina, Republic of Kosovo

Telephone +381 38 749 080

Tax number (VAT id) 600411235

Registration number 70633647

Ownership structure Ericsson Nikola Tesla d.d.
100 percent

Director Besar Spahija

Ericsson Nikola Tesla BY d.o.o.

Address Kirova 8, office 33, 220030 Minsk,
Republic of Belarus

Registration number 192753195

Ownership structure Ericsson Nikola Tesla d.d.
100 percent

Director Mario Lovreković

Highlights 2021

Sales revenue **MHRK 2,204** (MHRK 2,023)

Gross margin **11.5%** (8.6%)

Net profit **MHRK 177** (MHRK 95)

Cash flow from operating activities **MHRK 370** (MHRK 308)

Multi-year strategic contracts signed with the customers in Croatian and export markets

In cooperation with the leading Croatian operators (HT, A1 HR) – network modernization and introduction of 5G network

Strong market activities in line with our focused strategy

New responsibilities in 4G and 5G technology in R&D segment and services to Ericsson

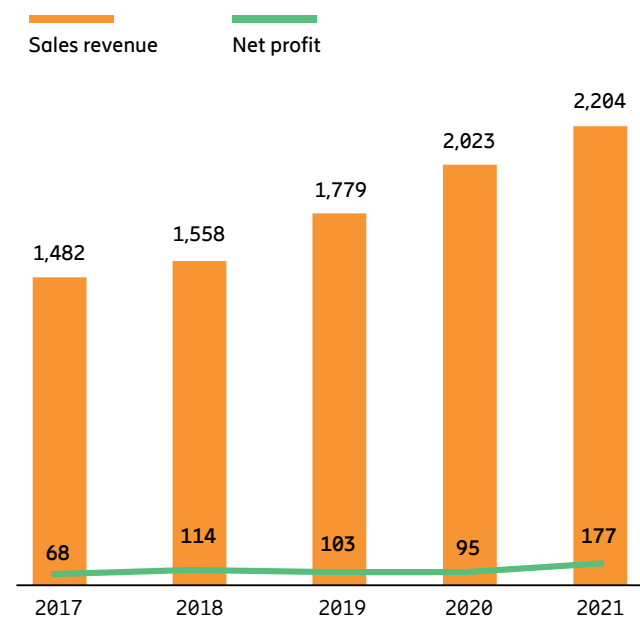
Continuation of investments in solutions/products/services, test equipment, development of strategic knowledge, skills and employee satisfaction

Continuous focus on the Group's digital transformation, ethics and compliance program, risk management, profitability and cash flow

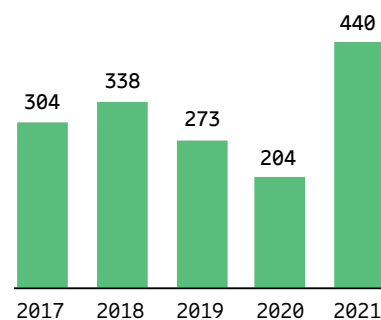
Excellence in project realization with high cost and operational efficiency

We have continued hiring; **440** new experts, mainly highly educated in STEM (204)

Sales revenue and net profit (in MHRK)



Newly employed experts



Annual report on Group performance



Gordana Kovačević

President of Ericsson Nikola Tesla d.d.

The challenges caused by the pandemic created many health, social and economic problems; however, at the same time they accelerated technology development. We live in a time when ICT plays a key role, and 5G as a platform for innovations, actively supports all these changes and opens some new possibilities. Considering the position of a technology leader that Ericsson corporation has, Ericsson Nikola Tesla, as its associated member, has been continuously contributing to the development of ICT solutions, products and services. Furthermore, through a long-term cooperation with the academia, Ericsson Nikola Tesla also contributes to boost the quality of education.

In Ericsson Nikola Tesla Group, 2021 will be remembered as another year during which, with a lot of skill, knowledge and dedication, we effectively managed all the consequences of the pandemic and during which we have, despite these and all other challenges, achieved excellent business results. Strategic multi-year agreements we signed in the last two years with the customers in Croatian and export markets had a significant positive impact on the company's results. Moreover, new responsibilities assigned by Ericsson to our R&D Center and other expert centers for end-to-end solutions and services, our experts' quality and innovativeness, as well as our continuous focus on new areas for growth and transformation processes in the company, also positively impacted the results. We have been carefully monitoring and analyzing all the risks, including the disruptions in the global supply chain, as well as economic and political situation in certain markets, and our business results show that we managed to remove or mitigate most of them.

Market overview

Compared to 2020, sales revenue increased by almost 9% to MHRK 2,204, and all market segments (domestic, export and services to Ericsson) recorded growth. With more than one billion HRK of revenue realized in export markets, our Group is

still ranked high at the list of the most successful Croatian exporters, and a leader in exporting knowledge.

Owing to a quality delivery of innovative solutions, products and services, we have continued to strengthen the cooperation with our strategic partners. In operator segment, the most significant event in 2021 was the public auction for the allocation of the frequency spectrum for 5G network that gave momentum to 5G technology implementation in Croatia. Ericsson Nikola Tesla Group, as the provider of solutions, equipment and services for 5G, provided great support to its strategic partners, operators HT and A1 Hrvatska. As it is shown by the independent international tests year after year, our customers' networks are among the best in the world, which confirms our position of a reliable partner that provides the customer with the best user experience on a quality and safe infrastructure. Our daughter company, Ericsson Nikola Tesla Servisi d.o.o., provided a significant contribution to achieving results in the operator segment. This company successfully realized the agreed objectives regarding the build and maintenance of fixed and mobile telecommunication infrastructure, and we would like to highlight the completion of FTTH (fiber-to-the-home) connections build for more than 100,000 households. Our overall business results were positively impacted also by the results in the business

segment Industry&Society, where we have been intensively working on projects in e-Health, e-Business and public safety, and on many innovative solutions for Industry 4.0. We have also made a step forward in e-Environment.

In export markets, we should highlight the continuation of quality cooperation with our long-term partners in the operator segment: HT Mostar (Bosnia and Herzegovina), Ipko (Kosovo), Crnogorski Telekom (Montenegro), beCloud (Belarus), Beltelekom (Belarus) and A1 (Belarus) on telecommunication networks expansion, modernization and maintenance. In ICT solutions for Industry & Society, our currently largest export project is the delivery of national IT health platform for the Republic of Belarus. The project is ongoing as planned, however, the political situation in some markets, such as in Belarus, continues to escalate. Therefore, we continue to actively monitor the situation development and continuously estimate risks in order to timely respond to potential challenges. We have continued a successful cooperation with the Croatian Bank for Reconstruction and Development (HBOR) to additionally strengthen export in certain markets, and at the same time reduce political and financial risks to which the company is exposed.

The delivery of services to Ericsson has been continuously increasing, and our R&D Center and other expert centers, owing to its experts' knowledge, innovativeness and excellent results, continue to build a positive perception in the global organization and significantly contribute to our company's results. The biggest software design center in Croatia is in Ericsson Nikola Tesla, where more than 1700 experts work on the development of the latest technologies, and that has the potential for further growth. The majority of activities in our center is related to the most important Ericsson's 5G/Cloud products in the segment of radio access and core telecommunication networks. We have continued a very good cooperation with technical and other faculties, due to which more than 150 students have the chance to learn and

develop their skills daily by participating in our R&D projects. In addition to cooperating with the faculties, we have also continued to work with students through our Summer Camp. Last year, the Summer Camp marked its 20th anniversary, and during this period 820 students participated in 380 projects, supported by 150 mentors.

Taking care of our employees is one of our priorities. In 2021, more than 400 new employees, mainly highly educated STEM experts, strengthened Ericsson Nikola Tesla Group. The Group now has approximately 3,500 employees. Through many benefits and quality educational programs, we support employees to preserve their physical and mental health. Furthermore, we have been continuously investing in the development of our experts' competences, and we continue to hire new employees. In order to additionally reward and motivate our employees, in line with the decision of the General Meeting, whereby consent is given to the Company's Management Board to allocate up to 25,000 treasury shares to employees, we had started to buy treasury shares, and during 2021, we bought 8,115 Ericsson Nikola Tesla shares at the Zagreb Stock Exchange.

Key performance indicators

All the financial key performance indicators of Ericsson Nikola Tesla Group record significant growth. Gross profit increased by 45.9% to MHRK 254.3, while gross margin increased by 2.9 percentage points, as a result of business mix, lower transition and transformation costs, and the effect of operational and cost efficiency programs. This resulted in a strong increase of operating profit by 78.6% to MHRK 186.4. Net profit increased by 87.6% to MHRK 177.3. The share of selling and administrative expenses in sales revenue slightly increased to 4.2% (2020: 4.1%). A strong cash flow from operating activities was also achieved, amounting to MHRK 369.9, and thus at the end of 2021, cash and cash equivalents, including short-term financial assets, amounted to MHRK 510.5. Working Capital Efficiency, expressed

in WCD, was improved to 8 days, and if we exclude services to Ericsson, Working Capital Efficiency was 25 days. Equity ratio was 33.6% (end of 2020: 34.8%).

Main business risks

Considering the uncertainty regarding pandemic, risks like postponing the implementation of the existing contracts, reducing or postponing investments and travel restrictions, are still present. An additional risk is an unstable economic environment and escalation of political situation in some export markets. All this can have an unfavorable impact on the realization of contracted obligations, demand for our products and our customers' products and limit our growth.

We have also been closely monitoring the disruptions in the global supply chain, as well as a significant increase in the prices of energy, materials, raw materials and services; therefore, we analyze in detail and take specific measures to reduce this negative impact on our contractual obligations on all markets.

The demand for customer financing continues as does our 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 manufacturers of products and services, and new ICT companies entering the market, lead to an increased competition, which has an impact on the demand and prices of our products and services. The exposure to financial impact of foreign exchange differences is still significant, as a great part of the Group's revenue comes from export, and we mitigate this by actively managing foreign exchange risk.

Therefore, to continue a successful business performance, we undertake necessary measures to reduce risks. Our integrated system of managing business risks - Enterprise Risk Management, which has been an integral part of our management system for many years, and that we have been continuously improving, has made it easier for us to gain insight and mitigate potential risks. In addition

to knowledge and skills, we believe that it is precisely our organizational culture—professionalism, respect, perseverance and integrity in doing business—that enables us to achieve quality results, even in challenging times.

Sustainability and corporate social responsibility

We have been building a reputation of a socially responsible company by trustworthy business performance and quality relations towards all stakeholders—employees, customers, partners, suppliers, shareholders, and the wider community. In our business performance, we have been actively promoting sustainable development by connecting our long-term growth and competitiveness with the impact on the economic, environmental and social development, and we advocate positive changes in the society.

With a continuous focus on realizing our own, very ambitious environmental objectives defined within the frame of a successfully realized project - “Improvement in energy efficiency and use of renewable energy sources in Ericsson Nikola Tesla d.d.”, we are dedicated to the development of the solutions and services that will harmonize the demands of industrial development with the demands of sustainable growth and the concepts of circular economy. In addition, we have been working on the development and implementation of projects and solutions for customers and other stakeholders related to achieving UN’s Sustainable Development Goals, and we have also implemented many projects and initiatives related to social responsibility (described in the Non-financial report) and shown solidarity in a crisis situation.

Business ethics and compliance

In Ericsson Nikola Tesla Group, we have been continuously working on strengthening business practice in regard to ethics and compliance. All stakeholders that have a contractual relation with the Group, as well as all 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.

We have embedded zero tolerance for corruption as the leading principle on the highest levels of the company that we have been implementing throughout all organizational levels. Our Risks and Compliance Board is responsible for the overall management of all compliance aspects within the Group, and for the implementation of the Ethics and Compliance Program. In 2021, we continued to undertake the activities of eliminating or mitigating risks that were detected during an internal Anti-Bribery and Corruption Risk Assessment (ABC RA) for all the companies of Ericsson Nikola Tesla Group. Additional check of our company’s ethics and compliance in line with the ABC analysis in 2021 was performed by an external authority, which concluded that Ericsson Nikola Tesla has a quality program of ethics and compliance. The Supervisory Board and Executive Management regularly discuss compliance issues during their meetings and analyze key risks in order to secure that the company does business in line with the highest standards.

Outlook

In 2022, we expect the increase in demand for ICT solutions to continue, which opens new market opportunities for our company. We will continue to invest in research, development and implementation of modern ICT solutions, as well as our own digital transformation. Moreover, we will continue to invest in the development of skills and knowledge of our employees, who are the key to our success, take care of their physical and mental health, and open new job positions. In this way, we secure our company’s successful and long-term sustainable business performance and contribute to the realization of EU objectives in a digital decade. Having in mind the importance of ICT as the foundation of the networked society’s digital infrastructure, we are positive about

the further development of our industry, and the role Ericsson Nikola Tesla Group has in this process. In 2022, we will focus on adjusting, developing and defining Ericsson Nikola Tesla’s strategy for the period 2023-2028.

Unfortunately, the business opportunities after the reporting date have become additionally complexed due to the situation in Ukraine. We are aware of additional political and economic uncertainty, which can impact our business operations in Belarus, and we will closely monitor them in order to timely respond and mitigate the related risks. The interruption of our activities on the market of Belarus would certainly have an impact on our plans and results, especially on the planned sales revenue, operating margin and operating cash flow. In resolving this newly occurred situation we will act in line with the mandatory laws, sanctions, and restrictive measures.

As we have already highlighted, in addition to the opportunities it brings, 2022 will be a challenging year, and will demand great knowledge, leadership and strong focus on the company’s strategic directives. Therefore, we remain focused on risk management, profitability and cash flow, and corporate social responsibility.

We will put our maximum efforts to continue to be as efficient and as successful, both in overcoming challenges, as well as in the realization of new business opportunities. Excellent business results achieved in 2021 motivate us for further excellence in everything we do.

I would like to use this opportunity to thank all employees on their focus, professionalism and integrity, their perseverance and dedicated work in such complex circumstances, as well as our customers and partners for their confidence in us.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2021 Annual Report, consisting of General Report, Non-financial Report, and Consolidated and Non-Consolidated Financial Statements including Independent Auditors’ Report as at December 31, 2021.

Business model

Our business model is based on an agile adaptation to market conditions and on capturing new business opportunities. In this way, we can offer technologically advanced, cost-efficient and sustainable products and solutions to our customers.

Customer focus and motivated employees are the foundation of our business, through which we create new value for all our stakeholders.

Our business segments encompass:

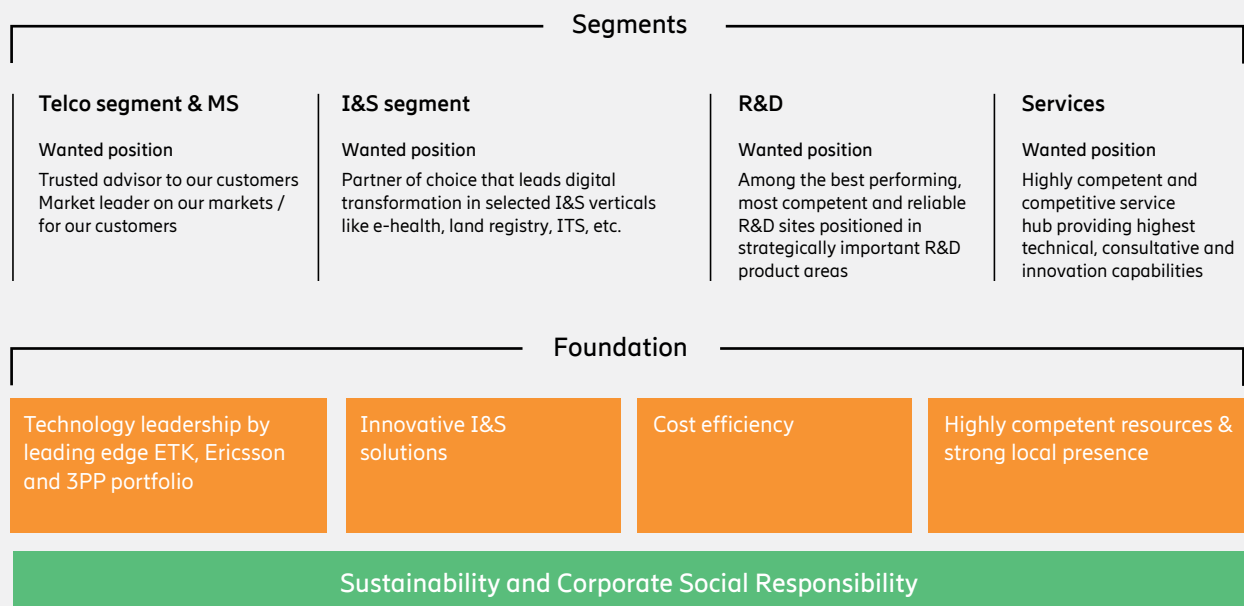
- **Telco and Industry & Society (I&S) customers**
We support the omnipresence of high-speed and low-latency mobile networks; we support digital transformation by offering solutions that cover specialized private networks, Internet of Things and software products and services for Industry & Society(I&S), such as e-Health, Land Registry and Cadaster, Intelligent Transport and other selected industry segments.
- **Corporate clients**
With a continuous focus on quality, quick delivery, and best price and efficiency ratio in software development and service delivery.

We have been securing a successful implementation of business strategy by retaining and building a position of:

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



Business segments



Value for stakeholders

Key stakeholders and our focus:

Customers

enable new sources of revenue, increase end-customer experience and continuously growing efficiency

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
- 30 percent of women in employee structure
- positive impact on the environment by offering and implementing eco-friendly products, solutions and services
- verification of key suppliers in all sustainability areas

Financial goals:

stable business

Business strategy

ICT solutions and products play a key role in shaping the future: a world where limitless connectivity improves lives, redefines business and creates a sustainable future.

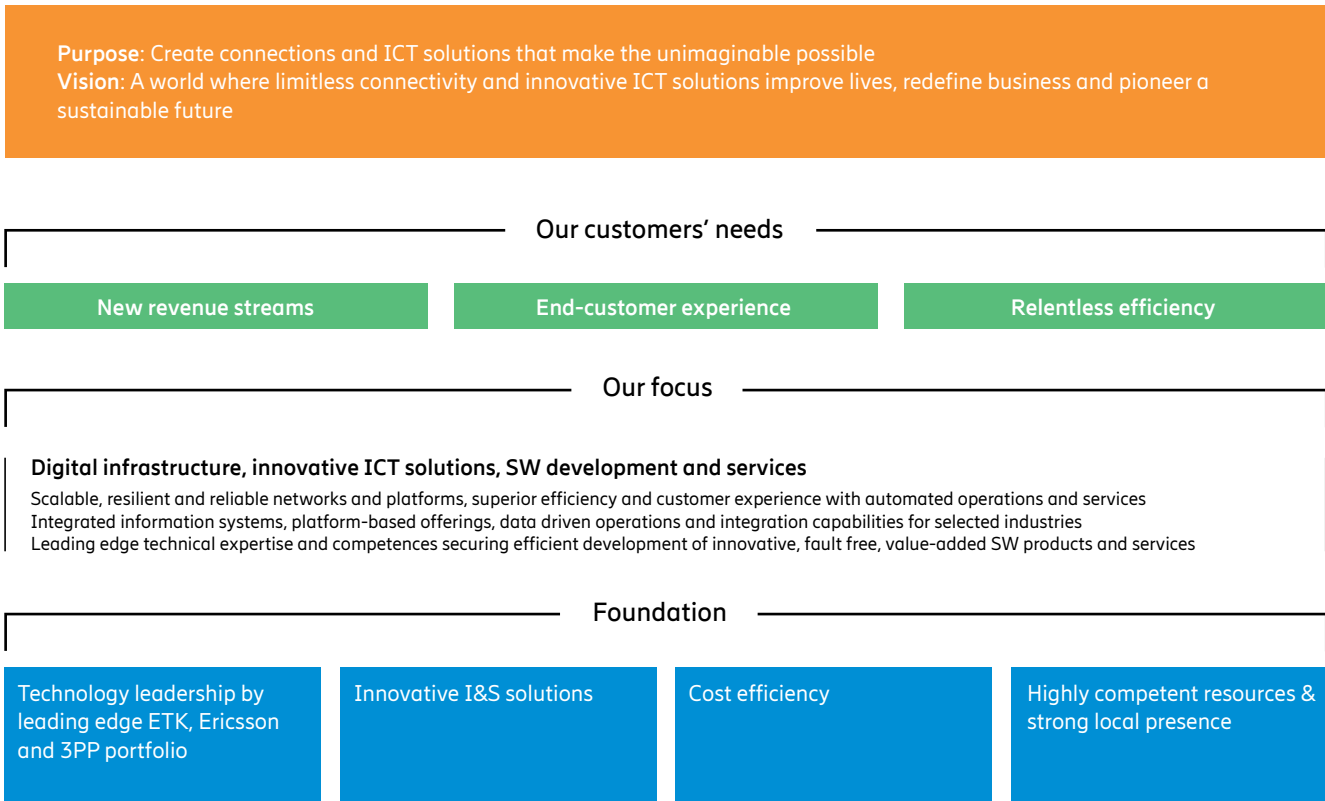
We have identified three key topics that will dictate market development in the near future, i.e., where the greatest value lies for our customers, our company, and end users.

These three key topics are: finding new revenue streams, i.e., new services, improving end-customer experience, and high efficiency in all business aspects.

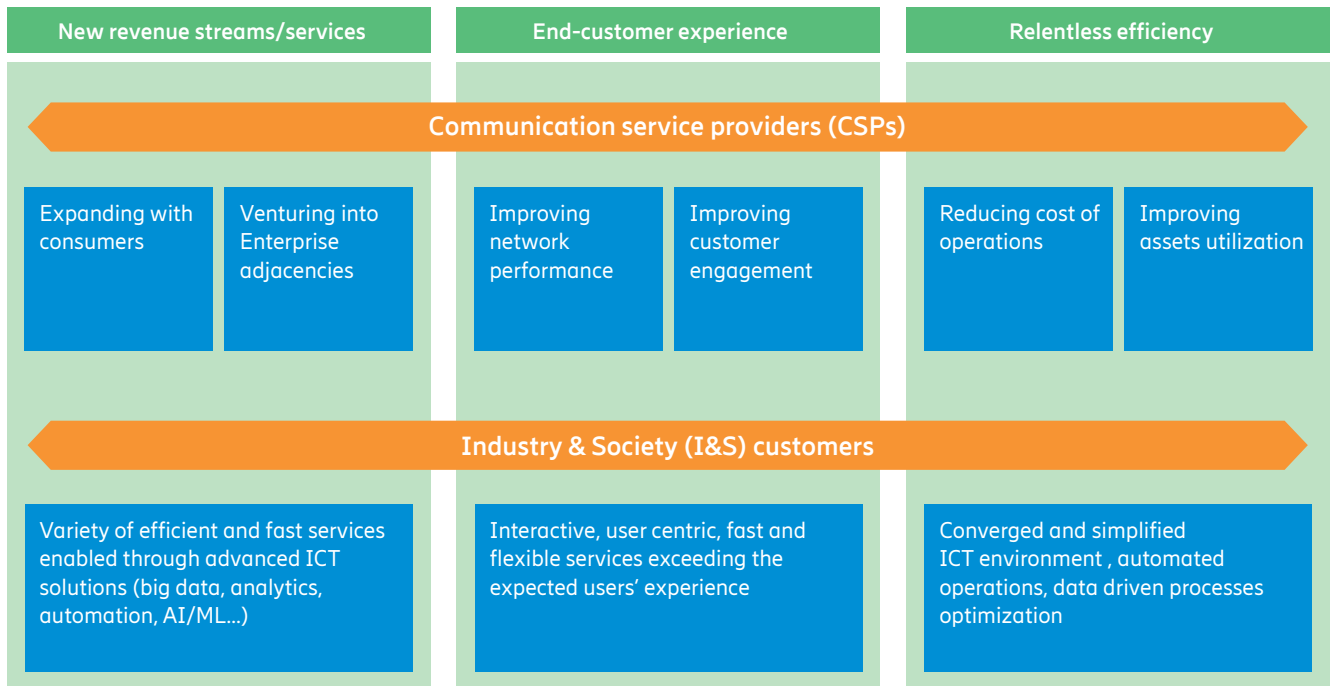
In business and social environment, which has been continuously going through very dynamic changes, our business strategy is based on four pillars:

- technology leadership as a result of leading-edge solutions provided by Ericsson Nikola Tesla, Ericsson and 3PPs
- innovative Industry & Society (I&S) solutions
- cost efficiency
- highly competent resources & strong local presence.

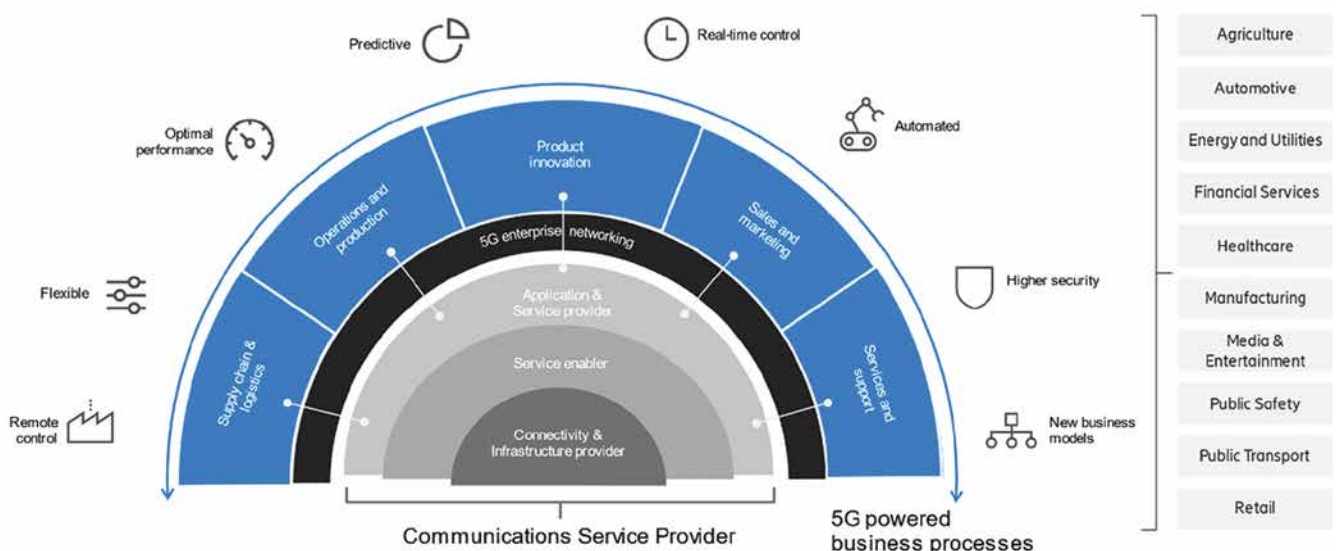
Business strategy



Creating value for our customers



The 5G powered business characteristics



Business responsibilities and activities

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla is the leading provider of communications products and services in the operator segment, as well as a provider of innovative ICT solutions. The Company has a strong Research & Development Center, as well as many Service Centers. The Company provides a modern test environment, along with a range of innovative solutions that enable quality testing of operators' and internal users' networks. It is among the leading exporters in Croatia, and number one when it comes to exporting knowledge.

The Company meets the customers' needs by connecting technology leadership of the Company's and global Ericsson's portfolio, innovative and cost-efficient solutions, with the support of highly educated employees. The Company's vision is a world where limitless connectivity and innovative ICT solutions improve lives and lead towards a sustainable future. As an associated member of the Ericsson corporation, the company operates in the Market Area Europe and Latin America (MELA).

The company's main activities encompass:

- 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 providing services related to monitoring, build and maintenance of telecommunications network infrastructure. With regard to the services portfolio and many years of 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:

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

Libratel d.o.o.

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

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 Kosovo market 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 its products, solutions and services related to health care, national and public safety, state administration, intelligent transport systems (ITS), utilities, multimedia communication, and other selected industry segments.

In the telecommunication segment, the Group delivers a list of ICT products, solutions and services of Ericsson Nikola Tesla, Ericsson, and other selected providers in the following areas:

- high performance networks
- services focused on network evolution and efficient management
- solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- 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.

The company's Research & Development Center is recognized within the Ericsson corporation as one of the best for its quality, reliability and expertise. The company's Services Centers provide highly efficient technical, consulting and innovative services.

Sales by markets

In total sales revenue, the domestic market accounted for 47.7%, services to Ericsson accounted for 40.8%, while other export markets accounted for 11.5%.

In the domestic market, sales revenue amounted to MHRK 1,051.2 (2020: MHRK 926.6), up by 13.4% year-over-year.

The cooperation with Hrvatski Telekom (HT) was intensified in all strategic projects that were contracted during 2020. The focus of our strategic partnership in the domain of the radio part of mobile network was on the activities related to the 5G technology implementation. After the allocation of the frequency spectrum of 5G since mid-August 2021, HT enabled gigabit transfer speeds in several cities across Croatia. Furthermore, with the support from Ericsson Nikola Tesla's experts, in October 2021 HT was the first in Croatian market to demonstrate the capabilities of 5G+ network, by achieving speeds of up to 4 Gbit/s, and network response time of only 10 milliseconds.

We have also continued a successful realization of the agreed targets 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 and passive network, and we would especially like to highlight the build of FTTH (fiber-to-the-home) connections for more than 100,000 households.

At the end of 2021, we signed three contracts related to design/build of the passive part of FTTH networks. The contracts are co-financed by the funds from the European Structural and Investment Funds and will enable the build of the next generation access networks (NGA) and fast and ultra-fast broadband access to network infrastructure for business and public users from remote, not as densely populated and not as developed areas of the Republic of Croatia.

With the strategic partner A1 Hrvatska, important multi-year agreements were signed during 2021. The first agreement was signed in March in radio network and referred to multi-year cooperation on the introduction of 5G radio technology, as well as the modernization of the existing network, and expansion of capacities on LTE technology. The

second important agreement was signed in August, and encompasses the convergent 5G core network that will, along with the existing core network, secure the possibility to provide an advanced 5G user experience as a response to increasing demands of end users and business clients of A1 Hrvatska.

Following the procedure of frequency spectrum allocation in August, A1 Hrvatska successfully launched 5G service into commercial operation on the frequencies 700 MHz and 3.5 GHz. Moreover, 5G service is also commercially active on the existing frequency spectrum by using the Dynamic Spectrum Sharing (DSS) technology. During Q4 2021, A1 Hrvatska successfully tested and demonstrated the first application of 5G technology in mmWave (26GHz). At the same time, a successful partnership cooperation on the implementation of 5G radio access network was expanded by the delivery of antenna systems (Ericsson Antenna System), as well as the expansion and modernization of microwave transmission systems.

In regard to ICT solutions for Industry & Society, contracts were signed with the State Geodetic Administration and the Ministry of Justice and Public Administration for the development and upgrade of the One Stop Shop-OSS of the Joint Information System of Land Registry and Cadaster (JIS). With the Ministry of Justice and Public Administration a contract was signed for the creation of the central database for local and regional municipalities. With the company Odašiljači i veze d.o.o., we signed a contract for the implementation of private 5G network.

With the Ministry of the Interior of the Republic of Croatia, we have continued

the implementation of the state border monitoring solution. Moreover, further informatization of the Joint Information System of Land Registry and Cadaster has continued, and further IT upgrade of the Central Healthcare Information System of the Republic of Croatia continued regarding the process of vaccination and upgrade of the health portal.

In export markets (excluding services to Ericsson) sales revenue amounted to MHRK 253.2 (2020: MHRK 234.4), up by 8.0% year-over-year.

In addition to a negative impact of COVID-19 pandemic, the political and economic crisis in certain markets additionally aggravates business performance. In the operator segment, sales revenue decreased due to operators' investment dynamics, which was offset by the increase in revenue in the Industry & Society segment from the contract related to healthcare informatization in Belarus.

With the operator HT Mostar (Bosnia and Herzegovina) we have contracted the implementation of a multimedia subsystem based on Internet protocol (IP Multimedia Subsystem - IMS). We have also contracted the upgrade of the system for measuring network performance, and the implementation of the new Ericsson Diameter Signaling Controller solution. In Q4 2021, we have also signed contracts for the upgrade and expansion of LTE RAN network, expansion of transmission network and software upgrade and expansion of wireline switching system.

We have continued the activities on the modernization and expansion of telecommunication network of Crnogorski

Sales by markets (in MHRK)

	2017	2018	2019	2020	2021
services to Ericsson	926	956	1,028	862	900
domestic market	277	372	497	927	1,051
export markets	279	230	254	234	253
total sales revenue	1,482	1,558	1,779	2,023	2,204



Telekom, and in cooperation with Ericsson Nikola Tesla, this operator was the first one in Montenegro to have implemented and tested 5G base stations.

With the operator IPKO (Kosovo), we have agreed further expansion and upgrade of LTE RAN network, expansion of transmission network and software upgrade and expansion of systems for packet network. In the Belarusian market, with caution and focus on risk mitigation, several new contracts were signed related to the expansion of mobile networks of operators beCloud and A1 Belarus.

In ICT for Industry & Society, we have continued the implementation of the Central Software Platform for the Centralized e-Health System of the Republic of Belarus. During Q3, the project's first phase was accepted (creating project documents with requested software platform specifications), and in Q4 we have continued to work on the activities within the second phase (detailed specification of platform functionalities and software solution development). With the Ministry of the Interior of Montenegro, a contract was signed regarding the maintenance of emergency calls 112. In the segment of Industry 4.0, we started the implementation of the management and monitoring platform of the industry's impact on the environment for EP HZHB – (Elektroprivreda Mostar).

In Ericsson market, sales revenue amounted to MHRK 899.5 (2020: MHRK 862.0), up by 4.4% year-over-year.

The Research and Development Center (R&D) of Ericsson Nikola Tesla ended the year with excellent business results and more than 1500 employees. During regular semi-annual evaluations, a high level of internal customers' satisfaction was confirmed, and R&D's maturity was shown corresponding to technical and operating, as well as cooperation criteria.

In the business segment Networks, besides the development of features related to classic and 5G products, a prototype presentation was successfully delivered, and we have also gained new responsibilities in Compute and Digital Silicon area. Within the business segment Digital Services in the area Mobile Switching Center, activities continued in automation and virtualization, and additional SIP (Session Initiation Protocol) features were prepared

for final delivery. In the area Home Location Register, numerous features were delivered, and customer support requests were successfully executed. Within Cloud, besides the development and verification activities, transfer of new responsibilities is ongoing, and an increased scope of planned activities for 2022 was confirmed. In the area Unified Data Management, the work on a number of features and quality improvements is ongoing, as well as on verification activities. In Service Area Networks, Wireline and Legacy, number of customer support activities were successfully executed, and support services for the next period were agreed.

The experts from the Center for Services and Solutions for Networks, in addition to projects for the customers of Ericsson Nikola Tesla Group, are included in the design and optimization activities and integration of various technologies for Ericsson customers in the United Kingdom, Germany, Sweden, Switzerland, Spain, Ireland, Denmark, Norway, Belgium, Czech Republic, Slovakia, Romania, Lithuania, Greece, Malta, Morocco, Algeria, Canada, USA, Saudi Arabia, Bahrain, Singapore,

Kenya, India, Pakistan, Nigeria, Japan, Indonesia, Malaysia, Taiwan, Vietnam, Hong Kong, Brazil, South Africa, etc. We also became one of the four Ericsson regional centers in the world for services in Networks – Service Area Network and build – Service Area Build.

The activities continued on the development and implementation of software tools for mobile networks management and optimization which are used in the network rollout by many operators worldwide, with which Ericsson and Ericsson Nikola Tesla do business.

Experts from Services and Solutions Center in the field of Digital Services, Media and Operations, in addition to projects for the customers of Ericsson Nikola Tesla Group, were also engaged on projects for Ericsson customers in the United Kingdom, Germany, Sweden, Switzerland, Denmark, Finland, France, Luxembourg, the Netherlands, Ireland, Norway, Lithuania, Italy, Greece, Albania, Macedonia, Czech Republic, Australia, Tahiti, Pakistan, Mexico, etc. These are complex projects of introduction of 5G technology, operational and business

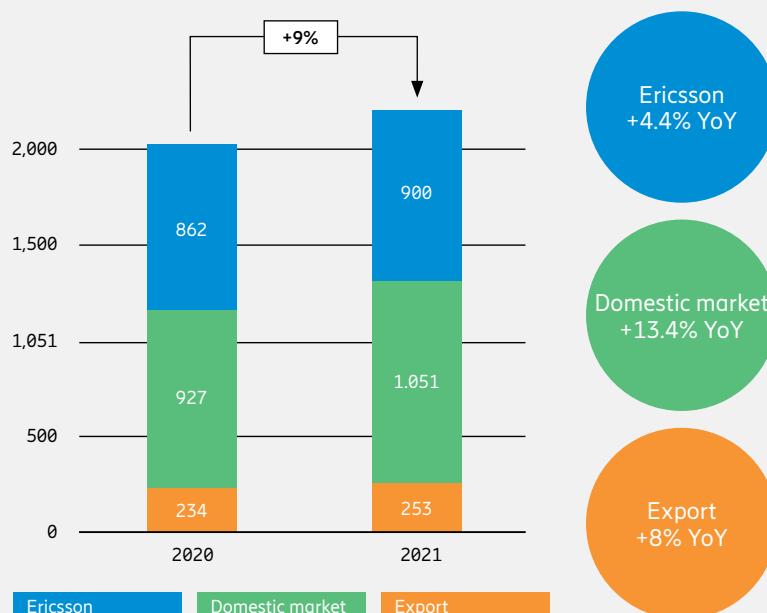
support systems, as well as projects of introduction of core solutions in Cloud.

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

Within the program EU Insulae h2020 (Industry 4.0), we have been developing a platform for monitoring and management of energy flows on the island Unije. This includes building a platform which collects data for sensors' infrastructure based on IoT technologies, analyses the data and with the assistance of artificial intelligence provides recommendations to optimize consumption.

The teams working in IT& Engineering Services, in addition to providing excellent support and achieving quality results on test environment management projects and IT operations for Ericsson corporation, also have a key role in transformation processes of Ericsson Nikola Tesla Group and provide quality support for smooth work from home and remote support to customers.

Sales revenue (in MHRK; YoY)



Scientific and research activities

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

The driving force behind scientific and research activities in the company is Ericsson Nikola Tesla's Research Unit. Moreover, this unit is responsible for Ericsson Nikola Tesla's Institute that virtually connects all the people across the company who participate in scientific research. 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.

An important part of research activities refers to participating in projects directly funded by the European Union, or projects from Structural Funds controlled by the EU. At the end of 2019, we started a four-year H2020 project - PHArA-ON. The aim of the project is to test and consolidate the technology-assisted living platforms for the elderly. Our role is to help in creating the system's architecture, take care of security and integrate various solutions to provide services, support the establishment and operation of the pilot in Italy and Slovenia. In addition to continuous challenges of working in the pandemic, the project realized all the planned activities, all the pilots were prepared for the implementation, and preliminary equipment testing was performed. The project is ongoing as planned. We have successfully continued to work on H2020 project INSULAE, which lasts for four years, and its purpose is to apply technology to improve life on European islands. Our company participates in the case for Unije island in Croatia, where the elements for energy consumption control in households were successfully developed. Project's results had a significant response in the entire region and have increased interest for application of such technology solutions for new cases. During the year, we started working on H2020 project OLGA. The project's purpose is to apply

technology solutions for sustainable business related to several airports in Europe, and our role as a partner is to work on solutions regarding the airport building sustainability and the optimization of Zagreb airport traffic. At the beginning of 2021, our participation in the ERASMUS+ project BENEFIT was completed. The project aimed to advance the telecommunication study programs in the region, and through our work, we have contributed to a successful completion of all the planned project assignments. End of 2021, the H2020 project LIVING INNOVATIONS was completed. Being an industry partner on the project, we have researched the methods for a responsible and cooperative research, and responsible application of technology in health care, smart homes, and people with special needs.

We have continued a quality research cooperation with the Faculty of Electrical Engineering and Computing, University of Zagreb. A prominent position was given to the project of researching into the communication between different devices in the overall machine communication. We continued with the research into the system for the optimization of radio signal transmission. Special focus was on the 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 PhD programs have been included in these projects along with 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 worked on the project of data reliability in sensor networks with a special emphasis on data transfer security and application of machine learning to

replace data in time series data collection. The projects are carried out in our research lab at 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.

Traffic and Logistics Data Science Lab at the Faculty of Transport and Traffic Science, University of Zagreb, has continued with its successful activities. The collaboration of the faculty and our company resulted in a special contribution through the implementation of the project from the European Institute of Innovation & Technology competition. The project aimed at improving new methods for urban planning by using large amount of data about the movement of mobile network users. The data was analyzed for Zagreb, Rijeka and Dubrovnik. The obtained results of the implemented project will also be used in the lab for students' practice, and potentially in commercial projects, as well.

The research team continued working on analyzing large amount of data, and during the year worked on machine learning and artificial intelligence projects. Special attention was given to personalized medicine and application in predicting fires, placing an additional focus on soil analysis in the area where fire can develop, in correlation with the impact of other weather conditions. We continued to work on IoT application in environment control with a concrete case of testing drinking water and other types of freshwater. The activities started on the research and development (IRI) project, which is financed by the EU structural fund for the control of water eutrophication in rivers and the quality of drinking water in plumbing systems. A very successful cooperation was realized with

the corporate research unit in technology development for a digital double of the industrial environment based on the Internet of Things, with an increased focus on knowledge management. Joint work resulted in a well-accepted system operation conceptual demo.

Throughout the year, we have continued to work with partners within the Scientific Center of Excellence for Data Science and Cooperative Systems. Our company is a member of the Scientific Center. We participated in preparing projects to encourage research, development and innovations in Croatia by establishing digital innovation hubs in the domain of application of Artificial Intelligence and smart urban environment.

We have continued a research project in Split that has been researching analytical methods for connecting heterogeneous types of data, aiming to better predict and create AI in the field of available sensor data enrichment, and with the purpose of a more precise and faster conclusions and decrease in 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 were established, as well as a new lab platform for fast search and reaching conclusions based on the various available types of data.

Successful industry research continued on three projects within the Competence Center for Smart Cities (CEKOM), led by the City of Rijeka, and our company is a partner along with 20 other members. The projects are co-financed by the European Structural Fund. We lead two projects and through the development in these projects, we create prototypes and new technologies for smart city management, from infrastructure to traffic: all for the purpose of a more economic and "greener" management, as well as a greater satisfaction and lower costs for citizens.

Despite the pandemic, we successfully organized the 20th Ericsson Nikola Tesla Summer Camp. By adhering to all the epidemiological measures, we held

the Camp on our premises in Zagreb and Split, and 36 students from 12 institutions of higher education from Croatia and the region participated in the Summer Camp. They worked on 12 projects and were mentored by 36 experts from the company and universities. In addition, 7 members of the steering board regularly controlled the implementation and technological progress of all the projects. Results of all the projects gave an interesting confirmation of research concepts, and the students were pleased with the work and the obtained results. As many as 20 students continued to work on development projects in development teams in the company, and a few of them continued with the research project.

Two of our employees earned a doctoral degree, and as the result of the work of our Institute, several articles have been published in magazines and conferences.



Important events

January - March

- New activities were contracted with the Ministry of the Interior of the Republic of Croatia for the continuation of the implementation of the "Green Borders" project, that aims to establish monitoring of the state border in line with the Schengen rules. With the Croatian Ministry of Justice and Public Administration, along with services of improvement, update and upgrade of GAPA IT System were contracted, as well as education of users. These contracts are worth approximately MHRK 35.
- Swap of 8000 DT's base stations was completed with an efficient support from our experts. Within the Andromeda project for DT, Ericsson swapped base stations of another vendor with Ericsson base stations. Heads of regions highlighted this achievement as an example of successful customer cooperation in a complex project.
- We continued a successful cooperation with the State Geodetic Administration by signing an agreement for geoinformatics services on establishing a register of buildings for the area of Varaždin County, and the creation of a multipurpose information system of register of buildings, worth almost MHRK 8 (VAT excluded).
- Ericsson Nikola Tesla Group 2020 business results were published: excellent results despite a challenging environment. Due to current epidemiological measures, the results were published in a video instead of at a regular press conference.
- By signing a new five-year agreement with A1 Hrvatska, Ericsson Nikola Tesla continues to be the provider of the radio part of mobile network for A1 Hrvatska. Strategic cooperation also in 5G opened new possibilities for the Croatian economy and the society at large.

April - June

- The contract on further modernization of HT Mostar's network defined the implementation of the latest technological version of the multimedia subsystem based on Internet protocol (IP Multimedia Subsystem - IMS), the upgrade of the system for measuring network performance and the implementation of the Diameter Signaling Controller solution.
- In May, which is European Diversity Month, various activities highlighted the importance of respecting diversity and inclusion in the workplace and in the society.
- An online Digital Signal Processing (DSP) hackathon was held, where tech students and professionals participated. The best competitors were offered further engagement in terms of professional practice or the possibility to get hired.
- According to research of large Croatian companies that report about the negative impact on climate change, Ericsson Nikola Tesla is the only large company in Croatia that takes into account a comprehensive risk overview of negative impacts on the climate which arise from the company's activities and is the absolute leader in reporting on the risks of negative impacts on the climate.
- We signed a two-year framework agreement for the maintenance of the Joint Information System of Land Registry and Cadaster (JIS) with the State Geodetic Administration and the Croatian Ministry of Justice and Public Administration, worth over MHRK 38 (VAT excluded).
- The General Meeting of the joint-stock company Ericsson Nikola Tesla was held on June 29 at the company premises, respecting all epidemiological measures. For the participation in the work of the General Meeting, 67.41 percent of the Company's equity capital was registered, which was sufficient for the General Meeting to reach valid decisions.

A1 Contract signing



HT Mostar Contract signing



2021

July - September

October - December

- The delegation of the Swedish Embassy to the Republic of Croatia visited the company's site in Split.
- New contracts worth more than MHRK 14 were signed with the Ministry of Justice and Public Administration for the services of system design, development and implementation within the project "Land Data Management". We contracted the upgrade of the Joint Information System of Land Registry and Cadaster (JIS) with new functionalities with the State Geodetic Administration as part of the loan from the World Bank for the project of integrated land administration system implementation.
- With the Ministry of Economy and Sustainable Development (Intermediate Body 1) and Croatian Agency for SMEs, Innovations and Investments (Intermediate Body 2), we signed a Contract on awarding grants from the European Structural and Investment Funds for the purpose of implementing a project titled "WaterQ – Digital Transformation of Water Quality Monitoring".
- The company welcomed HAKOM's decision to allocate the radio frequency spectrum for 5G mobile networks as a new chapter in the implementation of the latest technology that has the potential to transform the economy.
- A successful strategic cooperation with A1 Hrvatska on the implementation of 5G radio access network implementation was also expanded to the convergent 5G core solution implementation.
- Based on the public procurement for the tender "Platform for monitoring water quality in Hutovo blato protected area", JP Elektroprivreda Hrvatske zajednice Herceg Bosne d.d. Mostar selected Ericsson Nikola Tesla as the supplier of the overall ICT solution with the aim to improve environmental protection.
- As part of the European Mobility Week in Osijek, a presentation was organized for the participants at the company's office in Osijek about the technologies which enable the creation of new digital services for smart cities sustainable development.
- At the event organized by the Zagreb Association for the Blind, we presented an app developed in Ericsson Nikola Tesla Group - EVA, a virtual assistant for the needs of blind persons and persons with visual impairments.

- With HT Mostar we contracted the upgrade and expansion of LTE RAN network, expansion of transmission network, and software upgrade and expansion of the system for wireline switching, worth over MHRK 31.
- At BUG's IoT Forum, the segment of e-Environment solution was presented as the company's new strategic area.
- At the award ceremony of the national awards for environmental protection in 2021, in the category "Management", Ericsson Nikola Tesla was given recognition for an exceptional organization with a strategic vision and a management system that enable continuous improvement of environmental characteristics. It was highlighted that through a successfully realized energy efficiency project, the winner has already cut CO₂ emission in half, which is the goal that the EU had set for 2030.
- A high-level UNICEF delegation visited the company.
- Hrvatski Telekom presented 5G+ technology, implemented with the support from our experts. This technology enabled Hrvatski Telekom to achieve speeds of 4 Gbps in live network.
- The recognition from the Project Management Institute - PMI Croatia for the best young project manager in 2020 was given to Ericsson Nikola Tesla's expert who leads customer projects.
- During the official visit of Croatian Prime Minister to the Prime Minister of Kosovo, Croatian Prime Minister was accompanied by the delegation which included representatives from Ericsson Nikola Tesla.
- On the occasion of marking the Day of the University of Mostar, robot Leo Rover was presented as part of the Smart Campus project, which the University implements with its strategic partners HT Eronet and Ericsson Nikola Tesla. A hackathon for students was also organized.
- In the export markets of Kosovo and Belarus, several contracts were signed related to the expansion of mobile networks for the operators beCloud, A1 Belarus and Ipkio.
- A contract was signed with the Croatian Ministry of Justice and Public Administration and State Geodetic Administration related to the "Development and Upgrade of the One Stop Shop of the Joint Information System of Land Registry and Cadaster (JIS)".
- With a Christmas donation of HRK 400 thousand, support was provided for the citizens in need, as well as a better chance for the future of individuals, especially young people and children without parental care.

Official visit to Kosovo



Environmental recognition



UNICEF recognition



Membership in associations

The Group sees a clear link between expanding and transferring knowledge and experience (which is realized by being a member in various organizations) and growth and development, whether this regards own growth or growth on the national level, in the society, in a specific economy branch, organization and/or individuals.

The memberships primarily enable a quality and efficient transfer of current information and connecting with the leading experts, and contribute just as successfully to a more efficient representation of certain attitudes and target realization in a specific branch, regarding specific issues, crisis, etc.

Due to its advanced practices and knowledge, the Group is often referred to as the reference point for certain areas and activities. The Group's experts largely contribute to this through their readiness to share the acquired competences and experience with the aim to achieve positive changes and additionally engage in various professional associations, organizations, scientific institutions, etc.

In addition to mandatory memberships, like the one in the Croatian Chamber of Economy, the Group has a status of a regular member in the following organizations:

- Croatian Employers' Association (HUP)
- Lider's Club of Exporters
- Croatian Competitiveness Cluster
- 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
- Croatian Managers' and Entrepreneurs' Association (CROMA)
- Croatian Exporters
- and many others.

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 2021

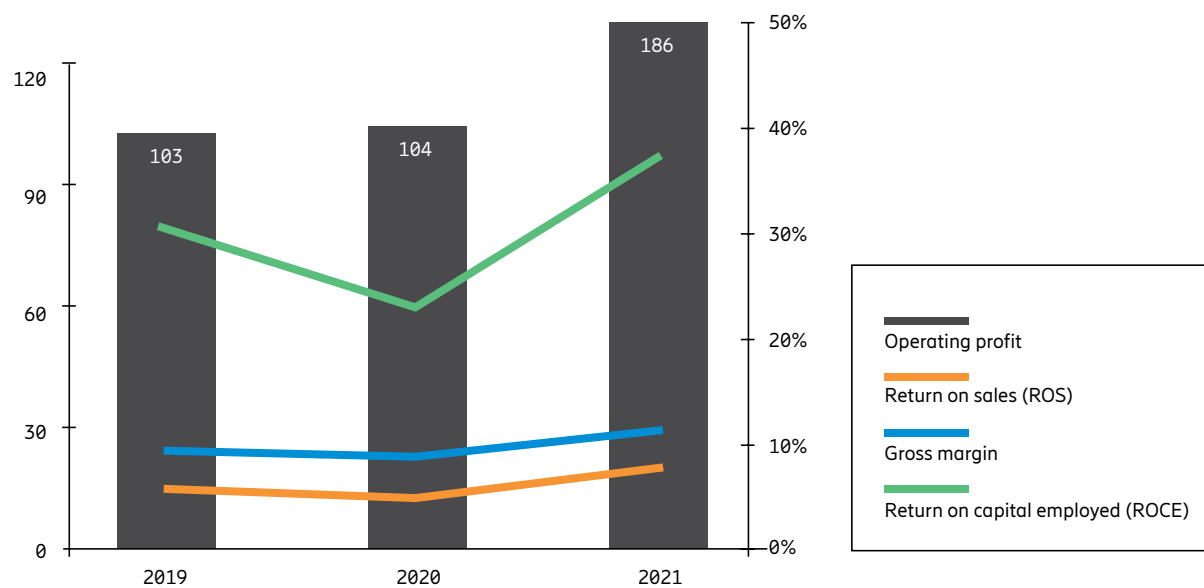
	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2021	2020	2019	2021	2020	2019
Statement of comprehensive income and cash flow items (in HRK million)						
Sales revenue	2,204	2,023	1,779	1,523	1,417	1,545
Selling and Administration expenses	-93	-84	-82	-83	-73	-75
Operating profit	186	104	103	111	82	94
Profit for the year	177	95	103	115	76	96
Operating cash flow	370	308	69	247	276	40
Year-end position (in HRK million)						
Total assets	1,204	994	955	881	786	897
Cash, cash equivalents and liquid financial assets	510	314	136	364	279	121
Capital employed	464	425	395	348	372	352
Equity	404	346	315	303	307	294
Per share indicators						
Earnings per share (EPS) in HRK	133	71	77	87	57	72
Dividends per share in HRK	64*	82	49	64*	82	49
Number of shares outstanding, average (in millions)	1,331	1,331	1,331	1,331	1,331	1,331
Other information (in HRK million)						
Additions to property, plant and equipment	17	45	68	15	41	65
Depreciation of property, plant and equipment	36	35	36	34	31	32
Alternative Performance Measures (APMs)						
Gross margin	11.5%	8.6%	9.2%	11.2%	10.2%	9.9%
Operating margin	8.5%	5.2%	5.8%	7.3%	5.8%	6.1%
EBITDA Margin	11.0%	7.9%	9.0%	10.2%	8.8%	8.7%
Return on equity (ROE)	47.3%	28.6%	37.3%	37.8%	25.5%	36.9%
Return on capital employed (ROCE)	39.9%	23.1%	31.1%	32.0%	21.1%	32.1%
Return on sales (ROS)	8.0%	4.7%	5.8%	7.6%	5.4%	6.2%
Equity ratio	33.6%	34.8%	33.0%	34.4%	39.1%	32.8%
Capital turnover	5.0	4.9	5.4	4.2	3.9	5.2
Current ratio	1.3	1.3	1.2	1.3	1.3	1.2
P/E ratio	13.8	21.1	18.2	21.3	26.1	19.5

* As proposed by the Management Board and the Supervisory Board

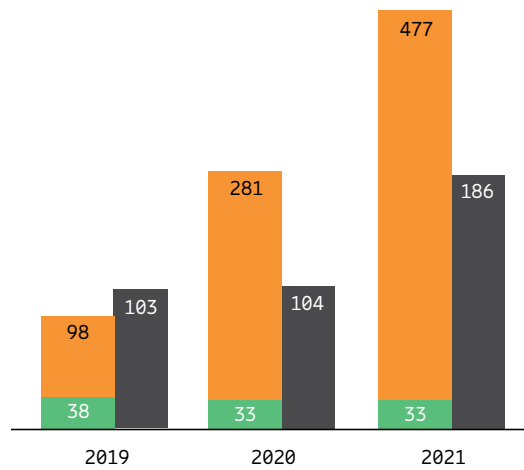
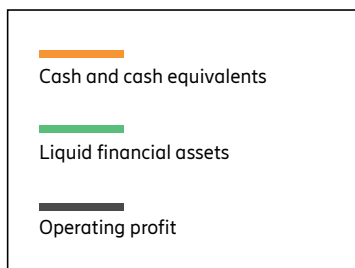
Balance sheet structure (in MHRK)



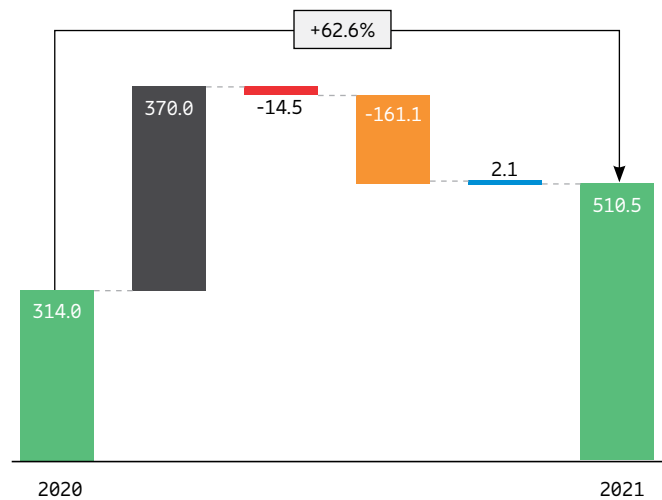
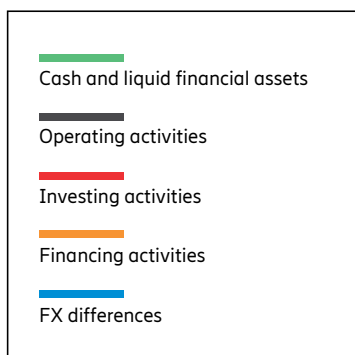
Operating profit (in MHRK), Gross margin, ROCE and ROS (in percentages)



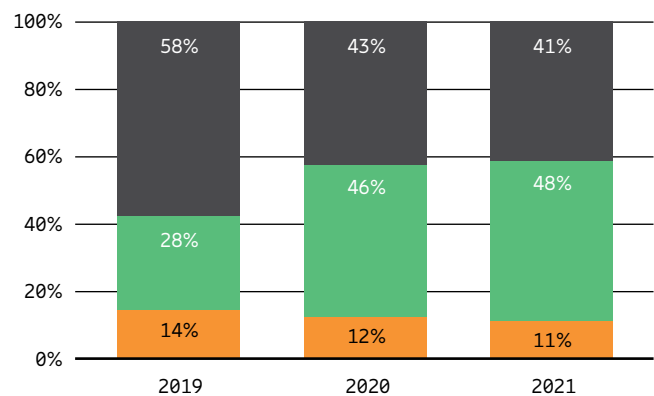
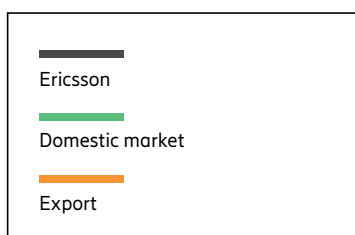
Development of liquid assets and operating profit (in MHRK)



Change in liquid assets (in MHRK)



Sales revenue by market (in percentages)



Financial performance in 2021

In 2021, Ericsson Nikola Tesla Group continued a trend of excellent business results and additionally strengthened the overall financial position. This is the result of the focus on customers, technology leadership, responsible management, and primarily the engagement and motivation of our employees.



Damir Bušić

Director, Finance, Sourcing and
Commercial Management

Last year we continued to improve our knowledge and apply the accumulated experience to better deal with all the challenges caused by the pandemic, disruptions in the global supply chain, and political and economic situation in certain markets. Despite this, we are recording a mild recovery of the economy, and an excelled development and implementation of new technologies that created the growth in demand for digital transformation in all markets where Ericsson Nikola Tesla Group operates.

In 2021, our attention and efforts were focused on the following areas (i) strengthening the company's cash flow by generating business and following its cash collection (ii) continuation of projects with the optimization of costs and working capital, (iii) securing new contracts within our focused areas, in line with the set plans and strategy, (iv) overall optimization of the company's costs, and managing business critical investments, and (v) improving our ethics and compliance program.

Due to daily realization of the mentioned targets, we achieved excellent results and kept the wanted position of a recognizable ICT brand and a technology leader in Croatia and in our export markets.

Ericsson Nikola Tesla Group's key results in 2021 show sales increase by 8.9% to a total of MHRK 2,203.9. We are recording growth in the Croatian market, and stable sales in Ericsson and export markets. Gross margin significantly increased from 8.6% to 11.5%, also due to growth in the domestic market, which in turn led to operating profit surpassing 2020 by 78.6%, i.e., increased from MHRK 104.4 to MHRK 186.4. In

line with sales growth, support functions expanded their activities, which resulted in increase of selling and administrative expenses by 10.6%, in line with expectations. An increased financial income was supported by a more favorable foreign currency exchange and comprehensive and responsible management of liquid assets. This contributed also to an excellent result of net profit for 2021 amounting to MHRK 177.3, up by 87.6% year-over-year. Return on sales almost doubled to 8.0% as compared to 4.7% in 2020.

Key results in the balance sheet show that its overall increase was largely contributed by an increase within two items: Cash and financial assets by 62.6% and Inventory and Work in Progress by 64.9%. The first increase is a result of ongoing diligent cash collection from customers and a detailed planning of cash outflow. The second increase was generated by the necessary adjustments of the Group's inventory levels, partially due to a challenging situation in regard to materials and components for our complex projects, and partially, when we refer to the work in progress, due to an increased engagement on projects that are prepared to be realized in the upcoming years.

The achievement of the above-mentioned key results would not have been possible without a close monitoring of various business risks. The gathered knowledge to timely recognize, estimate and mitigate risk situations are an integral part of the Group's processes and risks management system, including the ones in crisis situations. The pillars of this system are competent employees, ready to timely react

to reduce threats and impact of risks on our business performance to a minimum, and to secure business continuity and sustainable development. Therefore, we continue to invest in our employees, their expert knowledge and skills, innovativeness, efficiency and focus on key areas. The ability of our employees to adapt and quickly respond to unexpected circumstances, as well as their motivation and dedication, secured excellent results during two challenging consecutive years.

Digital transformation is ongoing, and it started with the improvement of business process. It is expected that the targeted implementation of app infrastructure will provide tangible results in supporting the overall business performance from 2022 onwards.

The year ahead of us will be very challenging. Geopolitical crises, facing inflation higher than the one in the previous years caused by limitations on the suppliers' side, combined with the increase of energy and raw materials prices will certainly have a significant impact on business performance in the upcoming period. In addition, the preparation for the planned conversion of HRK into EUR on January 1, 2023, will additionally mark this year. Due to everything mentioned, we must stay focused on strategic directions, carefully monitor the circumstances and the risks and adapt to changes, and the results achieved in 2021 represent an excellent foundation to achieve our targets.

After the reporting date, new risks are highlighted by the complex situation in Ukraine and Belarus, to which we will especially focus and take necessary steps.

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 2021, share price increased by 22.67%. At the end of 2021, Ericsson Nikola Tesla's market capitalization was MHRK 2,450.2 (end of 2020: MHRK 1,997.5). In regard to the free float market capitalization, Ericsson Nikola Tesla is ranked ninth on the Zagreb Stock Exchange, with MHRK 1,235.2, representing 3.29% of the total free float market capitalization. At the end of 2021, Ericsson Nikola Tesla's share weight in CROBEX Index was 10.29%. According to regular turnover in 2021, Ericsson Nikola Tesla's share is ranked sixth on the Zagreb Stock Exchange with a turnover amounting to MHRK 84.1 (2020: MHRK 121.1). In block transactions, additional MHRK 33.5 were traded (2020: MHRK 5.3).

Capital market in 2021

The year 2021 was extremely successful for global stock market investors. The value of the leading US stock index S&P500 increased by 26.6%, while the EURO STOXX 50 index increased by 21%. COVID-19 was the main topic during 2021; however, consumption had a strong recovery, which

resulted in record growth in companies' earnings, sales and margin. This is especially attributed to the technology sector that profited from shifting work and entertainment into people's homes.

In the domestic capital market, the year started with a positive sentiment, but the months that followed presented a pretty various situation in the market.

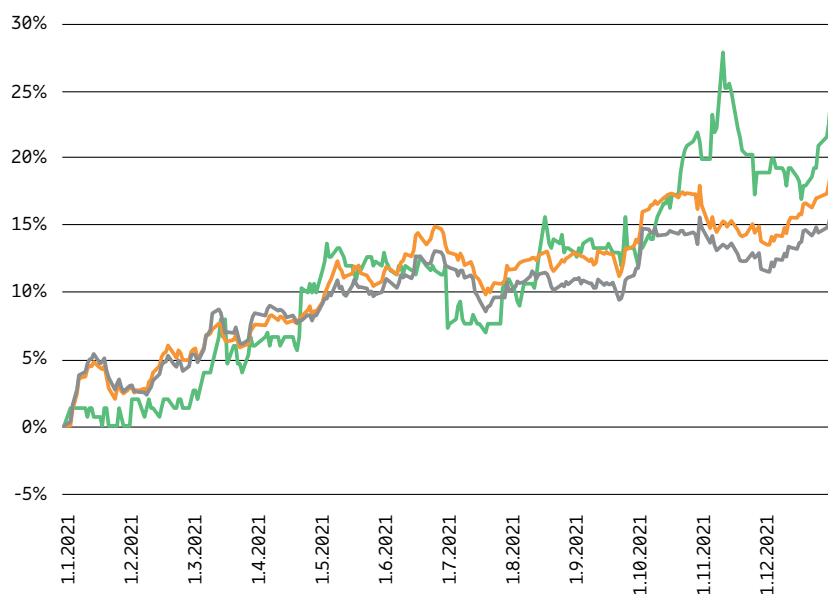
Average ERNT-R-A share price trend 2017 - 2021 (in HRK)



Share price and turnover	2017	2018	2019	2020	2021
Highest (HRK)	1,444.00	1,240	1,415	1,530	1,950
Lowest (HRK)	1,066.51	976	972	1,020	1,500
Last - end of year (HRK)	1,203.99	1,010	1,400	1,500	1,840
Turnover (in MHRK) - within the orderbook	55.1	39.3	58.0	121.1	121.1
Turnover (in MHRK) - block transactions	-	-	-	5.3	33.5
trade volume - within the orderbook	43,312	36,116	49,652	93,010	93,010
trade volume - block transactions	-	-	-	3,500	19,638
Dividend per share (HRK)	32.5	70.6	49	82	64*

* As proposed by Management Board and Supervisory Board

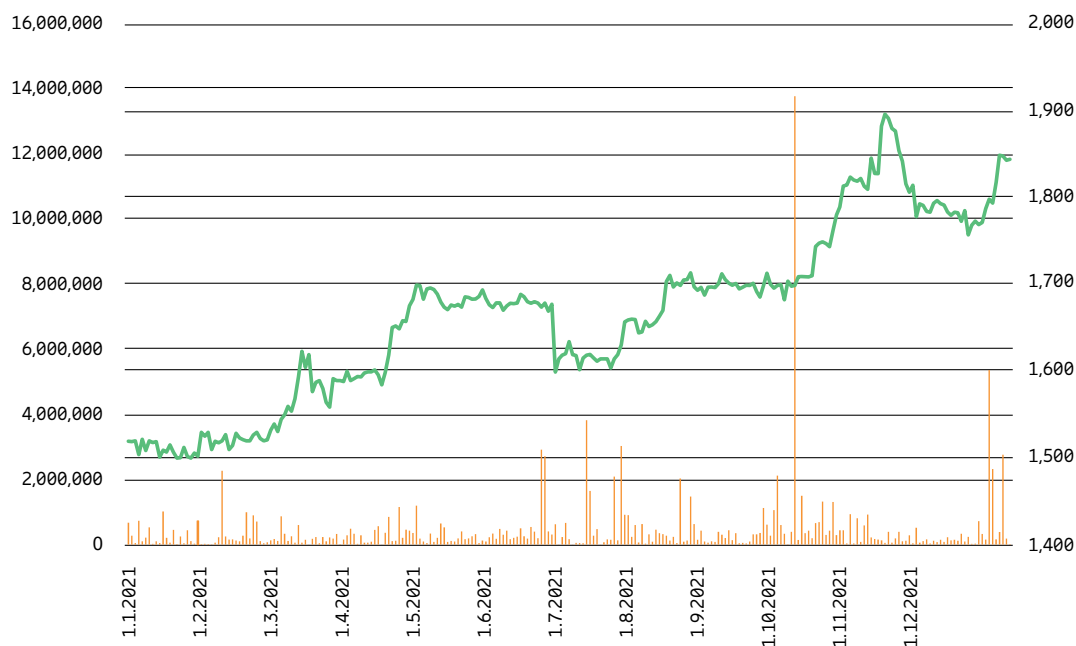
ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indices in 2021



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

By observing the price range during 2021, we can conclude that ERNT-R-A share mainly followed the trend of CROBEX indexes, however, did not respond as equally strong. In the last quarter of 2021, share price increased by 7.29%, thus surpassing the growth of CROBEX and CROBEX10 in the respective period, as well as on the overall annual level.

ERNT-R-A share turnover and average price trend in 2021 (in HRK)



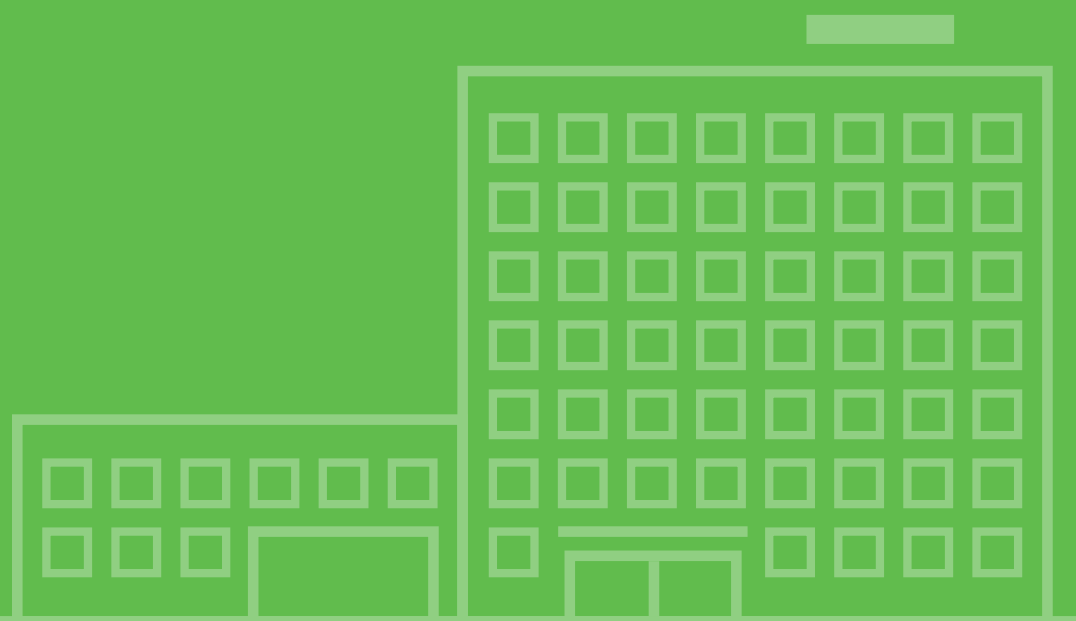
Although the share turnover within the orderbook was down by 25% compared to 2020, and the total turnover was almost 19% lower in the end, the market was dynamic during the entire year, with a great interest of investors and a lot of opportunities to invest, as well as interesting investment stories. Almost all indexes strengthened significantly: CROBEXtr, which also calculates the dividend yield, increased by 22.13%, which is an excellent indicator of the return on investment which the investors could have realized. Most of the other indexes increased by double digits, where CROBEX increased by 19.55%, and CROBEX10 by 16.04%.

Share capital

As at 31 December 2021, 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 2021 was 6,951, representing 0.52% of the share capital. The shares were owned by 6,481 shareholders.

Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2021

Shareholders	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
PBZ d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28
Erste & Steiermarkische Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	40,490	3.04
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	30,961	2.33
Raiffeisenbank Austria d.d. / Raiffeisen voluntary pension fund	16,739	1.26
PBZ d.d. / custodian client account	10,703	0.80
PBZ d.d. / The Bank of New York as custodian	9,860	0.74
OTP banka d.d. / OTP Index fund - open-end alternative investment fund with public offering	9,474	0.71
Ericsson Nikola Tesla d.d.	6,951	0.52
Vuleta Ivica	5,318	0.40
Other shareholders	424,167	31.85



Annual report 2021
Ericsson Nikola Tesla Group

2 | Non-financial report

About the non-financial report

This non-financial report describes the activities of corporate social responsibility of Ericsson Nikola Tesla Group in 2021. The report and additional information are available on the website of the parent company and subsidiaries that make Ericsson Nikola Tesla Group. Since the beginning of its operations, the Group has been reporting on its corporate social responsibility 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 and all our stakeholders through our business operations. At the same time, we strive to successfully manage all types

of risks in business operations, especially environmental, social, and ethical risks. Our key priority is to be an example of a responsible and a transparent way of doing business in a society in which we operate, in order to encourage other entrepreneurs to follow positive examples in their business operations, and thereby always bear in mind the full perspective of the overall business value chain.

Our long-term experience suggests that a responsible approach to business brings

new business opportunities, increases efficiency, reduces risks, increases brand value and strengthens market position, strengthens the Group's position as the employer of choice and encourages long-term competitiveness.

Report boundaries

All the information and data mentioned in the report, unless stated otherwise, relate to activities and projects undertaken

Important dates during Ericsson Nikola Tesla business operations



Building in the center of Zagreb, Palmotićeva Street 82, where the factory "Nikola Tesla" started its business operations.



A serial production of Ericsson systems with coordinated switch started.



We founded our own Research & Development Center.



The 2nd licensed agreement was signed with Ericsson for the production of digital AXE exchanges.



The first commercial mobile call in Croatia was established using NMT network.

1949 1953 1955 1958 1962 1974 1977 1981 1990 1995

First export deal contracted.



Production of semi-electronic SPC exchanges.



Ericsson Nikola Tesla joint-stock company was founded.



Moving the factory to its current location - Krapinska Street.



We signed a first licensed agreement with Ericsson for the production of crossbar telephone systems.



Production of AXE systems started.



from 1 January 2021 to 31 December 2021. The report encompasses activities undertaken by Ericsson Nikola Tesla d.d., as the parent company, and all its subsidiaries in Croatia and abroad. 2021 Annual Report provides information about the structure, the nature of ownership, legal form, subsidiaries, as well as changes in the size, structure and financial results of the Group. The previous report was published in April 2021, and it comprised data for 2020. This non-financial report has not been subject to external verification.

Ericsson Nikola Tesla Group is a leader in climate-related reporting

A great recognition for Ericsson Nikola Tesla's non-financial report was received after the research was carried out in regard to large Croatian companies reporting about the negative impacts on the climate. The research included 68 large companies in Croatia. The Association for Sustainable Development of Croatia, which is the holder of the research, highlighted in their analysis that the research results show that only a few large companies in Croatia report on the risks of the negative impacts on the climate which arise from their business activities. A detailed analysis revealed that only 18%, i.e. 12 companies from the sample covered by the research, report on the negative impacts on climate, while as much as 82%, i.e. 56 companies included in the research, do not. Conclusions emerging from the research show that in Croatia there is still a predominantly low level of awareness of the risks posed by the negative impacts on the climate that arise from the companies' activities. Moreover, in cases of recognizing one's role and responsibility, the first step is generally focused on emissions of greenhouse gases into the atmosphere, as the main risk of negative impacts on the climate, and there is no developed awareness of other or overall risks of the negative impacts exerted by companies on the climate.

We are proud that the research has shown that Ericsson Nikola Tesla Group is the only large company in Croatia which takes a comprehensive approach to risks posed by negative impacts on the climate which arise from its activities and is also the absolute leader in reporting about the risks of negative impacts on the climate.



First GSM contract signed.



First UMTS call using Ericsson equipment was initiated from Zagreb.



First LTE network in Croatia was implemented on Ericsson equipment.



The energy efficiency of the campus was finished.

1998

2001

2003

2007

2012

2017

2018

2020

2021

Integrated information system of primary healthcare was put into operation.



Joint Information System of Land Registry and Cadaster (JIS).



5G networks live in Croatia.

5G
networks live in Croatia

First demo UMTS call in Croatia (3G Roadshow) was established.



5G network implementation in Croatia started.



Reporting principles

In all segments of our business, sustainability and social responsibility principles are applied. The Group reports on its sustainability and the impact of corporate responsibility in line with globally recognized standards and principles in order to provide stakeholders with all the required information about the Group's activities in this area. This report 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 the UN Global Compact principles. The principles of stakeholder engagement, sustainability context, materiality and completeness, as well as response and impact, help the Group to define the content of the sustainability and social responsibility report. In order to ensure the quality of reporting, the Group applies principles of accuracy, balance, clarity and timeliness.

Additional information about the Group and its social responsibility is available on <https://www.ericsson.hr/en/>. Moreover, the entire Annual Report is available on Ericsson Nikola Tesla's website.

Statements about the future

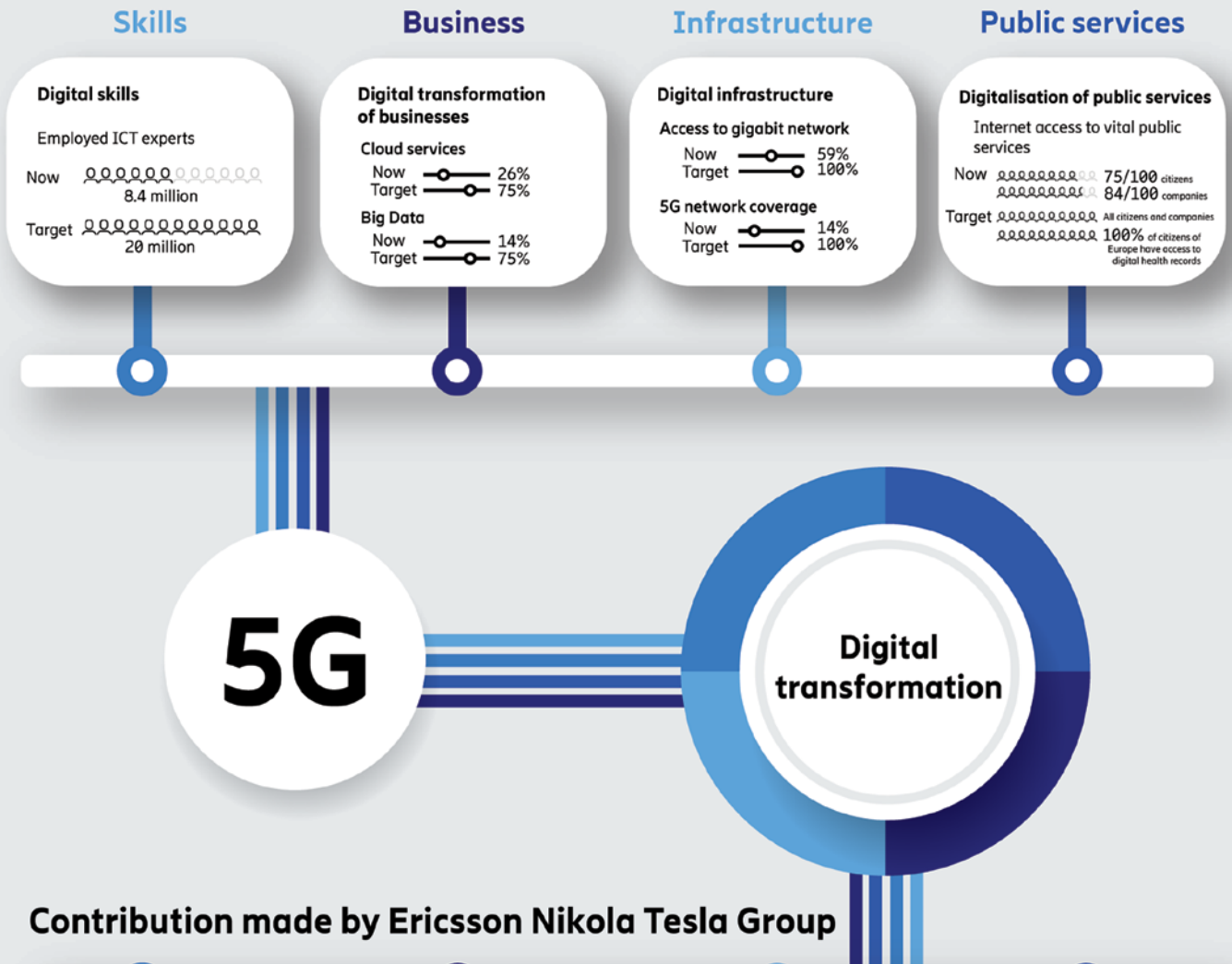
Certain topics that are explored in this report and include statements relating to the future are subject to risks and uncertainty. Those who read this content should be warned that such statements have no guarantee, and future actions and developments may fundamentally differ from the described or implied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

High scores according to a reporting criterion within a wider sustainability context as well

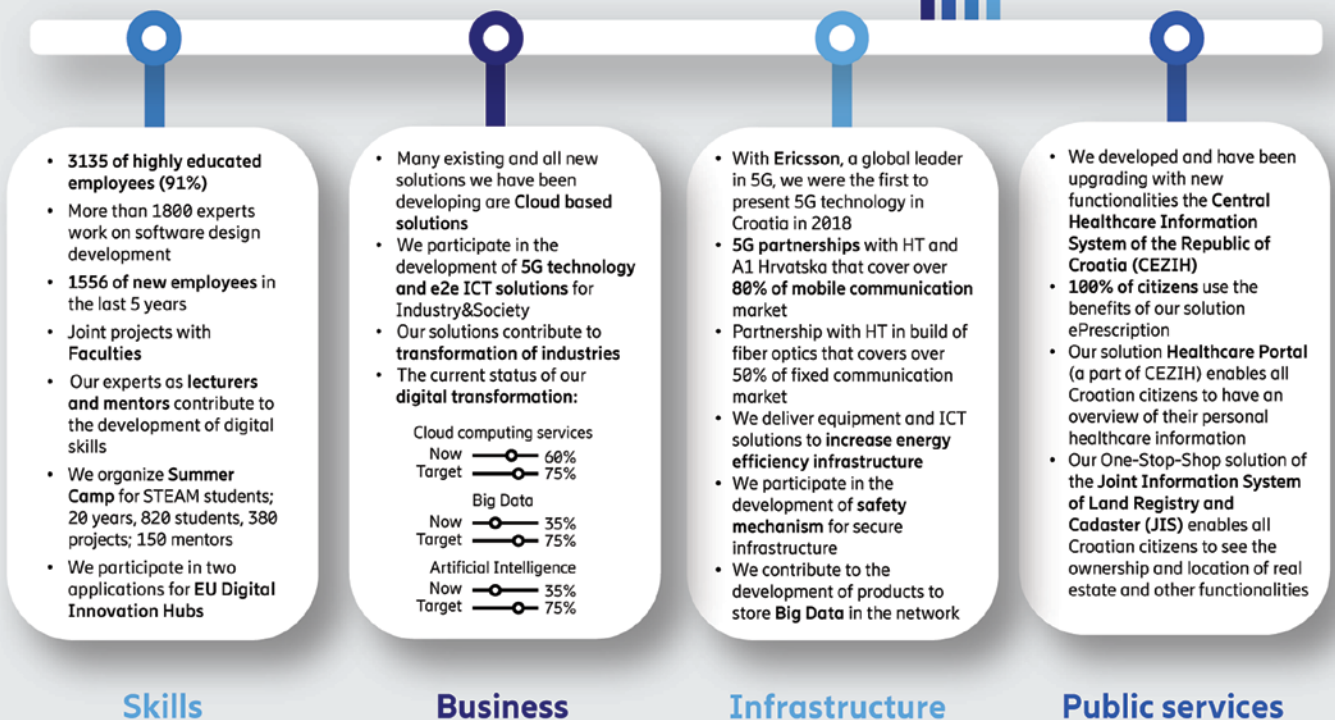
While the aforementioned research has shown that we are a leader in Croatia in reporting about the risks of negative impacts on climate, in an overview of our reporting throughout the years, Croatian Business Council for Sustainable Development highlighted our efforts to raise awareness about the importance of sustainable development and our contribution to realizing related goals. As equally as we try to bring the latest technologies to our country, we also follow positive social trends and integrate them in our operations, on which we report to our stakeholders and the public. The tradition of comprehensive reporting that we have been nurturing since 1999, and that, in addition to the financial reporting, also encompasses the reporting about the impact we have through our operations on the wider community when it comes to sustainability, is our contribution to realizing sustainability goals. Moreover, through our actions, we exert an impact on the realization of global UN Sustainable Development Goals, as we have been presenting in our annual reports since 2015. Over the last four decades, our awareness of the importance of sustainable development grew year after year, and the pandemic circumstances additionally increased it.

Modern ICT technology, along with the impacts on business, such as the increase of efficiency of various sectors and a greater transparency and focus on people, business, and the environment, also has great potential to build sustainable communities of the future. It is precisely the innovation potential of 5G technology that enables us to create new, sustainable solutions that can be the foundation for the future. In order to use this potential in the best possible way, we must cooperate with all the stakeholders in the ecosystem, on which we will, of course, continue to report.

Europe's Digital Decade: targets for 2030



Contribution made by Ericsson Nikola Tesla Group



UN goals

THE GLOBAL GOALS For Sustainable Development



No Poverty

Regular and transparent payment of all taxes and contributions to the state budget and local government, ensuring thereby the functioning and development of all activities which are important for the community, including taking care of the most vulnerable social groups.



Zero Hunger

The company financed the purchase of food for the most vulnerable social groups in Zagreb, Split, Osijek, and Vukovar.



Good Health and Well-being

We continue with intense activities in the segment of eHealth in Croatia and abroad. We are implementing 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. We are also implementing the Contract for Central Software Platform for the Centralized e-Health System of the Republic of Belarus. In addition, we have supported the work of institutions and associations for palliative care and support to the severely ill. We ensure regular medical check-ups for all our employees, and through PrevENTION program, we also take care about the physical and mental health.



Quality Education

Including students in concrete projects in the company, as well as projects in cooperation with the academia (Summer Camp and other activities), achieves the synergy potential for all stakeholders.

We participate in defining educational programs and contribute to their improvement. Academic education is also in focus internally: at the Group level, highly educated employees account for 91% of all employees.



Gender Equality

We undertake activities in all segments of the society, with the aim of eliminating prejudice and stereotypes, stimulating interest in STEM jobs, promoting at the same time the importance of equal participation of women in the ICT sector and leadership positions. In 2021, the representation of women in the company's Supervisory Board reached 60%, while 25% of women held managerial positions.



Clean Water and Sanitation

Together with our partners, we have been working on multiple solutions that, among other things, enable up-to-date monitoring of physical and chemical water parameters. A contract was signed on awarding grants from the European Structural and Investment Funds for the purpose of implementing a project titled "WaterQ – Digital Transformation of Water Quality Monitoring". The expected result of the project is to develop a solution that will improve the process for the quality control of water for human consumption, optimize risk assessment methods, and additionally accelerate and simplify the process of informed decision-making in public health and water supply sector.



Affordable and Clean Energy

In our business operations, we use energy from renewable energy sources.



Decent Work and Economic Growth

We provide our employees with a pleasant working environment. We encourage them to participate in lifelong learning, in order for them to stay competitive in the labor market during their entire career, and we give them fair, regular and competitive salaries. Additionally, this year we have expanded the existing extensive program of benefits.



Industry, Innovation and Infrastructure

In global Ericsson teams, we work on 5G-related solutions as the most important open innovation platform for the development of industry and society and take over new responsibilities in the improvement of quality of our strategic partners' telecom infrastructure. Furthermore, we have been working on numerous research and development projects of the Industry 4.0 in the segment of transport, environment, etc., such as Insulae, WaterQ, and many other. Through our advanced environmental monitoring solutions, we provide support to the Split-Dalmatia County in one of the most important industries in Croatia - tourism. Namely, due to increased amounts of precipitation, it is possible that seawater becomes contaminated by faecal pollution coming through rivers Cetina, Neretva and Raša. Within the Watercare project, the company implemented an innovative alarm tool that, along with parameter monitoring, has the goal to distribute information to tourists about the quality of seawater for swimming.



Reduced Inequalities

We have financially helped young people without adequate parental care to continue their education after leaving the children's home. We did the same thing for young people from vulnerable groups, young people who live in poverty, and young people with developmental disabilities.



Sustainable Cities and Communities

Together with the City of Rijeka and the Faculty of Transport and Traffic Sciences in Zagreb, we have been working on the SumBOOST project, 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 urban mobility. Moreover, as one of the partners of the Competence Centre for Smart Cities (CEKOM), based on the invitation to promote centers of competence within the Operational program Competitiveness and Cohesion 2014-2020, we participate in three subprojects: Connected Traffic, 4D Intelligent Infrastructure, and Modesty.



Responsible Consumption and Production

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



Climate Action

Due to the pandemic, all types of travel have been significantly reduced, and thus the use of means of transportation. Thereby, in addition to the increase of energy efficiency and decrease in energy consumption, the company has also contributed to climate protection by reducing carbon footprint from these two sources. Our solutions have a significant positive impact on energy consumption and reduction of carbon footprint of our customers.



Life Below Water

In Bosnia and Herzegovina, for the Purchaser Elektroprivreda Mostar, we have been implementing a project focused on the monitoring, management and reduction of the industrial footprint of Čapljina Hydroelectric Power Plant on the water ecosystem of Nature Park "Hutovo blato". Our solution for monitoring environmental parameters and the health of the water eco systems will enable for "Elektroprivreda Mostar" to continue with the realization of business activities in the Hydroelectric Power Plant "Čapljina" in an efficient way, thus minimizing its impact on the environment and biodiversity, as well as to reach informed decisions regarding environmental protection.



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.



Peace, Justice and Strong Institutions

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



Partnerships

We build partnership with all target groups. We have 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 (HUP), Croatian Chamber of Economy (HGK), etc. We have also been collaborating with universities and institutes on various projects.



THE GLOBAL GOALS
For Sustainable Development

Our approach to sustainability

The purpose of Ericsson Nikola Tesla Group’s business 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 helps us to achieve two main goals: create positive impacts and reduce 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. Focus on energy efficiency of the products we offer to the market not only helps the operators we do business with to reduce the costs of their networks, but 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 is in line with the United Nations Guiding Principles on Business and Human Rights.

We believe that responsible business and reaching right decisions in the whole value chain is crucial for the Group’s business success. In addition to the team that is responsible for compliance, every employee of the Group is responsible for implementing compliance in all the 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 the 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 driver 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 changes 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 in achieving the goals set, bringing thereby benefits to all the people in the society.

Sustainability strategy

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

1

Responsible business

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

2

Environmental sustainability

Through 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.

3

Digital engagement

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

Internet of Things combined with 5G offers a wide range of industrial applications



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 and 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, bringing three key areas into focus:

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 apply 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 with the UN Sustainable Development Goals is more necessary than ever before because it is an integral part of a successful transformation of the society. For setting further goals and monitoring progress, we use a framework and methodology to estimate and describe the positive impact we have on the society.

Impact and risk assessment

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

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

We measure risk mitigation in the following areas:

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

The way in which we implement our strategy is described in three sections of the 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.

Performance monitoring

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.

Engagement of our stakeholders

Through continuous two-way communication, Ericsson Nikola Tesla holds a meaningful dialog with all the stakeholders and builds relations that help to achieve common goals which are important for the sustainable development not only of the Group, but also of the community in which we operate.

By including stakeholders and engaging in a dialog about the topics of common interest, we build mutual trust and gain insights into topics that are important for 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 (NGOs), industry partners, media, the academia, and the public.

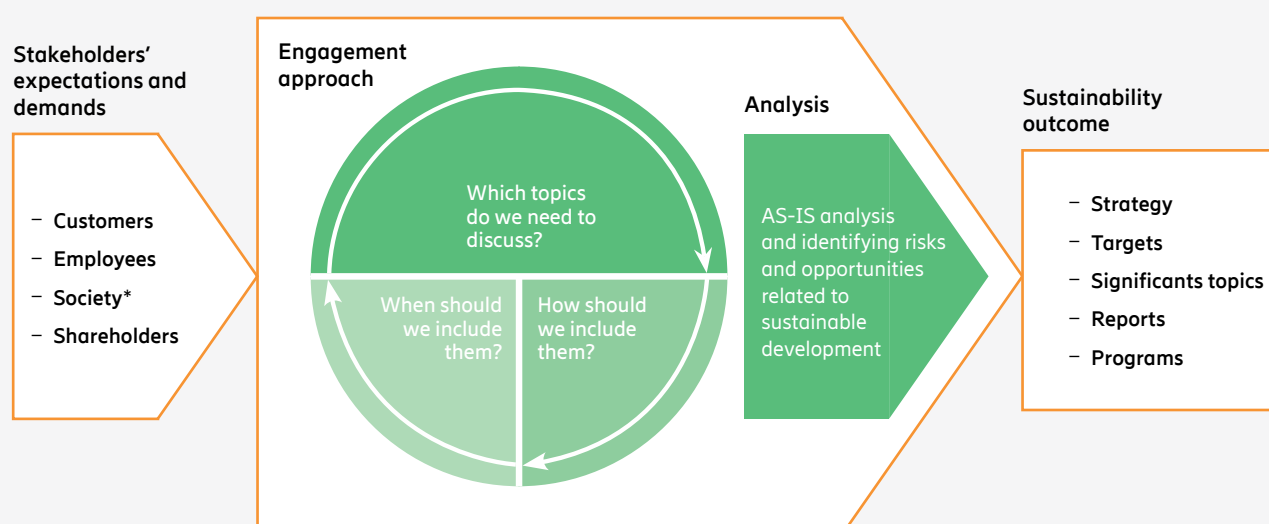
We communicate through numerous activities undertaken by our employees,

joint projects and initiatives, customer meetings, investor meetings, surveys, participation at industry meetings, activities in decision-making bodies, as well as academic research. Moreover, we gain insight into our stakeholders' opinions in other ways, such as individual meetings, consultations, collaboration in the field of research with the academia, institutions, members of Ericsson Corporation, and others. In order to expand contacts 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 impact on human rights,

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 engagement, with the aim of obtaining feedback, which is important for the current and future development of both us and the society as a whole.

Our approach to stakeholder engagement



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

Our key stakeholders

Key stakeholders	Our way of working
Customers	<ul style="list-style-type: none"> – Professionalism – Partnership in finding the best solutions – Innovativeness in providing comprehensive ICT solutions 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 – Objective and timely information about 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 and enhance supply chain – Knowledge transfer – Regular inspection of compliance, as well as the system of quality, environment, and OHS management
Trade union	<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 – 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

Our material topics

With the aim to secure 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 strategy development, target setting, risk management, and reporting.

The evaluation is carried out once a year and has the following aims:

- to determine the Group’s impact on economic, ecological and social topics
- to examine stakeholders’ feedback that has a significant impact on the positions and decisions.

In 2021, during the evaluation process, we focused on identifying important topics that are significant for our business in the long term.

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 of long-term significance in business, while others may be relevant in the short and medium term.

We assess the life cycle of our products to determine and measure our impact on the environment, as well as to define possibilities to increase positive impacts throughout the overall value chain. Every material topic and its limits, i.e. where in the value chain the impact appears, are described in this report.

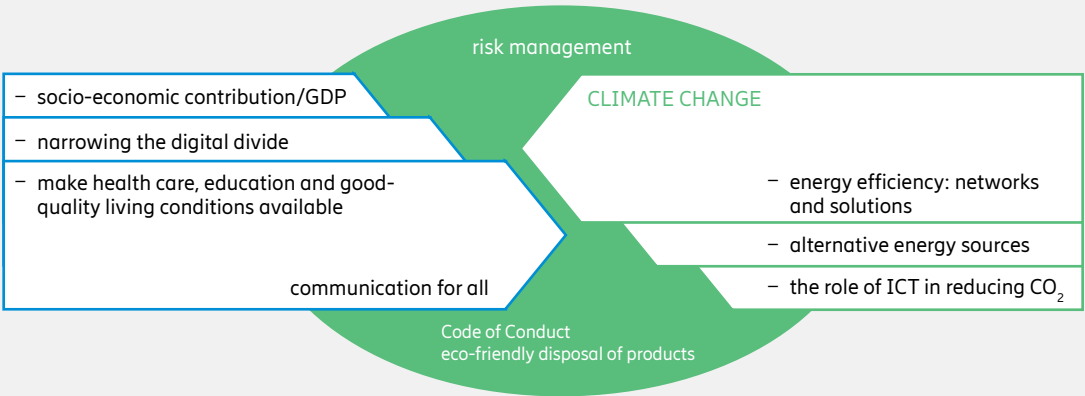
Our approach

Our material topics matrix consists of the following quadrants:

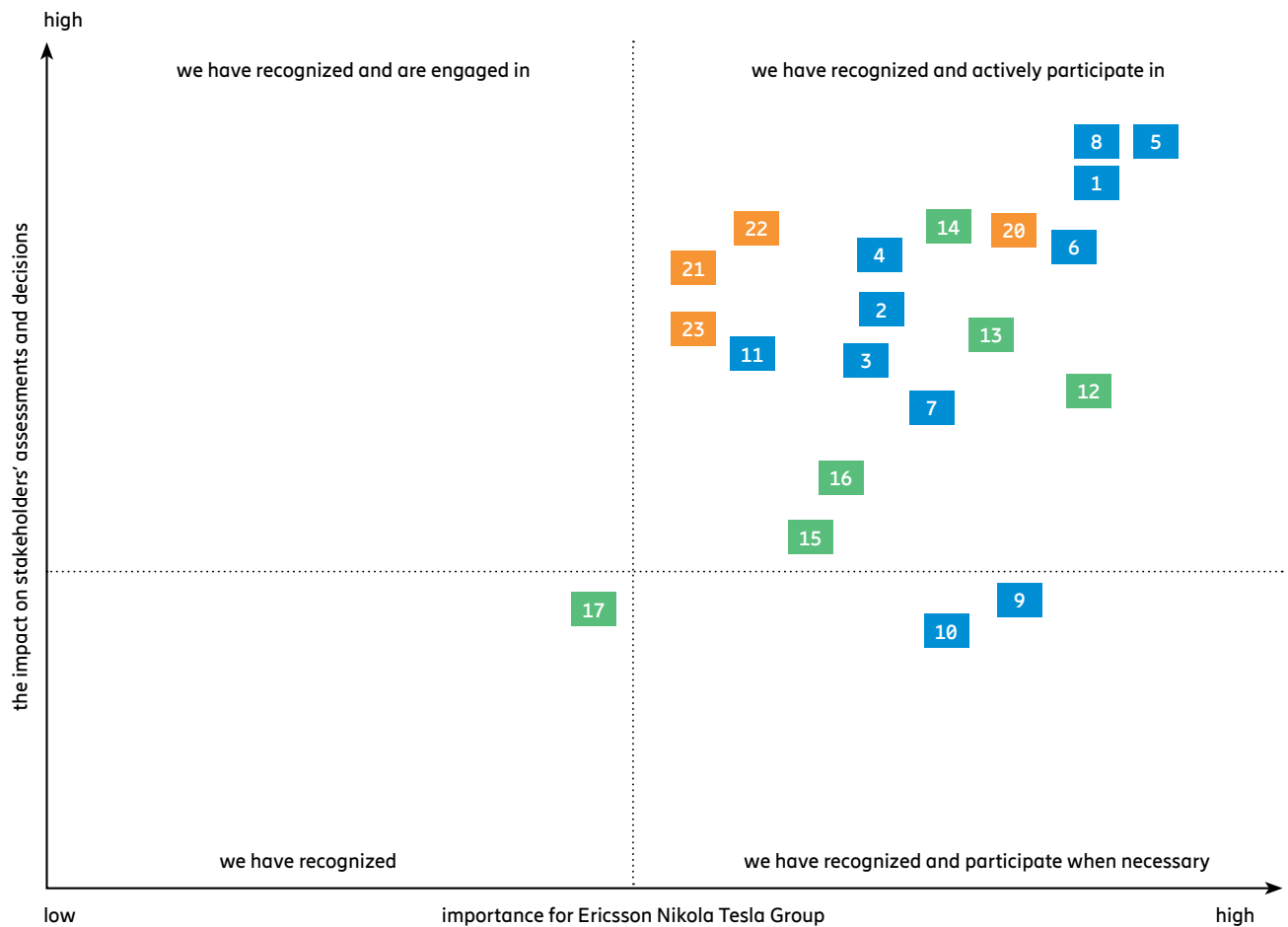
- **We have recognized and actively participate in:** These are the topics that have been identified as the most significant for the Group and our stakeholders, so we actively participate in them. Where necessary, we look into and adapt ourselves and/or use new management procedures to ensure business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

- We actively include stakeholders in these topics so that, through dialog, we can discuss and mitigate potential risks, as well as to improve positive socioeconomic and ecological impacts of mobility, application of 5G technology and cloud computing.
- **We have assessed and are engaged in:** These are the topics of particular interest to our stakeholders. We monitor these topics, report on our results in these areas and, when necessary, continue the dialog.
 - **We have assessed/recognized and participate when necessary:** These are the areas 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 particular topics, we operate in accordance with our stakeholders’ expectations.

Key activity areas



Material topics matrix



Material topics

business responsibility*

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

environmental responsibility*

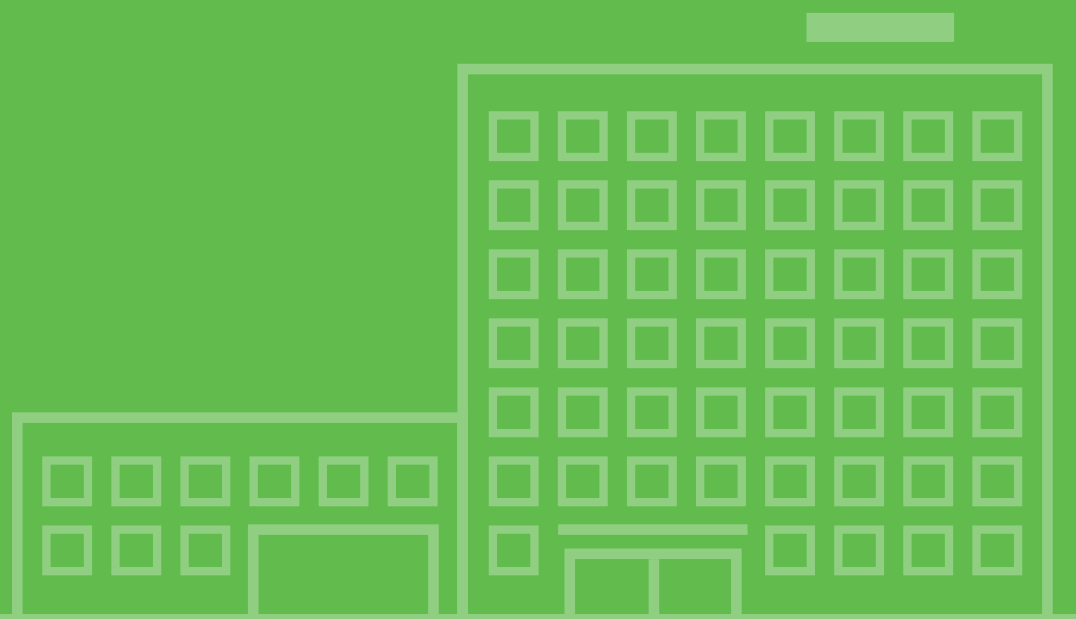
- 12 energy consumption
- 13 contribution of ICT to low-carbon economy
- 14 impact on the environment and climate change
- 15 supplier environmental responsibility
- 16 electronic waste management
- 17 water consumption

social responsibility*

- 20 partnerships for socioeconomic development
- 21 responsibility towards the community
- 22 access to health via technology
- 23** using technology for water quality monitoring

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

** new material aspect



Annual report 2021
Ericsson Nikola Tesla Group

Business responsibility

Responsible business – every activity matters

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

All stakeholders that have a contractual relation with the Group, as well as all employees, are required to adhere to 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 Way of Working

Ericsson Nikola Tesla Group's policies, directives and processes encompass 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 a 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 our 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.

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

- the commitments we have as responsible citizens
- respecting human rights in all segments of our business operations
- occupational health and safety
- promoting sustainable development
- the support to the United Nations Global Initiative, as stated in the Code of Conduct for Business Partners.

The Code of Business Ethics also contains rules for all the individuals who are performing tasks in the companies of Ericsson Nikola Tesla Group and for Ericsson Nikola Tesla Group, including:

- ensuring full compliance with the laws, rules and regulations in force
- promoting complete, fair, accurate, timely and comprehensible publication of data in financial reports and other press releases
- 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 at the moment 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 the ten principles set out in the United Nations Global Compact on human rights, labor, environment and anti-corruption. Moreover, it emphasizes our objective to apply the United Nations Guiding Principles in our business.

Organization responsible for compliance

We have embedded zero tolerance for corruption as the leading principle on the highest levels of the company. Moreover, we have been implementing it throughout all organizational levels, along with a comprehensive set of rules and processes that all employees are obliged to adhere to. Our Risks and Compliance Board is

responsible for the overall management of compliance aspects in the Group and the implementation of the Ethics and Compliance Program.

Compliance Officer, with the help of the team responsible for compliance and compliance verification, is responsible to propose and monitor the implementation of the Ethics and Compliance Program elements, as well as to organize the meetings of the Risk and Compliance Board.

Reporting non-compliance

Employees, suppliers, customers and other partners associated with Ericsson Nikola Tesla Group, can report a suspected breach of 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 the way to submit anonymous reports via Compliance Line.

This 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. The system for anonymous reporting is user-friendly. After the report is submitted, the third party delivers it to Ericsson Nikola Tesla Group, which will not have access to the sender's IP address. The Compliance Officer receives reports and informs the Risk and Compliance Board and Audit Committee that determine the ways of further handling the report.

In 2021, there were no confirmed incidents of corruption.

Non-compliance risk assessment

In 2020, we started internal processes of Anti-Bribery and Corruption Risk Assessment (ABC RA) for Ericsson Nikola Tesla Group's companies, based on the assessment of the development of certain

elements of the Ethics and Compliance Program, existence and implementation of processes of all compliance elements.

In 2021, we have continued with the activities of eliminating or mitigating risks that were noticed in the previous year. An additional check of our company's ethics and compliance in line with the standard of ABC analysis was performed for Ericsson purposes in mid-2021 by the audit company KPMG Germany. The following was analyzed: the company's management model, risk management system, compliance policies and procedures, governance in the field of ethics, financial transactions, process of sales, sourcing and deliveries. KPMG concluded that Ericsson Nikola Tesla has a quality program of ethics and compliance.

Education for employees and suppliers



We provide 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 2021, all active Ericsson Nikola Tesla Group's employees completed the anti-corruption course via e-learning application. By providing such continuous education, we aim to increase risk awareness among all attendants, solve all dilemmas they could have and encourage them to act properly. Furthermore, we have also carried out 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 workshops focus on anti-corruption and competition. We held workshops primarily in the organizational units that are potentially exposed to corruption

risks, and organizational units that, due to their functions, have the possibility to be the first ones to notice potential breaches.

– Education for suppliers

Free online courses are available to all the suppliers and other stakeholders in 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 comes across 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 business risks management (Enterprise Risk Management (ERM)), which takes into account the overall risks to which the Group is exposed. The Group's business risk management is an integral part of the 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 compliance and risk mitigation. The Management Board, Executive Management, Risk and Compliance Board and line managers of all organizational units of the Group take care of compliance with the directives.

The Management Board, Executive Management 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 the Code of Conduct and the Supply Chain Directive, suppliers' compliance with the Ericsson Nikola Tesla's 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 with 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 other legal obligations according to Croatian laws, compliance with ISO 27001 and ISO 9001, compliance with insurance requirements and insurance claims notification; compliance with lease arrangements and local laws for the activities of the company's sites in the country.
- **Communications & Corporate Social Responsibility (CSR):** compliance according to policies and directives of Ericsson Nikola Tesla Group, directives of the Department of 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 risks in relation to Occupational Health and Safety (OHS); evidencing and auditing compliance with OHS policy, law and best practice; compliance with ISO 14001 and ISO 45001.
- **Business Partner Review Board** Based on inputs gathered through screening process performed 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.

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

Adequate methods and measures

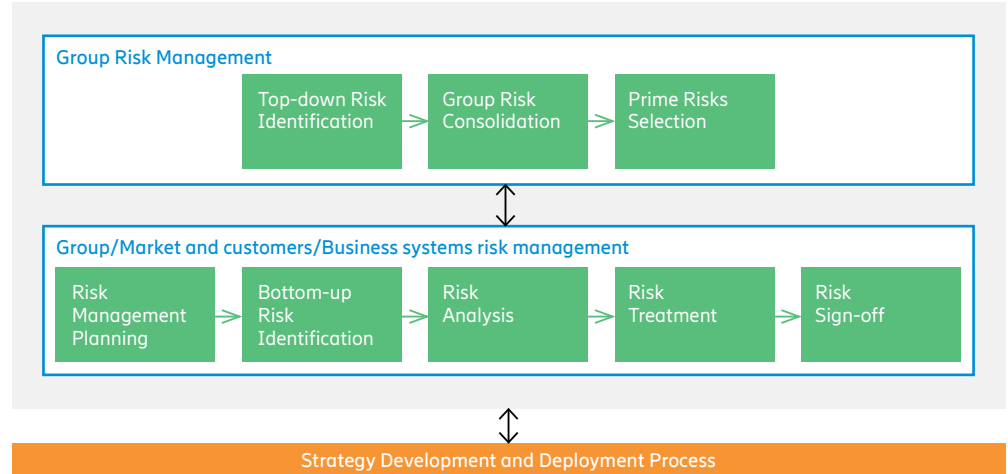
To successfully manage risks, an integrated approach is needed. By linking culture, means and practices with strategic goals and their realization, a framework is created to manage risks in certain scenarios with the aim to create, realize and retain values.

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

Risk management



Enterprise risk management process (ERM)



- strategic
- business
- operational
- 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 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 the Group's Risk and Compliance Board, in a way

that they are the support to the owners of a certain risk in reaching policies, but also help 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 during the meetings of Executive Management.

- The third line of defense refers to independent internal audit. The holder is an independent internal auditor. This business function was implemented in the Group in 2021. In an environment of a developed network under the first and the second line of defense, such as the one applied in the Group, an independent internal auditor will represent an

independent and an objective warranty and consulting with the aim to add value and improve the organization's business performance. It will help the organization to fulfill its goals by introducing a systematic, disciplined approach in estimating and improving the efficiency of managing risks of the first and second line of defense against risks, internal controls and management processes. An independent internal auditor reports to the company's Audit Committee and Supervisory Board and the Risk and Compliance Board.

For a positive status of defense, all included stakeholders need to have a deep understanding of the types of threats. 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.

Risks

Intellectual Property Rights	Quality	Competition	Mergers & Acquisitions	Information security	Safety, protection and continuity
People	Management, risks and control	Laws and regulations	Geopolitical	Customers	Accounting
Treasury	Technology	Sourcing	Product & service	Project execution	Risks related to environment

Corporate governance

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

Management Board and Supervisory Board of Ericsson Nikola Tesla d.d. encourage the respect of corporate governance principles in order 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 achieved 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, and represents a significant factor for attracting investments.

Regulation and compliance

Ericsson Nikola Tesla is a joint-stock company with shares listed on the Regular Market of the Zagreb Stock Exchange; accordingly, it complies with various regulations that impact the management of the Company. The most significant regulations that apply to us are the following:

- 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)
- Applicable EU regulations.

Internal rules

Furthermore, to ensure compliance with legal and regulatory requirements and

high standards we set, Ericsson Nikola Tesla adopted internal rules, which include:

- Articles of Association and work procedures of the Company's bodies
- Code of Business Ethics
- Code of Conduct for Business Partners
- the Group's steering documents, including the rules and directives, instructions and business processes for control and risk management.

Code of Business Ethics

Our Code of Business Ethics summarizes the Group's basic 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.

The Company's bodies

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

In addition to the members of the Supervisory Board, elected by the 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. Independent Internal Audit Officer, Compliance and Investigation Officer, and Data Protection Officer regularly report on their work to the Supervisory Board's Audit Committee and Ericsson Nikola Tesla d.d. Risk and Compliance Board.

General Meeting

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

At 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 and 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 of participating.

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 which relate to the Group's business performance. Normally, the majority of the Supervisory Board, Management Board and Executive Management members is present at the General Meeting to answer such questions. External auditor attends the General Meeting.

Ericsson Nikola Tesla's General Meetings in 2021

The Regular General Meeting of the company Ericsson Nikola Tesla d.d. was held on June 29, 2021. The Meeting was presided by Snježana Bahtijari, Director of Marketing, Communications & CSR, and the share capital was represented in the amount of HRK 89,765,300 which accounts for 67.41 percent of the Company's total share capital.

In line with the published Agenda, Ericsson Nikola Tesla joint-stock company General Meeting adopted the following Decisions:

- the Supervisory Board's report on the supervision performed in 2020 was adopted;
- it was decided that the Company's net profit for the financial year 2020, amounting to HRK 76,490,880.90 will be allocated to retained earnings. The amount of HRK 25,000,000.00 from 2019 retained earnings is allocated to reserves for treasury shares. The Company's shareholders will be paid a dividend amounting to HRK 82 per share from the remaining part of the retained earnings from 2019 and the retained earnings from 2020. The dividend payment will be affected on July 28, 2021 (payment date) to all the Company's shareholders who had the Company shares registered on their securities account in the Central Depository & Clearing Company on July 2, 2021 (record date).
- the Company's Management Board was given consent to allocate up to 25,000 treasury shares to the Company's employees;
- the Company's Managing Director, Gordana Kovačević, as well as the Chairman and the members of the Supervisory Board were discharged from liability for exercising their duties in 2020;
- a decision was adopted to recall the members of the Supervisory Board, Vidar Mohammad and Dubravko Radošević;
- a decision was reached on the election of Petra Vranjes, Head of Finance and Business Control Segment Digital Services in Ericsson, and Ana Vrsaljko Metelko, Attorney, as the new members of the Supervisory Board instead of Vidar Mohammad and Dubravko Radošević;
- Remuneration policy for the Management Board, Decision on the Remuneration of the Members of the Supervisory Board, as well as the Remuneration Report for Supervisory Board members and Management Board in 2020 together with the Independent limited assurance report on the Remuneration Report of Ericsson Nikola Tesla d.d. was approved.
- It was decided that KPMG Croatia d.o.o. is re-appointed as the auditor for the Company's business performance in 2021.

In 2022, the regular General Meeting of Ericsson Nikola Tesla d.d. will be held on 27 June at the Company's headquarters, Krapinska 45, Zagreb. Additional information is available at Ericsson Nikola Tesla's web page.



General Meeting of Ericsson Nikola Tesla d.d.

Supervisory Board members



Franck Pierre Roland Bouétard
Chairman of the Supervisory Board
(elected in 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.



Olgica Spevec
Deputy Chair of the Supervisory Board;
Chair of the Audit Committee
(independent member, elected in 2019)

Director of the Amplus Consult Ltd, Zagreb

- 2014-2022 Business consultant, Director of the Amplus Consult Ltd, Zagreb
 - 2003-2013 President of the Competition Council in the Croatian Competition Agency
 - 2000-2003 Deputy Minister of Economy
- Master of Economics, Faculty of Economics and Business, University of Zagreb, Croatia



Vidar Mohammar
Member of the Supervisory Board and Audit Committee (until June 29, 2021; first elected in 2015)

Former Vice President & Corporate Officer Finance
Telefonaktiebolaget LM Ericsson
Group Function Finance
Bachelor's degree in Finance, University of Stockholm, Sweden



Prof. Dubravko Radošević, PhD
Member of the Supervisory Board (until June 29, 2021; independent member, first elected in 2010)

2000-2010 economic adviser of the President of the Republic of Croatia
University Professor of Economics (Finance), University of Zagreb, Zagreb



Vladimir Filipović
Member of the Supervisory Board and Employees' representative (elected in 2018)

Project Manager in R&D Center
Ericsson Nikola Tesla d.d.
Business and Quality Development
Graduated in Electrical Engineering, Department of Telecommunications; Master of Economics, Department of Information Management; University of Zagreb, Croatia



Petra Vranjes
Member of the Supervisory Board and Audit Committee (elected June 29, 2021)

Head of Finance and Business Control Segment Digital Services
Ericsson AB
Graduated Finance at the University of Stockholm, Sweden



Ana Vrsaljko Metelko
Member of the Supervisory Board
(independent member, elected on June 29, 2021)

Attorney, Law Office Ana Vrsaljko Metelko, Zagreb

- September 2020 – present: Ana Vrsaljko Metelko Law Office; as of March 2021, in cooperation with Ostermann and Partners LLP Law Firm, Zagreb
- 2008-2020: Žurić i Partneri Law Firm: Partner 2017-2020
- 2006-2007: Tankerska plovodba d.d., In-house Lawyer, Legal and Insurance Sector

Graduated at Law School, University of Zagreb

Supervisory Board

The main task of the Supervisory Board is to supervise the managing of the 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 the Supervisory Board are selected by the Company's General Meeting, and one is selected by employees.

In its work, the Supervisory Board shall apply high ethical standards and take into account interests of the Company and its shareholders.

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

The Supervisory Board reports to the General Meeting on the supervision of business operations, approves the Consolidated and Non-consolidated Annual Financial Statements for the year, 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>.

Work of the Supervisory Board in 2021

Pursuant to provisions of the Companies Act and Ericsson Nikola Tesla d.d. Articles of Association, Supervisory Board of Ericsson Nikola Tesla d.d. monitored the managing of the Company's business operations, reaching decisions and conclusions at four regular and four extraordinary meetings held during 2021.

In 2021, members of the Supervisory Board were:

- Franck Pierre Roland Bouétard (Chairperson)
- Olgica Spevec (Deputy Chair)
- Vidar Mohammar (Member until June 29, 2021)
- Dubravko Radošević (Member until June 29, 2021)
- Petra Vranjes (Member since June 29, 2021)
- Ana Vrsaljko Metelko (Member since June 29, 2021)
- Vladimir Filipović (Member and employees' representative).

There was full attendance of the Supervisory Board members at all meetings, except for the meeting held on April 7, 2021, when Dubravko Radošević was absent, and the

meeting held on December 17, when Petra Vranjes was absent.

The Company's Management Board regularly informed the Supervisory Board on all important business activities, assets and liabilities positions, revenues, and the course of business performance.

At the regular meetings, the Supervisory Board discussed business environment, risk management, activities with the customers, focus areas, strategic projects, realization of targets and financial performance. Further topics of discussion encompassed investments, compliance, significant business transactions that include the Company and its related parties, 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 solutions for Industry and Society, IT & Engineering Services Unit, and the daughter company Ericsson Nikola Tesla Servisi d.o.o.

At extraordinary Supervisory Board meetings, the members discussed targets for 2021, approval of annual financial reports for 2020, dividend proposal for 2020, succession planning for Management Board and Supervisory Board, Remuneration Policy and Report as well as introduction of new Supervisory Board members Ana Vrsaljko Metelko and Petra Vranjes. Petra Vranjes was also elected as a new member of the Audit Committee.

The Supervisory Board approved Decision on Remuneration of Supervisory Board members, Remuneration Policy for the Management Board as well as Remuneration Report for Supervisory Board and Management Board in 2020. Based on the Supervisory Board Chairperson proposal, Supervisory Board approved a contract salary increase for Management Board of 3% and one-time extraordinary bonus for exceptional contribution in 2020 of 2 monthly contract salaries. During the year, the Supervisory Board worked on the Management Board succession plan, identifying a pool of candidates.

In September 2021, a strategy workshop between the Management Board and the Supervisory Board was launched to discuss and agree on the Ericsson Nikola Tesla Group strategic direction from 2023-2028 with an objective to finalize it by mid-2022.

The Supervisory Board strongly supported the activities on strengthening business practice regarding ethics and compliance to ensure that the Company meets the highest standards, in line with the Code of Business Ethics of Ericsson Nikola Tesla Group. Members of the Supervisory Board and Audit Committee passed vetting and compliance training.

Furthermore, the Supervisory Board analyzed the effectiveness of the risk management and internal control system and based on the recommendation of the Audit Committee, appointed an independent internal audit officer of Ericsson Nikola Tesla Group.

Based on the recommendation of the Audit Committee, the Supervisory Board proposed to the General Meeting of Shareholders the appointment of KPMG Croatia as the auditor of Ericsson Nikola Tesla d.d. for 2022.

The Supervisory Board conducted a self-assessment of the effectiveness, competencies and composition of the Supervisory Board and its Audit Committee as well as the performance of individual members. Furthermore, the Supervisory Board assessed the effectiveness of cooperation with the Management Board and the adequacy of the support and information it receives from the Management Board. The evaluation was performed by the Supervisory Board itself, without the engagement of external advisors. Evaluation tools included detailed questionnaires and discussions.

The overall conclusion is that Ericsson Nikola Tesla's Supervisory Board and its Audit Committee performed well, had sufficient knowledge and experience, and were efficient in performing their tasks. Especially strong is alignment with the Executive management, diversity of the Supervisory Board members in terms of their qualifications and gender representation, commitment to fulfilling obligations in accordance with their legal role, and continuous support to the Management Board to overcome various challenges. The Supervisory Board will continue to monitor compliance with corporate governance regulations to ensure that the Company operates in a legal and ethical manner. It will continue to evaluate the proposed targets / strategy, including key assumptions, main risks and required resources, as well as to intensify communication of the Supervisory Board members with the shareholders in order to receive feedback about the shareholders' expectations.

The Management Board assessed its own effectiveness and presented its conclusions at the meeting of the Supervisory Board. The Supervisory Board members agreed with the self-assessment of the Management Board and thanked the Management Board for successfully managing Ericsson Nikola Tesla Group in challenging times and contributing to the results achieved in 2021.

In 2020, the Supervisory Board set a target percentage regarding the representation of women; namely 40% of women in the Supervisory Board and 30% in the Executive Management, among managers and at the level of the entire company in the next five years. In 2021, with the appointment of two

new female members, the representation of women in the Supervisory Board exceeded the target and is 60%. At the Group's level, the representation of women in Executive Management is 23.5%, among line managers, program and project managers 24%, and among the total number of employees 25%.

Analyzing the reports of the Management Board and monitoring the development of the key financial indicators, the Supervisory Board assessed that Ericsson Nikola Tesla Group achieved excellent business results in 2021, despite numerous economic and political risks and the continuation of the COVID-19 pandemic. In addition to an increase in sales revenue in all market segments, a significant growth of profitability was achieved, as well as a strong cash flow from business activities. The business year was marked by the allocation of the frequency spectrum for 5G network in the domestic market, which boosted the implementation of 5G technology. Numerous business activities have been carried out on the modernization and expansion of telecommunications networks and digital transformation of the public and private sectors in the domestic and export markets. Furthermore, new responsibilities have been obtained from Ericsson Corporation in research and development as well as in the area of solutions and services. Ericsson Nikola Tesla Group remains focused on its strategic directions, risk management and cost and operational efficiency, with the aim of achieving defined targets and building an even stronger company in the future.

Activities of the Audit Committee

The Audit Committee is a 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 2021, the Audit Committee acted in the following composition: Olgica Spevec (Chair), Vesna Vašiček (Member), Vidar Mohammar (Member until June 29, 2021) and Petra Vranjes (Member, appointed on July 12, 2021). There was full attendance of the Audit Committee members at all meetings.

Audit Committee held six meetings during 2021. The topics of discussion included financial performance during the year and annual financial statements, 2021 audit plan, audit findings, key risks, quality control and risk management systems, security and compliance issues, and performed other tasks defined by Audit Act and the Audit Committee Charter.

The Audit Committee met regularly with

external auditors to review the audit plan and the audit report on the annual financial statements. It also pre-approved all non-audit services provided by the external auditors.

The Audit Committee reached decisions about the reported potential non-compliance concerns. It evaluated Ericsson Nikola Tesla Group's Ethics and compliance program and the implementation of these activities with a special focus on anti-bribery and corruption risk assessment processes, carried out internally and by an external authority. The Committee's opinion is that Ericsson Nikola Tesla Group has well established and efficient compliance procedures in all areas (leadership and culture, policies and processes, compliance organization, risk assessment, education and communication, awards and sanctions, managing third parties, allegations and investigations, monitoring process implementation, due diligence in mergers and acquisitions).

The Audit Committee analyzed in detail the risk management system, conducted the selection process and proposed to the Supervisory Board the appointment of an independent internal audit officer. Furthermore, it monitored the activities and approved the Independent Internal Audit Plan for 2022. Considering Operational Excellence, Development and Quality team's activities performed during 2021 together with the introduction of Ericsson Nikola Tesla Group's Independent Internal Audit as reinforcement of Enterprise Risk Management ("3rd line of defense"), the Committee concluded that Ericsson Nikola Tesla Group has an efficient risk management and internal control system, deeply incorporated into organization at all levels.

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

Remuneration policy for the Supervisory Board

When defining a remuneration model for work of the Supervisory Board

members, various internal and external factors were taken into consideration, such as the Company's position and opportunities, practices of local companies in telecom industry, as well as the policies of salaries and remunerations in the Company and Ericsson Nikola Tesla Group. The remunerations of the Supervisory Board members are independent of the Company's results and do not include a variable part of compensation. Each member of the Supervisory Board is entitled to receive a monthly remuneration amounting to half of the 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 the proceeding date. The members of the Supervisory Board have the right to reimbursement of appropriate expenses incurred during the performance of their duties. However, they are not entitled to severance pay, additional payments from the Company or the Company's subsidiaries or the right to participate in the plan of awarding shares.

A member of the Audit Committee Vesna Vašiček, for each meeting she attended, is entitled to receive a remuneration amounting to half of the average monthly gross salary paid in the Company. In 2021, a total of HRK 56,795.03 was paid to Vesna Vašiček.

Supervisory Board members who are connected to the largest single shareholder LM Ericsson/are the employees of the company from Ericsson Group, elected at the Annual General Meeting of Shareholders, give up the right for remuneration, in line with the policies of their employer.

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.

The reimbursements paid to individual members of the Supervisory Board in 2021

		Gross 1 (HRK)
Olgica Spevec	Member; Deputy Chair	156,467.62
Dubravko Radošević	Member	66,549.51
Ana Vrsaljko Metelko	Member	47,926.29
Vladimir Filipović	Member and employees' representative	112,834.48

President of Ericsson Nikola Tesla
Gordana Kovačević



The Company's Management Board and Executive Management, December 2021



Management Board

The role of the Management Board in the management of the Company's business is defined by the Companies Act, Articles of Association and internal rule books of Ericsson Nikola Tesla d.d. The Management Board is obliged to consciously perform its duties, taking into account the Company's and its shareholders' interests. Ericsson Nikola Tesla has a one-member Management Board, a Managing Director appointed by the Supervisory Board for a five-year term, with the possibility of re-election. Gordana Kovačević, Managing Director of the Company since January 1, 2005, was reappointed at the end of 2019 for another, fourth term in office.

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

- to develop, discuss and approve the Company's strategy and business plan and to ensure its application;
- to regularly inform the Supervisory Board on financial and business results, strategy and business plans as well as other issues which are important for the Company's business and position;
- to ensure the basis for managing 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 determine the business organization, to appoint and recall the members of executive management with the purpose to establish an effective organizational structure and to determine the principles of their remuneration;
- to supervise whether the work of executive management is in line with the relevant legal provisions, Articles of Association of Ericsson Nikola Tesla, decisions and general enactments issued by the Managing Director, and the 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 the previously defined plans and goals and to state the reasons for this;
- to inform the Supervisory Board on all detected non-compliance and agree upon the measures that must be implemented;
- to organize the General Meeting of Ericsson Nikola Tesla joint-stock company 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 the Company's business opportunities for itself. The Management Board is obliged

to immediately inform the Chairman of the Supervisory Board on the conflict of interest.

Remuneration policy for the Management Board

The remuneration and reward of the work performed by the Management Board is focused on sustainable growth and development of the Company and are carried out in line with the Remuneration policy for the Management Board, adopted by the Supervisory Board and approved at the Company's General Meeting, held on June 29, 2021.

The amount of basic (contract) salary is determined based on responsibility level, complexity of tasks, size of 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. Monthly contract salary is agreed upon in individual employment contracts.

Annual target salary includes the contract salary and the variable component for achieving the annual business targets at the Commitment level. 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.

In addition to fixed basic salary, annual target salary for Management Board also includes a variable component, which

depends on the performance, i.e. on the Company's achieved business goals. STV (short-term variable pay) bonus scheme is used for Management Board. The bonus 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. 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 case defined goals are achieved on the Stretch level, the ratio is 67:33.

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, i.e. high expectations for the upcoming period.

Additional perks of the job

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

Remuneration paid to the Management Board in 2021

In 2021, the following gross 1 amounts were paid to Gordana Kovačević, the Management Board: fixed annual basic salary of HRK 2,476,019.50, variable salary component of HRK 575,232.08 and annual bonus (short-term variable STV) of HRK 750,274.46. Additional perks of the job (company car, meals in the company, etc.) amounted to HRK 42,194.60. During 2021, the Management Board was not allocated any of the Company's own shares.

Executive Management

Ericsson Nikola Tesla's Executive Management consists of the Managing Director and 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 establishes a strong corporate culture.
- Defines goals for operational units, allocates resources and monitors the performance of particular units.
- Ensures operational excellence and achieves synergy through efficient organization.

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

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 accordance with relevant laws, Code of Corporate Governance and stock exchange rules.

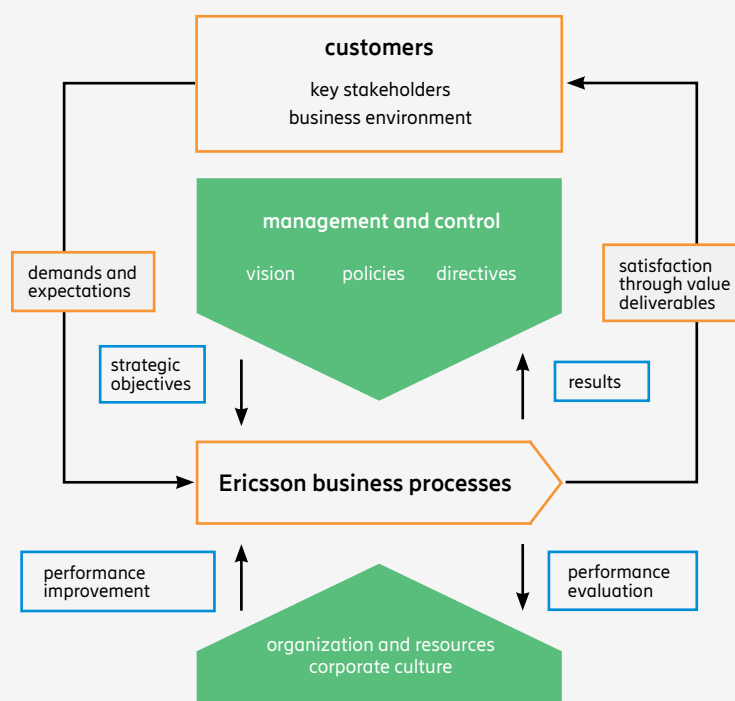
Ericsson Nikola Tesla Group

Management System is a framework consisting of rules and requests related to the Group's business performance, defined by described processes and organization, policies, guidelines and instructions. 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 increased customer satisfaction and competitiveness, as well as reduced costs.

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

Management system



The realization of targets is secured also by the competent functions and boards, established in line with the legal requirements, requirements of Ericsson Corporation and the needs of the company and/or requirements of Ericsson Nikola Tesla's Management Board.

At the Group's level or within individual companies of the Group, the following functions/committees were established, for example:

- Data Protection Officers
- Persons of Confidence and Deputies to the Persons of Confidence
- Compliance and Investigation Officer
- Independent Internal Audit Officer
- Operational Excellence, Development and Quality Manager
- Occupational Health and Safety (OHS) Committee
- Ericsson Nikola Tesla Group Security Board
- Risk and Compliance Board
- Investment Board of Ericsson Nikola Tesla Group
- Crisis Management Task Force for COVID-19
- Committee for Receiving and Resolving Complaints Related to Dignity Protection of Employees of Ericsson Nikola Tesla d.d.
- Company's Secretary of Ericsson Nikola Tesla d.d.
- Ericsson Nikola Tesla's R&D Croatia Operational Steering Group
- Distributorship Agreement Governance
- Postgraduate Management Board of Ericsson Nikola Tesla d.d.
- Innovation Steering Committee
- Steering Committee for Real-Estate Program
- Technology Management Board
- Digital Transformation Program Board
- Steering Committee for Activities of Nikola Tesla BY d.o.o.
- Steering Committee for Activities of Nikola Tesla d.d. – Branch office Kosovo.

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 the 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, Croatia)
- 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, Croatia)
- 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, Croatia)
- ISO 27001:2013 – Certificate for Information Security Management System, including Marketing, Sales, Development and Delivery of Information and Communications, and Telecommunications Products, Solutions and Services (EY CertifyPoint, The Netherlands)

Ericsson Nikola Tesla Servi 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 Austria)

- 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 Austria)
- 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 Austria)
- ISO 27001:2013 - Certificate for Information Security Management System, including Planning, Design, Geodetics, Build, Testing, Monitoring and Maintenance of the Information and Electronic Communication Infrastructure and Network (TÜV Austria).

Independent internal audit

In 2021, the function of an Independent internal audit was established. In the Group, this function is carried out by an independent internal auditor. This person will represent an independent and an objective warranty and provide consulting, with the aim to add value and improve the organization's business performance. It will help the organization to fulfill its goals by introducing a systemic, disciplined approach in estimating and improving the efficiency of managing risks, internal controls and management processes. An independent internal auditor reports to the Company's Audit Committee and Supervisory Board, and the Risk and Compliance Board of Ericsson Nikola Tesla.

External auditors

External independent auditors, appointed by the General Meeting, perform the annual audit of financial statements and business reports to ensure an independent, objective opinion 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 Croatia d.o.o. was again chosen as the Company's auditor for 2021.

We respect human rights

Ericsson Nikola Tesla Group respects and supports human rights as universal, inalienable, indivisible, interdependent and interrelated rights. We do this in a way that we do our business in line with our Code of Business Ethics, and expect equally high standards from our employees, suppliers and partners.

We are aware that violations of human rights impact people's lives, the community, environment or property, and therefore we have been continuously investing to broaden the practical implementation of human rights protection through our policies and process, as well as improvements in responsible and sustainable business behavior.

Ericsson Nikola Tesla Group acts in line with the UN Guiding Principles on Business and Human Rights (UNGPs) and has developed concrete quality practices. In daily activities, this can be seen in mandatory application of the Code of Business Ethics for everyone working for the Group, under the Group's executive management or on its premises, whether

they are an employee, a subcontractor or a private contractor.

We are focused on respecting and promoting diversity in the workplace and creating an inclusive culture, as this is the way we increase the general satisfaction of all stakeholders. We know that diversity encompasses a wide range of aspects; cognitive perspectives, education, work experience, personal life experience along with individual origin, race, sex, ethnicity, sexual orientation. Precisely due to this, we promote and encourage diversity and inclusion in everything we do by building teams that reflect our approach.

Furthermore, in order to hear our employees' opinions, twice a year we conduct a questionnaire - "Voice". This allows us to gain valuable feedback in order to continue to build a company culture where individuals feel welcome and can express their opinion. Year after year, the results have been confirming a high level of employee satisfaction by the respect they are shown, the Company's ethics and compliance, as well the employees' sense of belonging to the Company.

We would also like to highlight our strategic position to cooperate with business partners and other stakeholders that share our values regarding human rights and our insisting on responsible use of technology, since we are aware of the potential risks of using ICT services and solutions for harmful actions. In this way, we can avoid potential harmful effects that we might cause, by which we could contribute, or that could be linked to our business, products, or services.

It is our responsibility to take care of all the aspects of human rights protection while developing products and services, and, subsequently, in their application. We achieve this by continuously investing in training and raising awareness of employees and business partners, ethical way of working and in-depth review.



Right to privacy

Privacy is a basic human right and an integral part of Ericsson Nikola Tesla Group's business vision.

Respecting the fact that nowadays websites are one of the most important communication channels, the Group's rules on the protection of privacy are available at the link at the bottom of our every page (in the footer), regardless of its content. In this way, in a transparent, simple and a quick way, we enable access to all the necessary information regarding privacy.

Some of the Group's companies have a Data Protection Officer, with the task to monitor compliance with the personal data protection rules. Data Protection Officer is also a point of contact for all privacy-related questions, and all the questions can be submitted via postal mail or e-mail at sluzbenik.za.zastitu.osobnih.podataka@ericsson.com.

Depending on the category, sensitivity and purpose, at Ericsson Nikola Tesla Group, access to personal data is limited and 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 contact information of company's employees, and to others who have a valid legal basis for processing personal data, e.g. courts.

Controlling the entry and processing of personal data is a mandatory part of operating practice. It is carried out through a special monitoring system, which also includes strict protection of personal data, as well as regular and specific audits of key processes.

All our employees have taken education courses on the need and significance of respecting the right to privacy, which is included in the Code of Business Ethics, a basic document defining the 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 a 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 the enormous amount of data generated by today's communication networks may create permanent benefits for the society. The most efficient way to realize this potential is to combine freedom of innovation and creation of positive impacts with strong principles of privacy protection, which ensure corresponding levels of data anonymization, while the result brings benefits for all stakeholders.



Information security

ICT infrastructure has an important role in the society and business activities. Large amounts of various information are continuously being transferred and exchanged, or are stored in various IT systems. Every day, we are exposed to threats and risks of the growing cybercrime, and the awareness about the importance of information is the foundation for the implementation of information security measures.

In line with this, one of our key priorities is taking care of the security of our information: both personal information and information related to our business, our customers and business partners. 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 security measures by respecting high standards of all data protection, with the aim to develop and deliver our products and services, and secure business continuity, regardless of possible threats.

Management and policies

Managing information security represents one of the priorities for the Management Board and the overall management structure of Ericsson Nikola Tesla Group. Through its information security policy, the Group reflects the readiness and commitment 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 managing safety issues regarding planning, implementation, monitoring and remedy. Special attention is given to security incidents and crisis situations. At the Group level, a Security Manager has been appointed, who coordinates operations regarding issues of information security and other areas regarding security. Considering the importance of IT systems in securing basic aspects of information security, an IT Security Manager was also appointed.

With the aim to operationally solve security issues, we have implemented incident reporting for all employees and business partners. Reporting security incidents is an important part of the incident management process. Security incidents are processed in corresponding organizational units, according to incident type. In addition to operational activities on eliminating the

cause and the consequence of incidents, incident management also serves as one of the input data for a continuous improvement of security systems.

Ericsson Nikola Tesla uses an integrated management system (EGMS) based on business standards (ISO 9001, 14001 and 45001) that also includes information security standard - ISO 27001. Ericsson Nikola Tesla has had a valid certificate since 2013, and each year the certificate must be confirmed by the regular monitoring of information security system, performed by an external authorized auditor.

An important and mandatory part of the information security system is also regular training in information security for all employees and other participants of the Group's business processes.

Risk management

The Group has a frame to manage risks called Enterprise Risk Management. Considering the types of risks and areas where they can occur, all departments in the company have appropriate tools to estimate, process and propose measures to 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 where the threats occur and the forms in which they occur have been continuously changing, our employees have been correspondingly additionally educated and informed.



Managing crises

In addition to cyber threats, during 2021 COVID-19 continued to be the main threat to the security of the Group's business and employees' health. Crisis Management Task Force that has been working 24/7/365 since February 20, 2020, is still active and is reaching decisions and informing all the participants of business processes; all with the aim to maintain the Group's normal business operations.

By actively responding to these challenges, and as part of 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 and in a wider community.

Application of Sales and Trade Compliance protects against risks in domestic and international business

As a large exporter that does business in many markets, Ericsson Nikola Tesla is exposed to various risks. The best protection against potential risks is to be well informed, to apply legislation of each individual market and to monitor the current situation in the country concerned.

The Group's employees are aware of the requirement to respect the laws of their own country, as well as other countries where the Group does business; special attention is given to potential sanctions and/or embargo, about which the employees are educated. Furthermore, human rights violations and unethical practices are completely unacceptable for the Group.

A continuous focus on Sales Compliance

In order to protect the brand and stakeholders' interests and secure responsible behavior, and especially to protect human rights in the countries where the company does business, Ericsson Nikola Tesla applies the Sales Compliance process.

Sales Compliance regulates actions in all parts of the sales process, direct or indirect sale and business connections. Sales Compliance enables a quality assessment,

prevention and neutralization of potentially negative impacts in the field of human rights and brand, thus preventing the risk of any kind 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 sensitive products, services or knowledge), 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 2021

During the year, 28 requests for sales compliance check for our customers were initiated, of which 25 received full compliance and 3 received conditional agreement.

Regulatory framework and clear obligations

Business sales processes prescribe one more process that additionally protects against misuse. This is Trade Compliance, a process which consists of 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.

Ericsson Nikola Tesla Group's employees must be familiarized and are obliged to comply with all the rules and regulations that are applicable in their scope of work and are defined in local directives and instructions. For any questions and support, the employees can contact experts that are responsible for processes and the implementation thereof.

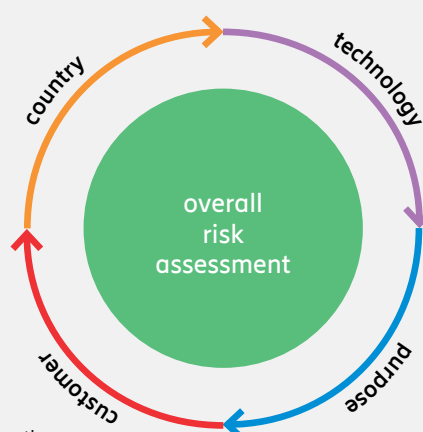
Sales Compliance risk methodology

country classification

- Considering the global political situation and international relations, a level of risk for each country is defined as: low; medium; high.

customer classification

- Customers are classified as: civil customers or government and defense customers.



technology risk

- Each product we are selling, i.e. each product that is in our database, must be classified in relation to technology risk.

purpose of use

- Compliance Board will evaluate a business opportunity in regard to posing a threat to the brand and protection of human rights, including data protection (GDPR), and decide if it is approved, approved with conditions, or rejected.

All the mentioned criteria are taken into consideration when approving a business opportunity.

Responsible sourcing

Ericsson Nikola Tesla Group pays great attention to a responsible sourcing process, which it continuously strives to improve. Therefore, after the new sourcing process had been implemented, a project of digital transformation has been launched in order to digitalize the entire sourcing process, and thus additionally increase transparency and efficiency of sourcing activities.

The responsible sourcing program ensures high standards during the sourcing process and in the supply chain in areas such as fight against corruption, labor, the environment, human rights protection, and ethical standards. This program enables social and professional involvement, as well as enabling business opportunities and realizing better conditions for persons with disabilities. Additionally, through digitalization of sourcing processes, we are increasing the transparency and efficiency of the sourcing process to a higher level.

The program implies a 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 principles of the United Nations Global Compact.

Insisting on transparency leads to ethical and responsible conduct of suppliers

The Group's suppliers are familiarized with the proposals of cooperation with the Group and accept regular reviews. It is important to point out that the requirements from the Code of Conduct for Business Partners are an integral part of all Ericsson Nikola Tesla's General Purchase Agreements. By signing these agreements, the suppliers fully accept them and shall:

- ensure that their employees and subcontractors are notified of the Code of Conduct and that they comply with it
- on request, by providing information to Ericsson Nikola Tesla or its representative and/or by enabling access to its premises, confirm that both the supplier and its subcontractors are compliant with the Code of Conduct

- notify Ericsson Nikola Tesla Group if they detect there has been any violation of the Code of Conduct in their business.

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

- The Ericsson Nikola Tesla Group General Supplier Occupational Health and Safety Standards

- The Ericsson Nikola Tesla Group Specific Supplier Occupational Health and Safety Standards

- Business Partner Environmental Requirements

Activities in 2021

Many new business responsibilities and demanding projects in 2021, as well as the global threat of Covid-19, reflected on the volume of the performed risk

Supplier screening tool – additional support to experts

In 2021, we have continued using the Suppliers Screening Tool (SST) to check our suppliers' 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 addition to the SST tool, we have introduced an additional tool - TPM2.0 (Third Party Management 2.0), which we use to perform additional supplier screening, in a way to see the possibility of occurrence of corruption actions, depending on the type of service delivered by the supplier, the country where the service is delivered, payment terms, etc.

In 2021, the list of screened business entities (suppliers and

partners) contained a total of 1979 suppliers with whom an active business cooperation was realized. Additionally, all persons connected to these legal entities were screened (owners, directors, and members of management boards), which resulted in almost 6000 performed checks. Except for screening these business entities, approximately 2000 checks of potential suppliers and partners were also performed.

Continuous use of these tools enables a continuous approach to relevant information and their interpretation, evaluation and understanding. This is necessary for us in order to reach business decisions and optimize potential risks regarding the choice of suppliers and business partners.



assessments and the number of screened suppliers:

- following the proposal from an expert team, risk assessment procedure was performed for 17 suppliers
- based on the assessment, the plan was prepared to evaluate suppliers at their locations. The result: 13 evaluations were performed during the year.
- the assessment results concluded 27 findings and 49 observations, of which the suppliers have been informed through reports.

Reporting non-compliance

Employees, suppliers, customers and other partners associated with Ericsson Nikola Tesla can report suspected

infringements of the law or the Code of Conduct to the local executive manager or in a manner in accordance with the locally established procedure.

Any irregularity can be reported via e-mail at: compliance.etk@ericsson.com or anonymously by using the Compliance Line at: <https://www.ericsson.hr/en/company-governance>. The Compliance Line is operated by a third party, and is available 24/7/365. Reports can be made in the following languages: Croatian, Bosnian, Serbian, Montenegrin, English, and Russian. Reports can be submitted via a user-friendly reporting system. After the report is submitted, the third party delivers it to Ericsson Nikola Tesla Group, which will not have access to the sender's IP address.

Main risks:

- amended or new regulatory requirements that have a negative impact on the availability and the price of materials
- increased prices of materials/ raw materials, even services, and shortage of certain raw materials
- issues in transport which result in significantly longer delivery periods, delays and, in the end, increased costs
- failure of employees or third parties to comply with the Code of Business Ethics

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 across the world.

We have embedded zero tolerance for corruption as the leading principle on the highest levels of the company. Moreover, we have been implementing it throughout all organizational levels, along with a comprehensive set of rules and processes that all employees are obliged to adhere to.

Our approach

We continue to strengthen rules and processes through which we set our own high expectations and ensure the ability to meet strict anti-corruption rules on 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. We have been continuously encouraging our approach to anti-corruption business, and this is an important topic at employee and Executive Management meetings. During 2021, we have continued undertaking activities of eliminating or mitigating risks that had been detected in 2020 through an internal Anti-Bribery and Corruption Risk Assessment (ABC RA) for the companies in Ericsson Nikola Tesla Group.

An additional intensive check of ethics and compliance of our company according to standards of ABC analysis (Anti-Bribery & Corruption Standards and Framework) was performed for Ericsson by the audit company KPMG Germany in mid-2021. This is a program that Ericsson applies to all local companies and other organizational units within the corporation. The auditors were checking the policies and procedures through which our company prevents unethical actions in doing business, as well as evidence about the implementation of compliance and ethics standards and requirements. KPMG concluded that Ericsson Nikola Tesla has a quality ethics and compliance

Main risks:

- Failure of employees or a third party to comply with anti-corruption laws and regulations, rules of fair market competition, code of business ethics, and related policies and directives.
- Potential conflicts of interest that include our employees and third parties.

program and has confirmed a high level of implementation of the internal ABC RA 2020 process and solving the then detected risks.

Supervisory Board and Audit Committee have been regularly informed about the implementation and the achievements of ABC RA program. All the Group's employees are regularly educated and pass the anti-corruption knowledge test, and new employees, after completing education courses and knowledge tests, 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.

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 suppliers and other business partners through our Code of Conduct for Business Partners and anti-corruption e-learning courses.

Suppliers and business partners

With our suppliers and business partners, we build long-term relationships which imply dialog, knowledge sharing and application of modern-day working models. Suppliers and their subcontractors are required to comply with the high-quality standards and adhere to the Code of Conduct for Business Partners and the Code of Business Ethics. In addition to continuously using tools to perform due diligence on suppliers and business partners for the purpose of anti-corruption, the company's evaluators also perform

an external evaluation of the quality of major domestic suppliers by using a survey prepared in line with the standards.

We screen our suppliers and business partners by using the Suppliers Screening Tool (SST) to check their potential 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 obtained information about suppliers according to the set negative risks screening, the tool shows a possible connection of an individual business entity, or a person connected to a business entity with some sort of risk. The risk itself may be of financial nature; it may relate 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 sanction or a similar negative list.

In April 2021, we introduced the use of a new, more detailed template to calculate the total estimation of the level of corruption risks and additionally strengthened the checking process and decisions related to the risks detected at business partners.

Our anti-corruption tools

- Code of Business Ethics
- Code of Conduct for Business Partners
- an app which enables users to anonymously report non-compliance
- non-anonymous reporting of non-compliance to a Person of Confidence in line with the Whistleblower Act
- Anti-corruption program
- tools for screening suppliers and partners
- education
- raising awareness through messages to all employees.

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 process implementation
- due diligence in mergers and acquisitions.

Key data for 2021

- all active employees have passed the e-learning anti-corruption course
- we have continued with organizing anti-corruption courses; compliance and anti-corruption workshops were held for the Supervisory Board, Management Board, Executive Management, other managers and employees in all the units that might be exposed to corruption risks
- anti-corruption was brought to attention during the Group's Executive Management meetings
- new members joined the Compliance Team
- an extensive Anti-bribery and Corruption Risk Assessment (ABC RA) program was carried out in the entire Group
- a procedure was carried out to check the integrity of key positions
- a survey that was carried out among all employees, showed excellent results in the field of the Group's ethics, compliance and management.

Employee health and safety always comes first

Occupational Health and Safety System

Ericsson Nikola Tesla Group has the ISO 14001 Certificate. Our policy is that the employees' occupational health and safety are our priority, and thus in 2021 we have continued to carry out activities in order to maintain the high level of care for our employees, but also to recognize areas in which we can do even better.

At least once a year, and if necessary, more often, ENT Group carries out a compliance check in line with legal requirements in the OHS field. Compliance of the OHS system with other requirements is carried out by means of numerous internal audits in the entire Group.

During sessions of OHS Committees that were established in the Group's companies, and which also include the employees' representatives, as well as during Executive Management meetings and meetings with the Union, the status of OHS is regularly presented and analyzed, and actions for its improvement are proposed.

External audits of ENT Group carried out by the certification authority SGS Adriatica d.o.o., were carried out at the end of November 2021. External audit for Ericsson Nikola Tesla Servi d.o.o. was carried out by the certification authority TÜV Austria in March 2021. The auditors from both audits concluded that the OHS system is fully aligned with the requirements of ISO 45001.

Risk assessment regarding OHS

Risk assessment is the most important OHS document. It contains a description of the current situation, analysis and assessment of existing data, plan of measures for reducing the level of danger. It has been continuously changed and aligned with amendments to legislation, environment, and processes. Based on the recognized risks, KPIs are set and monitored, and measures of improvement of the overall OHS system are implemented at Group level.

The majority of our colleagues at Zagreb, Split and Osijek sites, as well as colleagues working abroad, perform their work tasks at the office. Therefore, it is important that work premises are ergonomically designed and adapted to every employee. Straining the eyes, musculoskeletal efforts of the body associated with prolonged sitting, as well as risks related to stress and mental health of employees, have been recognized by the company, and an entire range of activities and measures was created, as well as the PrevENTION program, in order to reduce the consequences of these risks to minimum. Several professional lectures were held: lectures regarding mental health and risks in the workplace, lectures about the importance of proper diet, and exercises to eliminate the consequences of prolonged sitting in the workplace were also demonstrated. By actively encouraging employees to change bad habits and pointing out the risk factors which they can influence themselves, diseases can be prevented or postponed. Regular preventive checkups enable to discover the already existing diseases at

an early stage, when the treatment is more successful and there are less complications.

According to the recommendation of the national professional services, due to the COVID-19 situation, the majority of employees were referred to work from home, and 20%-30% of employees worked at company offices. The results of the surveys showed that most employees who worked remotely did not experience reduced productivity, however, this way of working has left its mark, primarily in reconciling and separating private and business responsibilities. Employees can borrow the company's equipment in order to ensure all the necessary conditions to work from home (chairs, monitors, etc.). Working from home, new risks, as well as legal changes in OHS regulations resulted in the need to adjust the changed working conditions in the company's documents. Therefore, new Risk Assessments were carried out for Ericsson Nikola Tesla Group companies.

In addition to working at the office, many of our employees work on sites. In addition to climbers and according to statistics, 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 special engagement of our OHS experts. Challenging working conditions, such as working at 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 to avoid risks and danger of injuries. We achieve this through regular medical checkups, quality protective equipment, continuous employee education and fieldwork supervision.

COVID-19 measures aimed at protecting employee health

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.

The Crisis Management Task Force of Ericsson Nikola Tesla Group kept the approach of informing employees by sending notices through which they were informed about the Task Force activities



and newly formed circumstances in a timely and transparent manner. The employee reaction to this way of regularly receiving information from the Crisis Management Task Force (in which the President of the Company has been participating from the beginning) was very positive, and the employees began to actively participate, give suggestions and feedback regarding the measures that the Company was taking.

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, think of others. 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 of injuries or falling ill, to a minimum.

In 2021, 325 colleagues in Ericsson Nikola Tesla Group reported they have contracted COVID-19. Unfortunately, two employees passed away due to COVID-19 infection-related consequences. Since the beginning of the pandemic until the end of 2021, 17% of the Group's employees were infected.

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 an infected person, as well as about other cases, such as symptoms of disease, traveling, and other risk situations.

For all the employees who perform work outside the office, as well as for the employees who perform their tasks at company locations, corresponding protective equipment was secured, instructions for safety measures were given, and sanitizers were placed in visible places. Thermometers and devices that measure employees' temperature were introduced at the entrance.

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

- As a preventive measure, we organized vaccination of employees at the company's premises in Zagreb
- Intensified cleaning and disinfection of all work premises
- Instructions on preventive measures for employees, external contractors, and suppliers, as well as external visitors

- We secured masks and hand sanitizers, and sanitizers for work equipment
- All business travels, as well as all gatherings and workshops with a great number of participants, at and outside the company, were canceled
- A system to track employees' medical condition was introduced - a health bulletin - as well as support to employees regarding all pandemic-related questions
- Crisis Management Task Force is in continuous contact with the competent local institutions, and Ericsson
- All employees who can, work from home, except the ones who, due to business activities and in agreement with their manager, come to work at the office
- Special work organization was introduced at the Company's premises (flexible working hours, new set-up of space and sitting arrangements, work in teams, working in shifts, etc.) with the aim to reduce the possibility of physical contact among colleagues
- Employees can borrow company's equipment necessary for work in order to

Let's act responsibly

Apply precautionary measures to protect yourself and others

Health measures

Before coming to work, check your temperature, and if it is increased (above 32.7°C) and you have respiratory problems, please stay at home, contact your doctor, and line manager.

Hygiene measures

Wash and sanitize your hands and keep 2m distance. Avoid shaking hands, unnecessary contacts and staying in common areas. Wear face masks in rooms where there are several persons.

Workplace

In the work premises, organize sitting of employees respecting the recommended distance of 2m between employees. Keep your workplace clean.

Elevators

As a precautionary measure, we recommend that you use the stairs. Only two people can be in an elevator, keep the distance, and wear masks.

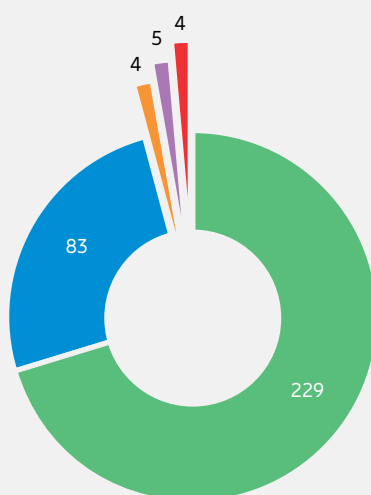
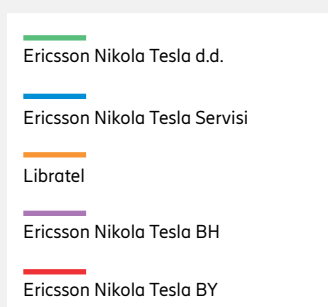
Meeting rooms

Use meeting rooms for smaller groups in a way that 2m distance between the attendees can be observed. Ventilate meeting rooms often and do not leave your personal belongings there. Do not use smaller rooms for telephone calls.

Restaurant, canteens, and kitchenettes

Restaurant and canteens have new regime of working and you can find more information on intranet. In restaurant/canteens adhere to the already written protective measures. Only one person can use a kitchenette.

Number of employees infected by COVID-19



for Public Health and the Institution for Healthcare "Profozić", the OHS service organized vaccinations for our employees at the company's premises in Zagreb on several occasions. Encouraged by the good cooperation with the mentioned institutions and excellent employee interest, over 1000 employees were vaccinated through this initiative, while many colleagues were also vaccinated in other locations.

Work environment

Regular testing of workplace parameters and safety of electric installations in offices in all the company's sites, equipping offices with new standing desks, carrying out fire protection measures, as well as regular evacuation and life-saving exercises are just some of the measures that impact the quality of our employees' workspace.

In addition to having supervised our employees, our OHS experts' audit teams performed supplier audits, paying special attention to compliance with OHS rules on high-risk projects. The situation on site has shown that in the majority of cases, suppliers perform their work in line with the safety rules.

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, in line with the situation
- Every new piece of information is timely communicated on the Intranet page that was created for information about COVID-19, or via mail

Application of the model to work from home or from the office, while respecting all the epidemiological measures in the working environment that is safe for health, depends on the circumstances of each employee and

each workplace. The Company continues to be safe for work and remains open for all employees who are expected to work at the office due to work activities, for employees who do not have the appropriate working conditions at home, or the ones who want to work in the company, by strictly adhering to all epidemiological measures.

Vaccination of employees at the Company's premises in Zagreb

The current level of vaccinated employees on Group level is quite high. During 2021, in cooperation with the Croatian Institute

Education of employees and external associates

Last year, we hired a significant number of new employees. All the new employees



Vaccination at the company



Workshops for external contractors



passed an introductory seminar and an OHS test, gaining theoretical knowledge and practical experience in training for safety at work. All students working with us on various projects also undergo trainings for safety at work. Expert trainings of employees for the tasks with special working conditions, as well as for providing first aid and evacuation and rescue, are held when necessary and in line with the job requirements.

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

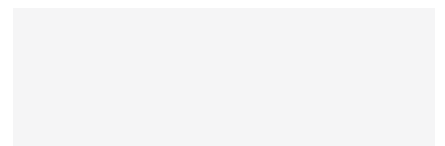
In addition to taking care of our employees, we take additional care of

external contractors on various projects, who took over the obligation to comply not only with OHS legal regulations, but also with the Group's standards. We particularly brought to our external contractors' attention that for our company, adhering to OHS regulations represents an extremely important segment of doing business, and that the failure to do so is unacceptable. During the workshops for contractors, 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 with our advice 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.

Reporting incidents in ENT Group

It is extremely important to undertake every action in order to avoid incidents and reduce their severity, should they occur. However, when incidents and accidents do happen, they have to be reported and investigated in order to identify main causes and take measures to prevent their recurrence.

The employees are encouraged to report all OHS-related incidents, whether it concerns work-related injuries, illness, accidents or dangerous situations, in line with the process and available templates that are applicable in the entire Group.



People are our starting point and focus

The Group's business success and growth is based on innovativeness, knowledge and skills of all the Group's employees who, professionally and with full responsibility, work on the realization of the Group's strategic directions and goals, and continuously develop and create new products, solutions and services of high added value, important for implementing digital transformation processes of industry and society at large.

People management strategy

An important strategic goal for the Group is to be an employer of choice in its environment. Therefore, we pay special attention to attracting experts, planning the development of their potential and retaining talents who have the potential and the quality to contribute to a successful project execution in a dynamic and fast-growing ICT industry through their work and efforts. For us, building employer branding represents one of the key components of successful organization management; we have therefore defined in detail the necessary knowledge, skills and characteristics which talented candidates must possess, as well as the activities to attract and retain the best experts. We have clearly defined our areas of excellence, and all our employees are governed by the principles of corporate culture in their daily work. Our fundamental values - respect, professionalism, perseverance and integrity - define the organizational culture we are governed by in our everyday activities. Furthermore, these values are the foundation for the way we interact with each other, do business, and

cooperate with our customers and partners. With colleagues from global Ericsson, we share a 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 each individual, and this is something we have been continuously working on, having zero tolerance for discrimination on the grounds of age, gender, race, national or ethnic origin, language, religion, political views, sexual orientation, physical abilities, etc. Through our values, way of working, attitude and behavior, our employees represent our best ambassadors, who strengthen the Group's reputation, and thus contribute to the expansion of our big team, joined by new experts year after year.

Our business philosophy

Our model of managing human resources is based on the belief that:

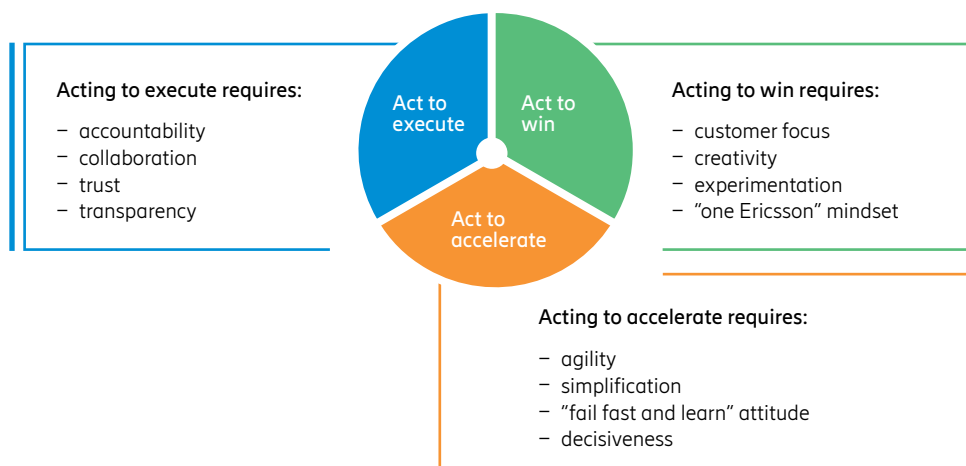
- We give our best when we know what to do, and why this is important for the company's business success

- In order to achieve joint success, the contribution of each individual matters
- We learn best when we are motivated and receive continuous feedback on our contribution to the team's success
- Diverse, inclusive teams drive innovations, thus creating more business and social 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
- We value the work of our people in a just way, and we give recognitions and awards for the results they achieve.

A motivating work environment

Ericsson Nikola Tesla Group has been continuously working on creating and improving a motivating work environment for the employees, namely by:

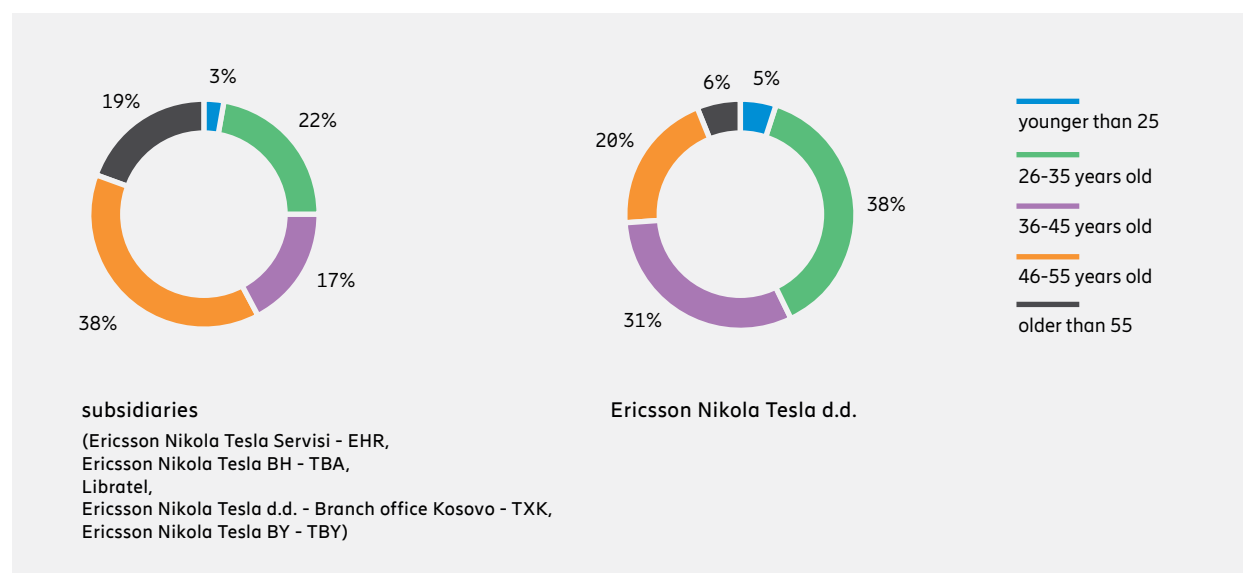
Our cultural sweet spot



Employee turnover



Employee structure by age (as at 31 December 2021)



- ensuring attractive jobs and giving clear roles to each employee, in order to achieve common goals
- providing 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 and visualizing individuals and teams who achieve the best results
- a reward system based on the principle of equally awarding equal work results
- modern equipped work place with all the tools necessary for work
- a motivating company culture
- flexible working hours
- taking care of the employees' physical and mental health, and providing a high level of occupational health care
- a high level of occupational safety.

Awarding system

The awarding system in Ericsson Nikola Tesla 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 realized, 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, the Collective Agreement, Salary Rulebook, as well as corresponding policies.

In line with the general goals of salaries system, the employees are additionally

awarded for the results, the volume and importance of which exceeds the expectation of their organizational unit or the company.

Variable pay compensation:

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

Individual awards:

- awards for exceeding expectations
- award based on a previously opened internal competition for the achievement of previously defined goals that are important for the organizational unit/company (awards per competition)
- awards for innovations developed while working or in relation to one's work

- 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).

Additional benefits for employees

Taking care of employees is reflected through specific activities that contribute to the well-being and the quality of work and life is one of our company's main priorities and can be seen through numerous benefits our employees have.

We would like to highlight a few: employer's payment and more favorable saving conditions in the Closed Voluntary Pension Fund of Ericsson Nikola Tesla, organized health checkups, shares for employees, continuous education, favorable loan terms, the company's restaurant on campus, cultural and sport sections activities, and Bonus Club benefits.

Ericsson Nikola Tesla's Closed Voluntary Pension Fund

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

As the sponsor of the Closed Voluntary Pension Fund (ETK ZDMF), in 2021 Ericsson Nikola Tesla continued to further motivate employees to save in the Fund by paying an annual deposit of HRK 1,000 to each employee who is a member of the Fund.

In 2021, 300 employees joined the Fund, and at the end of 2021, the Fund had 2,023 members. Out of the total number of members, 1,750 are currently working in ETK, which accounts for 67% of the total number of ETK employees. At the end of 2021, the Fund's net assets amounted to MHRK 43.9. Since the Fund was established, the Fund's average annual return has been 6.86%, and in 2021 it was 9.59%, going back to the positive trend after a slight decrease in 2020 by 0.52%, which, despite the unstable market conditions caused by the pandemic, remained minimum.

Ericsson Nikola Tesla Group

We support your professional growth and development.



Super Start

company laptop
company cellphone with a great plan
flexible working hours
standing desk
mentoring
education and scholarships

Health

regular medical checkups
discounts for additional employee checkups
discounts for additional employee family member checkups
supplementary health insurance
regular eye exams

Well-being

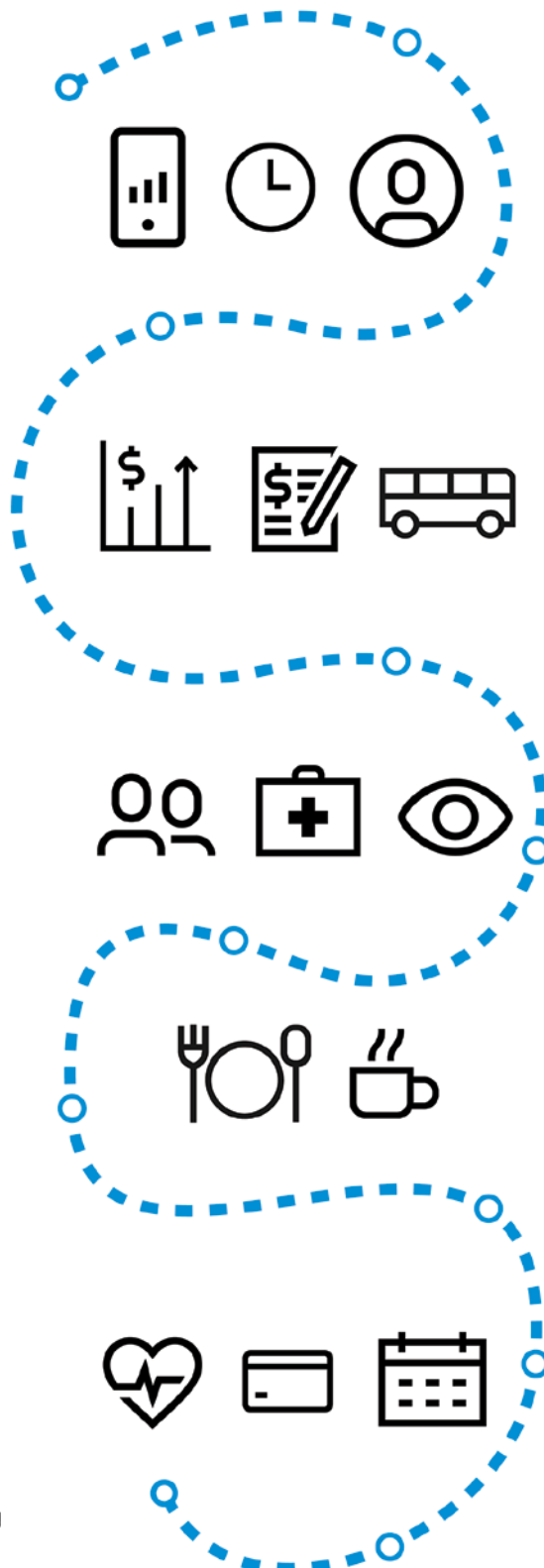
mental health workshops
physical health workshops
mindfulness

Recreation

sports and recreation association
MultiSport card
yoga

Annual leave

compensatory time off during Christmas holidays



Stimulating allowances

annual bonuses
individual financial rewards
financial rewards for innovations
holiday allowance
jubilee awards
transportation reimbursement
paid overtime
closed voluntary pension fund
payments under the Collective Agreement

Family

gift for a newborn in the amount of HRK 10,000
holiday gift for children in December
kindergarten subvention up to HRK 300 per month per child
other benefits for employees with children
days off for family situations

Food

canteen at the Zagreb campus
meal allowance in the amount of HRK 30/day

Bonus Club

benefits from our partners (culture, education, fitness, vacation, health, financial benefits)

Open positions at
ericsson.hr/en/careers

Benefits for working parents

Work-life balance is an important factor in preserving people’s physical and mental health. Establishing this balance is especially challenging for young parents. With having more than 40% of our Group’s employees younger than 35 and knowing this is a period in life when most people decide to have their own family, we have created numerous measures to achieve balance between their professional and personal life. Young parents in our company have the right to receive support for each newborn baby amounting to HRK 10,000. The parents of children with special needs have the right to receive financial aid every year amounting to HRK 20,000 gross, as well as 2 additional days of vacation. Moreover, we allow parents to bring their children to work whenever there is a need for that, as well as provide them with flexible working hours, days off for prenatal checkups, breastfeeding pauses, and give fathers the possibility to go on paternity leave, and other benefits. Our employees’ children up to the age of 15 are entitled to receive a gift in the 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 the fact which parent claims

the child as a dependent. The children of our employees who passed away are entitled to receive a scholarship during their regular education. Since 2021, we have been helping employees to cover costs of regular preschool care for children amounting to HRK 300 per child.

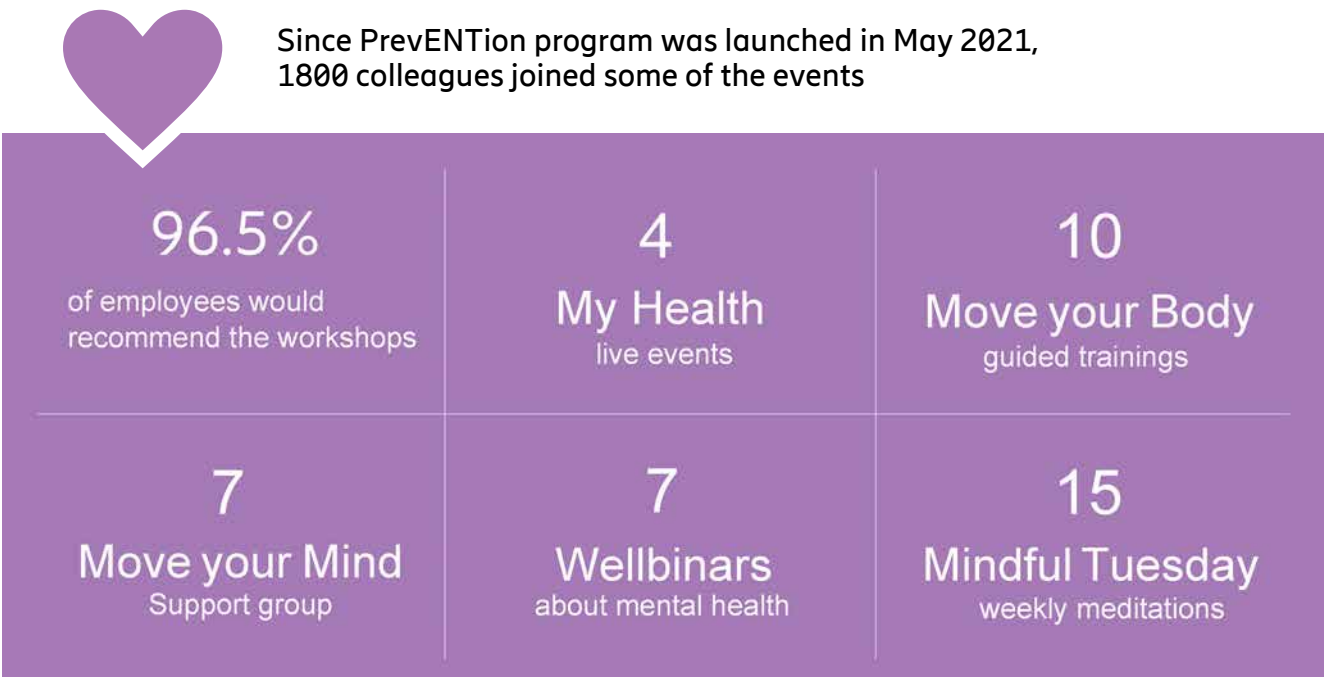
Mentoring

For the entire Group, which has been intensively hiring many young professionals without work experience, a developed and an elaborated process of introducing trainees into the work processes is important. Our young talents have at their disposal many quality mentors, who provide expert assistance in everyday work, monitor personal and professional development of new 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 connecting with the company, gaining new knowledge and developing new competences. A well thought process enables the mentor to perform a quality assessment of the trainee during the trainee period, for example trainees’ progress, development, necessary knowledge and skills, as well as additional recommendations. In 2021,

Ericsson Nikola Tesla hired 403 new employees. They were mentored by many experts/mentors, and special attention was given to trainees with the aim to speed up their inclusion into business and processes.

Monitoring employee engagement and satisfaction

Employee engagement and satisfaction is monitored through Voice - a survey we conduct twice a year. The survey represents an important tool to measure organization climate and gain an insight into employees’ opinion on various areas of operations. In this way, we foster a culture of feedback and continuous change management. By conducting the survey twice a year, we can continuously monitor our employees’ pulse, keep the dialog going and gather information on the satisfaction with different changes we introduce. Employees and their managers take part in proposing changes and improvements in all segments of their work and doing business. In this way, we receive relevant feedback, and changes and adjustments can be implemented much faster. Based on a detailed analysis of the survey, areas for improvement on all Group levels and in all the segments have been identified.



In 2021, on Ericsson Nikola Tesla d.d. level, the survey on employee engagement was carried out twice, and more than 85 percent of employees responded. The survey showed that almost 90 percent stated that they are moderately to very happy with working at 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, i.e. 72 percent of our employees believe they can achieve their career goals in the company, while almost 80 percent believe they have good chances of learning and growth at Ericsson Nikola Tesla. We are happy with the fact that almost 90 percent would recommend their direct manager to others, and more than 90 percent (92 percent) believes that we, as a company, show commitment to ethic and responsible business. Almost 90 percent of employees would recommend Ericsson Nikola Tesla as an employer to their friends.

competitiveness. Sharing information and consultation with the Union on all important topics are carried out in line with the law and 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 the ICT sector are in a dynamic race for talents, compared to other companies on the market, the Group retains a very small percentage of people leaving. We regularly carry out analyses of our employees' salary competitiveness, secure various benefits, enable competence development in various career directions, while at the same time maintaining a healthy work-life balance. We use the feedback we receive from employees who are leaving the company to further improve the way of working, retain experts and attract new talents.

Cooperation with the Union

We continuously work on harmonizing our organization with market requirements and needs, with the purpose of ensuring and strengthening

PrevENTION – we care about physical and mental health of employees



A part of our company's strategic directions is taking care of health, safety and well-being of employees and other stakeholders. This part of the company's internal culture is based on our policies and good practice; it is carried out through defined processes and applied in everyday work. To be in shape and to feel good is something we are all aiming at. Therefore, a comprehensive program was prepared with a variety of content with the purpose to help our employees strengthen their physical and mental health, and this is available to all employees. During 2021, almost 1800 employees participated in various activities, such as professional lectures on physical health, mental health support groups and workshops, guided weekly exercises, etc.

We live inclusion, we respect diversity

Diversity and inclusion of all our employees and all other stakeholders in our business are an integral part of Ericsson Nikola Tesla Group’s vision, strategy and adopted values. 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 they can in their work, we create prerequisites for a long-term sustainable development of our business.

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

Implementing 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 their best.

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

The Group has 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

We respect diversity

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



- develop innovations that result from different types of knowledge, skills, perspectives and experiences our employees and other stakeholders have.

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

An inclusive organization

Our goal is to encourage a gender-integrated organization which recognizes

and values the contribution made by persons of diverse personalities and characteristics. Compared to 2020, the number of women in the total number of the Group's employees increased, and at the end of 2021 amounted to 27% (2020: 25 percent). Furthermore, we are proud of the fact that the percentage of women in managerial positions increased; in 2021 we had 27% of women in managerial positions (2020: 20 percent). Although the percentage of women in the total number of employees is not at a satisfying level, we

are encouraged by the trends that show the situation is changing in the wanted direction. One of the biggest obstacles in the way to achieve gender balance is the fact that for quite some time there have not been enough women educated in STEM in the labor market. Therefore, in cooperation with the educational community, we have been undertaking many activities for some time to motivate girls and young women to choose STEM professions.

Technology in the service of the blind and visually impaired persons



In 2021, Zagreb Association for the Blind organized presentations of the app EVA. The app was fully developed at Ericsson Nikola Tesla, and it was put into production at the end of 2018. This app is in fact a virtual assistant and was primarily developed for the blind and visually impaired, in order for them to be able to use modern day technologies in an easier and a simpler way.

Goran Tomašković, the secretary of the Association, held an opening speech, and afterwards Mia Mirošević, Ericsson Nikola Tesla's project manager responsible for EVA, welcomed the attendees on behalf of the team, and thanked for the opportunity to present the app's functionalities. Hrvoje Katić presented the EVA 2021 Android version, and Danica Vladić presented the iOS version.

Hrvoje, who himself has visual impairments, greatly contributed in specifying the needs of the persons with

disabilities. He has been participating in technology development for both platforms since the beginning, as well as later on in user education. All the novelties in the latest app version were presented and the following functionalities were demonstrated: calling, sending a text message, location, current time, calculator.

The attendees liked the presentation, and their interest and engagement were best reflected in a lot of questions; they were interested to find out more about how to use music and players. They asked if EVA had the option to browse through content, if EVA can write, read or delete the notes, what the current available version of the app is, how often it is updated, etc. The users' impressions were very positive; the participants showed interest in new functionalities and had concrete proposals.

Knowledge is our advantage

A dynamic development of ICT industry in the past decades and the expansion of ICT application in all areas of human work and life require an agile approach, along with a continuous broadening of knowledge, development of skills and competences of our employees, in order to maintain our position as the leading Croatian exporter of knowledge.

Therefore, investing in competence in implementing leading technologies and the highest level of our employees' professional, business and soft skills is one of the main foundations for the realization of Ericsson Nikola Tesla Group's long-term strategy. We encourage our employees to be excellent; we secure opportunities for a continuous development of their competence by combining our own resources, global corporation services, as well as in cooperation with the partner educational institutions from public and private sector.

We learn every day

Continuous learning and improving is one of our main prerequisites to maintain competitiveness. In our industry, this can perhaps best be seen in the last decades, considering the pace of ICT development. It is, therefore, important for us to have employees who are ready to acquire new knowledge, skills and competences in collaboration with colleagues in teams and through various channels we offer. Working on interesting projects as a result of opportunities that the latest technologies, such as 5G, open in all sectors, is the opportunity to apply the acquired knowledge.

To show the importance we dedicate to learning, we have a special unit in the parent company dedicated to it - Ericsson Nikola Tesla's Education Center. The Center operates as a flexible organization focused on the delivery of a wide range of services regarding the education of employees, customers and

partners. Education Center coordinates the work of internal trainers' network and cooperates with renowned educational institutions in Croatia and abroad, as well as Ericsson Academy that provides a wide range of trainings on a global scale for all employees working at the corporation.

Therefore, the employees develop their competences through e-learning, by using an internal corporate software tool to exchange expert knowledge, by attending seminars, conferences, postgraduate studies, by working on local, regional and global projects, and by using the global learning platform Degreed, which is available on PC, mobile phone or tablet, in order for the employees to be able to raise their competences how and when it best suits them. As the leader of positive changes in the society, we strongly support virtual ways of learning, which are ecologically acceptable and save time and money.

The Group is also included in the global Talent Management Program and Innovation Program. These are global corporation programs in which special attention is given to experts with relevant knowledge and skills as well as top intellectual potential. With the desire to additionally strengthen young managers and future leaders, a new LDP program is carried out locally. This is a comprehensive leader-development program based on the model of leadership competences - Ericsson leadership framework. This one-year program, which includes various learning methods (modular courses, coaching and mentoring, e-learning,

learning by exchanging knowledge and experience, etc.) places considerable emphasis on mentoring by a senior leader and application of acquired knowledge and skills in the work environment.

Development as a must

In line with the business strategy directives and goals, every employee and their line manager agree on the plan for developing their business and technical knowledge as well as social skills through an established process which is a part of annual planning (Individual Performance Management - IPM). In this way, each employee has clearly defined development goals, the achievement of which is continuously monitored throughout the year, and the employees receive regular feedback from their managers. We hire many young, highly educated people without previous work experience, and give them an opportunity for personal and professional growth and development in our Group, by continuously investing in their knowledge and skills, by encouraging them to engage in lifelong learning and apply personal knowledge and skills in inspiring projects in a motivating environment. Nowadays, technological development is the measure of social development, and our Group, through its actions, cooperation with the universities and development of its experts, contributes to the competitive development of Croatian economy in line with the EU's Digital Decade targets.



Facts and figures

* as at 31 December 2021

Number of employees in Ericsson Nikola Tesla Group

	2017	2018	2019	2020	2021
Ericsson Nikola Tesla (ETK)	2,268	2,402	2,515	2,571	2,669
Libratel	25	33	29	27	61
Ericsson Nikola Tesla BH (TBA)	16	18	19	19	31
Ericsson Nikola Tesla Servisi (EHR)	743	711	651	610	701
Ericsson Nikola Tesla - Branch office Kosovo (TXK)	1	1	1	1	1
Ericsson Nikola Tesla - Belarus (TBY)	7	9	9	8	8
Total Ericsson Nikola Tesla Group	3,060	3,174	3,224	3,236	3,471

Number of new employees hires in Ericsson Nikola Tesla Group

	2017	2018	2019	2020	2021
Ericsson Nikola Tesla (ETK)	282	310	240	183	273
Libratel	1	10	14	3	40
Ericsson Nikola Tesla BH (TBA)	0	4	1	1	12
Ericsson Nikola Tesla Servisi (EHR)	20	12	18	17	114
Ericsson Nikola Tesla - Branch office Kosovo (TXK)	0	0	0	0	0
Ericsson Nikola Tesla - Belarus (TBY)	1	2	0	0	1
Total Ericsson Nikola Tesla Group	304	338	273	204	440

Employee turnover in Ericsson Nikola Tesla Group

	2017	2018	2019	2020	2021
Total number of employees	3,060	3,173	3,224	3,236	3,471
The number of new employees per year	304	338	273	204	440
Total % of increase in the number of employees	3.7%	3.6%	3.6%	3.6%	7.3%

Employee turnover – ETK

Total number of employees	2,268	2,402	2,515	2,571	2,669
The number of new employees per year	282	310	240	183	273
Total % of increase in the number of employees	5.5%	5.9%	5.9%	5.9%	3.8%

* as at 31 December 2021

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

employees	Parent company		subsidiaries							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
younger than 25	141	5%	9	4	13	-	0	26	3%	167	5%
26-35 years old	1,027	38%	32	13	134	1	0	180	22%	1,207	35%
36-45 years old	819	31%	11	8	112	-	2	133	17%	952	27%
46-55 years old	521	20%	2	4	297	-	5	308	38%	829	24%
older than 55	161	6%	7	2	145	-	1	155	19%	316	9%
total	2,669	100%	61	31	701	1	8	802	100%	3,471	100%
- male	1,920	72%	54	22	616	1	5	698	87%	2,618	75%
- female	749	28%	7	9	85	0	3	104	13%	853	25%
average age	38	-	35	34	46	36	50	40	-	40	-
32 years old or younger than 32	944	35%	29	13	93	0	0	135	17%	1,079	31%
average employment duration	10	-	3	11	19	4	16	11	-	11	-
up to two years of work experience	526	20%	31	14	112	0	0	157	20%	683	20%

Qualification structure of Ericsson Nikola Tesla Group*

Qualification	Parent company		subsidiaries							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
University degree	2,302	86.2%	6	25	224	1	8	264	32.9%	2,566	73.9%
College degree and univ. bacc.	260	9.7%	8	4	146	-	-	158	19.7%	418	12.0%
Secondary education	104	3.9%	46	2	282	-	-	330	41.1%	434	12.5%
Highly-skilled workers	1	0.0%	-	-	41	-	-	41	5.1%	42	1.2%
Skilled workers	1	0.0%	1	-	4	-	-	5	0.6%	6	0.2%
other	1	0.0%	-	-	4	-	-	4	0.5%	5	0.1%
total	2,669	100.0%	61	31	701	1	8	802	100.0%	3,471	100.0%
PhD	43	-	0	0	1	0	0	1	-	44	-
MSc	126	-	0	4	11	0	1	16	-	142	-
total	169	6.3%	0	4	12	0	1	17	2.1%	186	5.4%

Line managers, Program and Project managers*

	Parent company		subsidiaries							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
number of managers	282	-	4	1	41	1	1	48	-	330	-
managers - male	150	-	3	1	35	1	1	41	-	191	-
managers - female	71	25%	1	0	6	0	0	7	15%	78	24%
average manager age	46	-	45	57	46	36	48	46	-	46	-

Occupational injuries and worktime lost

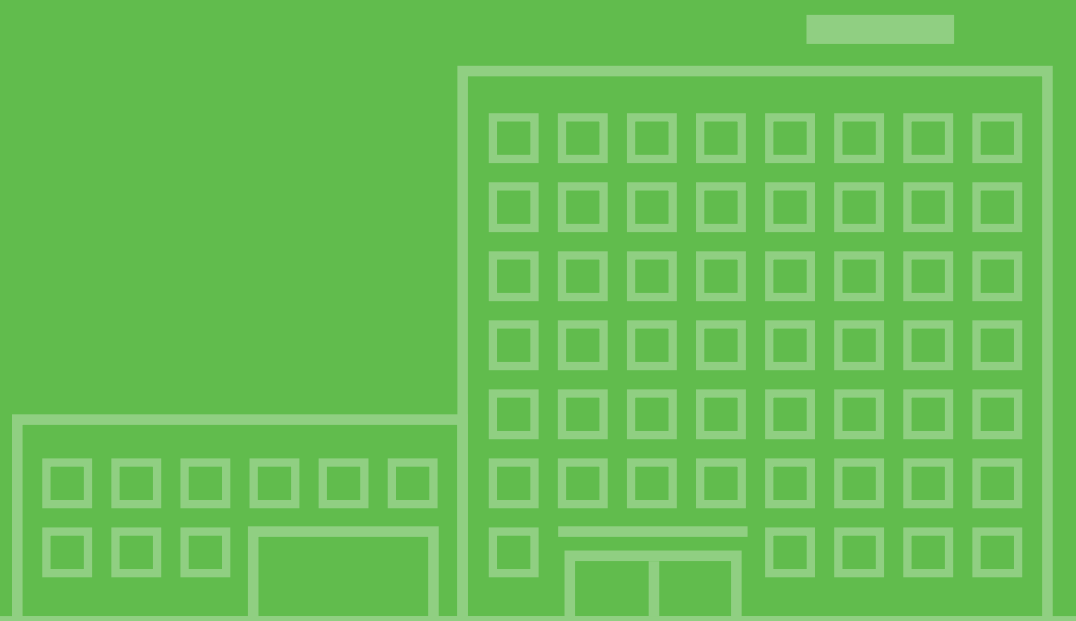
	Ericsson Nikola Tesla d.d.										Ericsson Nikola Tesla Servisi			
	2020				2021						2020		2021	
	Zagreb		Split		Zagreb		Split		Split					
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Total number of injuries	1	0	0	0	1	0	0	0	0	0	5	0	4	1
- Work related injuries	1	0	0	0	0	0	0	0	0	0	4	0	4	1
- Injuries during commuting to/from work	0	0	0	0	1	0	0	0	0	0	1	0	0	0
Major injuries	0	0	0	0	0	0	0	0	0	0	1	0	1	1
Minor injuries	1	0	0	0	1	0	0	0	0	0	4	0	3	0
Total worktime lost	115	0	0	0	0	0	0	0	0	0	2,720	0	1,184	184

Note: M – male; F – female

Explanation of injuries for Ericsson Nikola Tesla Servisi

2020: 4 work-related injuries on site; 1 injury in traffic (while working)

2021: 5 work-related injuries (4 on site and 1 at the office)



Annual report 2021
Ericsson Nikola Tesla Group

Environmental responsibility

Fighting climate change

As any other sector, ICT industry must reduce its footprint in order to help global decarbonization. Therefore, the Group, as a socially responsible entrepreneur, pays special attention to sustainable business that includes setting concrete goals for climate and environmental protection and acting accordingly. Our goal is to cut CO₂ emissions in half by 2030.

It is undisputed that CO₂ creates the greenhouse effect in the atmosphere by soaking up the Sun's energy and the Earth's warmth and causes temperatures to rise by keeping it in the atmosphere. Although greenhouse gases can be of natural origin, human activities greatly contribute to the increased amount of these gases, thus increasing global warming. Therefore, looking at our own impact on the climate and the environment, and systemic optimization of consuming all kinds of energy and other natural resources, is an important part of the company's culture and strategy. It is certainly important to understand ICT sector's footprint in relation

to its effects of decarbonization and use its potential, especially ICT solutions, including IoT, machine learning and automation to reduce carbon emissions on a global scale, in many other sectors and industries.

Our e-solutions (e-Health, e-Call, e-Cadaster and Land Registry, etc.) enable the development of low-carbon economy and transform modern industry and society. Technology leadership and an innovative approach to work enable us to use numerous and diverse applications in our business process, allowing us not only to be more effective, but also to protect the environment. We believe that such a comprehensive approach is a prerequisite

to economic competitiveness, as well as that it improves and accelerates business processes, while saving time, money, and natural resources.

Knowing the Company's processes

A comprehensive and very complex calculation of our carbon footprint includes a precise collection of data on numerous activities and impacts on the environment. While we monitor and manage our environmental impacts, such as air emissions, reducing the amount of waste and water pollution, our Life-Cycle Assessment confirms that the energy



produced by the use of products in our work still represents our most significant environmental impact.

The parameters include, for example, electricity consumption in all segments of the production process and the amount of energy spent for heating using steam from the heating plant. This also includes impacts on the environment due to the use of various office materials, IT equipment and air-conditioning-related emissions, as well as business trips by various transportation means to reach all the destinations. The analysis also contains information regarding packaging, direct waste, employees commuting to/from work, as well as estimates related to, for example, the impact of meals prepared on site, or the calculation of the footprint that the customers, business partners and guests leave when they visit the company. The calculation based on the described procedure, which takes into account the overall carbon footprint, was possible only with good knowledge about the Company's processes and portfolio. It also required significant additional

engagement, which by far surpasses the usual offered support, as well as quality cooperation between various organizational units. In addition, we use Ericsson products which are characterized by design which is acceptable for the environment, in order to minimize this impact.

Focus on energy efficiency and transport

According to our calculations of the Company's total annual CO₂ emissions, energy sources account for as much as 47 percent, all forms of transport (primarily passenger transport) account for 43 percent, and everything else accounts for 10 percent. The conclusion was that in order to efficiently reduce carbon dioxide emissions, our primary focus needs to be on improving physical characteristics of buildings and thermo-technical plants with the corresponding infrastructure, which was done through the energy efficiency project at our largest site in Zagreb. In addition, it is necessary to optimize business trips

The conclusion was that in order to efficiently reduce carbon dioxide emissions, our primary focus needs to be on improving physical characteristics of buildings and thermo-technical plants with the corresponding infrastructure.

as well as raise employees' ecological awareness by advising them to make their commute more eco-friendly, such as using public transportation or bicycles, walking, carpooling, etc.

In the new Data Center, we have centralized all the devices by using the latest solutions in the field of cooling, with a high level of efficiency. Furthermore, a hot/cold zone was applied (that we had not had previously), where the devices are cooled, which also results in the decrease of energy consumption.

Significant positive results were achieved by implementing the energy efficiency project of our production premises at the location in Zagreb, as well as improving the energy efficiency of processes, whose primary focus was to reduce CO₂ emissions by reducing energy consumption, and thus doing business more responsibly. CO₂ was reduced not only by 1400 t due to project implementation, but it was also significantly reduced due to the new organization of work - working from home and reducing the number of business trips and daily commutes.

On a daily basis, the company's management shows, by making a concrete contribution and setting an example for others, that participating in creating public policies for calculation and reduction of carbon footprint followed by their consistent implementation is the only rational response to the challenge of sustainable life and business.



ICT as support to environmental footprint reduction

Less than 1% of Earth's water supply is available as support to numerous biological and social processes (business and civil). Water is as important to the world economy as oil or data, and we can consider it crucial in energy production, transport, processing industry, fisheries and agriculture, tourism, as well as many other industries. At the same time, the mentioned industries have a significant impact on the health of aquatic ecosystems, habitats and biodiversity. It is necessary to act in an integrative manner to address the complex challenge of co-existence between industry and clean environment which enables sustainable economic growth. Through its eEnvironment platform, Ericsson Nikola Tesla contributes to and simplifies the process of aquatic ecosystem health evaluation, taking into account the natural, social and business aspects as an input for collaborative decision making in the process of industry transformation towards sustainable growth and circular economy as one of the key objectives of Industry 4.0.

Industry 4.0 and sustainable development

International Resource Panel (UN Environment Programme) estimates that ore and mineral extraction industries, energy production and food production account for approximately 50% of the global CO₂ emission and more than 90% of negative impacts on the quality of water, health of aquatic ecosystems, and the loss of biodiversity (IRP 2019). Since the projections of industry demands for natural resources until 2060 (OECD 2019) predict that there will be a double increase in consumption when compared to 2011, we can conclude that there will be a drastic increase of the amount of negative impacts on the environment.

In order to achieve the effect of separation, it is necessary to slow down the increase of negative impacts compared to the increase of activities that cause these impacts.

There are two crucial factors that currently define the future of the European and global economy. On the one hand, advanced technology solutions enable industry stakeholders to increase efficiency and production at the cost of negative impact on the environment. The problem is direct and indirect water contamination and intense use of natural ecosystems which result in the decrease in biodiversity that also has a direct impact on the health of the environment and the quality of life on land. On the other hand, global requirements to transition to circular economy create

the potential for a quality co-existence of industry and the environment, as well as prerequisites to preserve biodiversity with continuous economic growth.

The concept of the fourth industrial revolution has the potential to harmonize these two directions, and in order to achieve this, it must enable data collection about the quality of the environment and convert data in efficient information by using IT tools that enable predictive insights.

In implementing technologies that will strike a balance between the demands of industrial development and sustainable growth and the concepts of circular economy, the European Union defined 4 general targets:

1. Digital solutions as enablers of circular economy
2. Fast introduction of artificial intelligence as an integral part of business models and IT infrastructure and solutions
3. Increase of available data and an open access to data about the industrial load on the environment
4. Secure cooperation of all key stakeholders (industry-science-citizens-regulator) based on the inclusive models that protect data privacy and security.

The strategies that will enable the transition to circular economy and sustainable economic growth are primarily related to increasing data robustness (more existing data and the use of new types of data), a transparent approach for all stakeholders

and an approach to advanced predictive analytics that will convert data into information based on which stakeholders can make informed decisions.

In order to secure inclusion and fairness towards all stakeholders, advanced IT technologies should be included in the sustainable development process and should enable stronger cooperation between industry and citizens by using crowdsourcing methods, and a closer cooperation between the citizens and non-governmental organizations with the industry and the regulator.

ICT solutions that make a difference

Through innovative ICT solutions, Ericsson Nikola Tesla supports its customers in various ways so that they can improve their business processes and end services they provide to their customers. Whether it regards telecoms, national healthcare systems or land administration systems, our solutions are focused on the specific needs of every industry and our customers' business domain.

The solutions that Ericsson Nikola Tesla provides in the area of environmental protection and sustainable economic growth enable each industry to deal with monitoring, managing and reducing its environmental footprint and potential negative impacts that the industry can have on the local community, natural ecosystems and biodiversity in a systemic way.

5G connectivity is crucial for Europe to achieve climate goals

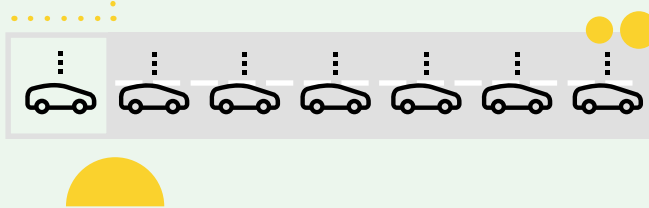
1

More connectivity, lower carbon future

Digitalization and connectivity can help enable the transition to a greener, lower-carbon future by helping to accelerate near-term carbon reductions towards halving emissions by 2030. Increased use of connectivity should be a priority for government across the world if they are to meet their goals for decarbonization and for a strong post-COVID economic recovery.



1 in 7



2

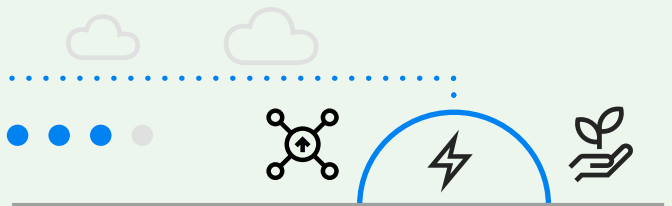
The transformative role of 5G

Ericsson's recent analysis of a European decarbonization scenario suggests that connectivity is a necessity for climate solutions corresponding to approximately 550MtCO₂e. That's equivalent to 15 percent of the EU's total emissions in 2017. By 2030, a further 55–170MtCO₂e of emissions savings per annum would be enabled by selected 5G specific use cases applied as an illustration of its potential. That's the equivalent of taking one in seven of the EU's cars off the road. 5G can play a similar transformative role in decarbonizing economies across the globe.

3

Breaking the energy curve

You might think that attempting to meet the rising demand for data could risk a sharp increase in emissions from mobile networks. However, this will not be the case with 5G. Today's 5G technology can break the energy curve, and thus accelerate the path to net-zero greenhouse gas emissions. This is a technological breakthrough that is available today.



4

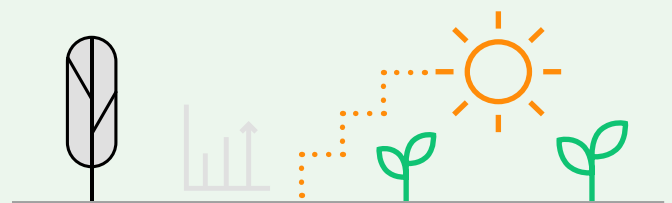
Faster roll-out required

Currently, according to the Ericsson Mobility Report, around 15 percent of the world's population is covered by 5G, and this is forecast to rise to 75 percent by 2027. Even if this is faster than the roll-out of 4G, it may not be enough to reach the ambitious global 2030 emissions reductions targets, as not only good coverage is required but also enough capacity and high performance of the network to fully utilize 5G's potential to combat climate change.

5

Government investment encouraged

There are things that governments can do today to accelerate the roll-out of 5G. Governments need to focus on connectivity and 5G to benefit from its ability to help achieve the shared goals of a transition to net-zero greenhouse gas emissions and a more sustainable economy, and there are a number of policy initiatives that would have a big impact in bringing this about.



The Group helps its customers to monitor and address the impact all stakeholders in their value chain have on the environment. The basis is monitoring one's business process that results in direct impact on the environment, and arises from the company's business process. However, an indirect impact on the environment is equally important, which is manifested through business performance of suppliers and partners whose services are being used, as well as end users who use products and services of any industry.

Implementation of the eEnvironment platform, which is Ericsson Nikola Tesla's own solution, provides support to the company's partners in everyday activities of the environmental protection service through automated data collection, increased data robustness on which they base their business decisions, and automation of the decision-making process based on predictive analytics. Moreover, the platform enables a transparent relation with:

- members of the local community whose lives it impacts (with the possibility to inform and educate the community on the importance of sustainable business and environmentally responsible behavior),
- non-governmental organizations dedicated to nature protection and the scientific community,
- state as the regulator and protector of the environment and the quality of citizens' lives.

We have implemented our solutions in two areas: energy sector, which has a significant impact on natural habitats and biodiversity even when using renewable energy sources (hydroelectric power plant), and tourism, which has a direct negative impact on the environment through increased urbanization as a result of increasing demand for tourist resources, and which damages resources that are key for providing services in tourism - sea quality and cleanliness.

Application in energy sector

Through a project we have been implementing in cooperation with Elektroprivreda HZHB Mostar, we are trying to minimize the impact that the hydroelectric power plant Čapljina has on the Nature Park Hutovo blato. According to an analysis made within the project carried out by a non-governmental organization World Wild Fund for Nature (WWF), there has been a significant change in the hydrological regime in the Nature Park Hutovo Blato with a direct impact on natural habitats and biodiversity of the area which could result in the complete

loss of the swamp system in this area within the next 35 years should there be a lack of reaction and positive changes in the way hydrological resources are used.

Elektroprivreda HZHB, as one of the industrial stakeholders operating in this area, had recognized the importance of its impact on the swamp ecosystem and decided to implement Ericsson Nikola Tesla's eEnvironment platform.

To support the efforts of the Ministry of Environment and Tourism in the Federation of Bosnia and Herzegovina and enable a smooth implementation of actions predicted by the WWF in the action plan "Revitalization of swamp ecosystem Hutovo Blato", Elektroprivreda HZHB will install five sensor stations to monitor physical and chemical properties of water in the area of hydroelectric power plant Čapljina.

The Platform will gather data from measuring stations and enable a central data storage and analytics in order to automate the estimation of the eutrophication level of Hutovo Blato aquatic ecosystems. Furthermore, the system will also enable early warning for certain targeted parameters and data sharing with the local and scientific community, all with the aim of sustainable management before and especially after the implementation of restoration activities that are described in the mentioned action plan.

A round table "Water karst ecosystems. Current situation and outlook" was held recently as part of the project ECOBIAS that is carried out by the Faculty of Science and Education (University of Mostar) and its partners. At the round table, representatives of key stakeholders in the protection of Hutovo Blato ecosystem concluded that the model of cooperation and use of collected data and analyses need to be additionally elaborated.

By using the eEnvironment platform, Elektroprivreda will automate its business process of collecting and handling data about the health of aquatic ecosystems that it directly impacts, it will enable central data storage and realize prerequisites for a transparent approach to all stakeholders. Last, but not least, it will increase the capacities of its environmental protection service that will, according to the predictions of representatives of Elektroprivreda HZHB, increase the number of employees in the environmental protection service.

Through comprehensive changes and with the use of the latest technologies that are an integral part of Ericsson Nikola Tesla's eEnvironment platform, Elektroprivreda HZHB is positioning itself as an industry leader in environmentally responsible behavior.

Application in tourism

As one of the leading Croatian economy sectors, during its best business years such as 2017, 2018 and 2019, tourism contributed to GDP with approximately 20%, whereas the main comparative advantage of Croatian tourism, when compared to its competitors, is the natural beauty and rich biodiversity in a relatively small geographic area. Continuous growth in demand for services in tourism was the main initiator of local development and increased urbanization in the coastal area, which resulted in building public infrastructure, hotels, as well as a large number of private accommodations, which was often not accompanied by the development of utility infrastructure.

Such situation, exacerbated by significant climate change and a large increase in the number of users of utility infrastructure during summer months, has a strong negative impact on bathing water quality and the health of ecosystem, which are the main assets of Croatian tourism.

A strong impact of climate change is manifested in various ways and through different meteorological phenomena; however, in this context, we are focusing on the increased local precipitation during summer months that, combined with the utility infrastructure overload due to an unusually large number of users, often leads to sewage system or septic tank overflow in surface waters (for example, rivers in coastal area).

Unfortunately, until now, this kind of impact could be monitored only after it already took place, which often led to sea pollution and negative impacts on swimmers' health, who had often been unaware of the pollution that occurred. Project Watercare that was carried out by the Split-Dalmatia County and its partners focused on the transformation of monitoring bathing water contamination from a reactive to a proactive system.

In order to solve this problem, it was necessary to overcome technological challenges related to central data storage and digitalization of all the existing bases that, with the use of analytical and predictive systems, can provide information to the end user (tourist or an employee of a local municipality) in order to reach timely and quality decisions.

Ericsson Nikola Tesla implemented its solution based on the eEnvironment platform for environmental data visualization and informing end users, where in real time one can see bathing water quality and the prediction for potential movement of fecal contamination, if it occurs, for three Croatian rivers: Neretva, Cetina and Raša, and three locations in Italy: Pescara and two locations on the river Arzilla (mouth of the river and upstream from the estuary).

Responsibility towards the environment

Ethics, responsibility and sustainability are embedded in the foundations of Ericsson Nikola Tesla Group's business, and we strictly adhere to them in all our activities. We also expect our business partners to do the same.

The norms defined by 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.

Requirements have been renewed that oblige our suppliers to adhere to the valid regulations related to environmental protection, starting from production, transport, energy consumption, water management, up to waste and circular approach application.

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. More significant suppliers are monitored through the audit process with the aim to fix their potential omissions and to communicate good practices to others; all this with the aim to achieve sustainable management. In this way, we actively evaluate our impact on the environment and contribute to 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 improvement programs, which encompass plans and specific objectives to reduce the impact on the environment. We try to additionally improve our knowledge and experience, and share it with our suppliers/contractors, business partners and the wider community.

In 2021, in Ericsson Nikola Tesla Group the audits were carried out by the certification authorities SGS Adriatica d.o.o. and TÜV AUSTRIA. The audits did not record a single non-compliance, and the auditors highlighted us as an example of how to organize and implement responsible business.

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, on Ericsson Nikola Tesla Group level, as well as towards the general public. We foster quality cooperation with government bodies, specialized companies and institutions, as well as media and other interested parties.



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

We 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 use natural resources rationally with a personal engagement in preserving biodiversity. Additionally, for our employees, as well as for our business partners, we hold workshops and lectures about the environmental protection system that was established in ENT Group. We do this with the aim not only to sustain, but also to improve the high level of awareness for these issues.

In cooperation with our service providers, we have already replaced a larger part of single-use plastic products with the ones from ecologically more acceptable materials, and we also encourage our employees to do so. We believe that by publicly conveying adequate messages, such as those about avoiding the use of single-use plastics, we encourage personal responsibility, and through our example, positively impact others, thus proving that the contribution of each individual and each company is an important and vital segment of fighting for a cleaner and a healthier environment.

We educate our employees about the responsibility towards the environment. All the employees were given thermos bottles for personal use in order to additionally reduce the use of single-use plastic cups that pollute the environment.



Energy consumption

We have been systematically working to optimize the consumption of all energy and other natural resources, of which we regularly inform the public. Knowledge is the foundation of our portfolio, and we use it daily to rationalize energy consumption, which represents one of our key resources.

We have continuously been applying innovative measures of energy efficiency because high energy consumption is the necessary prerequisite of our production in the center for communication equipment and networks, which has been gaining new market responsibilities.

We especially highlight that in our business operations, we use energy from renewable energy sources.

The impacts of improving energy efficiency of our production premises and the improvement of energy efficiency process have been visible as early as in the first year after the completion of a large project for improving energy efficiency of part of our production resources and buildings. The project was co-funded by the EU funds from the European Structural and Investment Funds within

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

year	water (m³)	steam (tonnes)	electricity (MWh)
2019	21,195	6,921	22,467
2020	17,848	6,214	23,701
2021	13,990	6,018	22,556

The data shows how investing in infrastructure reconstruction and renovation, as well as using a central monitoring system, results in optimization of consumption of water and steam for heating purposes. Regardless of a great increase of capacity, in the last three years we have been reducing the consumption of steam for heating purposes, the consumption of water, and last year we also reduced electricity consumption.



the "Competitiveness and Cohesion" Operational Program 2014-2020. This is reflected in the reduction of electricity consumption despite the fact that the amount of equipment increased due to gaining new extensive activities that take place on our testing systems, i.e. Test Environment, which is also our largest consumer of electricity.

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

Technological solutions of using heat pump 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.

To heat the premises, we use waste heat from condensation from inverter water cooler for the technology part (test environment), which is running throughout the entire year. This means that from the technology cooling system we gain "free" thermal energy; in the winter for heating and hot water and during summer for hot water.

The production process, which is characterized by intellectual work of many experts, as well as equipping new work premises, results in significant consumption of water and steam. Regardless of the continuous increase in the number of employees, owing to the infrastructure reconstruction, the central monitoring of consumption and a more quality system management and maintenance, and the fact that in 2021 a large number of employees worked from home, the consumption of steam, and water even more so, significantly declined, which additionally contributes to the realization of our strategic goals related to "green business" and sustainable development.

We use intelligent tools for collaboration, thus ensuring 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, as well as integration and software network upgrade.

Sustainable waste management

Ericsson Nikola Tesla Group recognizes environmental aspects, and takes into consideration possible impacts on the environment, as well as a real possibility of the organization to impact certain aspects. With a systematic analysis, carried out using selected criteria, we define significant and less significant aspects on which ENT Group can realistically impact. One of the categories we specially take into account is waste.

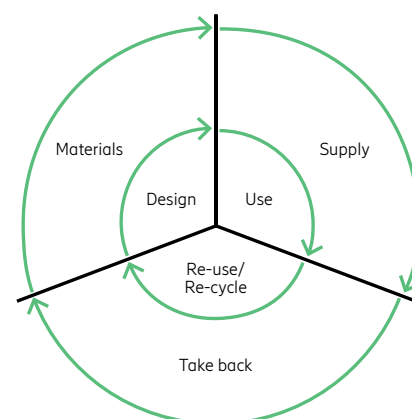
We manage waste consistently primarily in line with the new Act on Sustainable Waste Management, in force as of July 2021, and Ordinance on Waste Management, as well as corresponding regulations for special waste categories. Our internal procedures are aligned with the mentioned laws and regulations. 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 providers of services related to transport and disposal/recycling of waste, and manage all the required documentation on the way the waste is created and managed. The Company also meets all the obligations stipulated by the Ordinance on the management of waste of electrical and electronic appliances and equipment, and takes care of electronic waste on our sites in a prescribed way. In line with certain customers' demands, we take care of disposing their electric and electronic equipment.

As an entrepreneur responsible for the environment we have been continuously working to improve the processes, and

thus waste sorting is the obligation of each employee. As opposed to a linear model, in which the products are discarded after they were used, and which therefore demands a great amount of cheap materials and energy, a circular approach implies a model of production and consumption that includes sharing, borrowing, reusing, repairing, renewing and recycling of existing products and materials for as long as it is possible in order to create a long-term product value. In this way, the product's life cycle is extended, and at the same time, the amount of waste is reduced.

As a company, we have embraced the second approach. Therefore, to support the recycling process, special, clearly marked containers for paper, cardboard, batteries, etc. have been placed in many places in work areas, and are regularly being emptied by external contractors. Should there be a need to take care of a larger amount of waste than usual, for example, when moving into new working areas, the employees have the corresponding support provided by the General Services helpdesk.

We encourage the circular economy



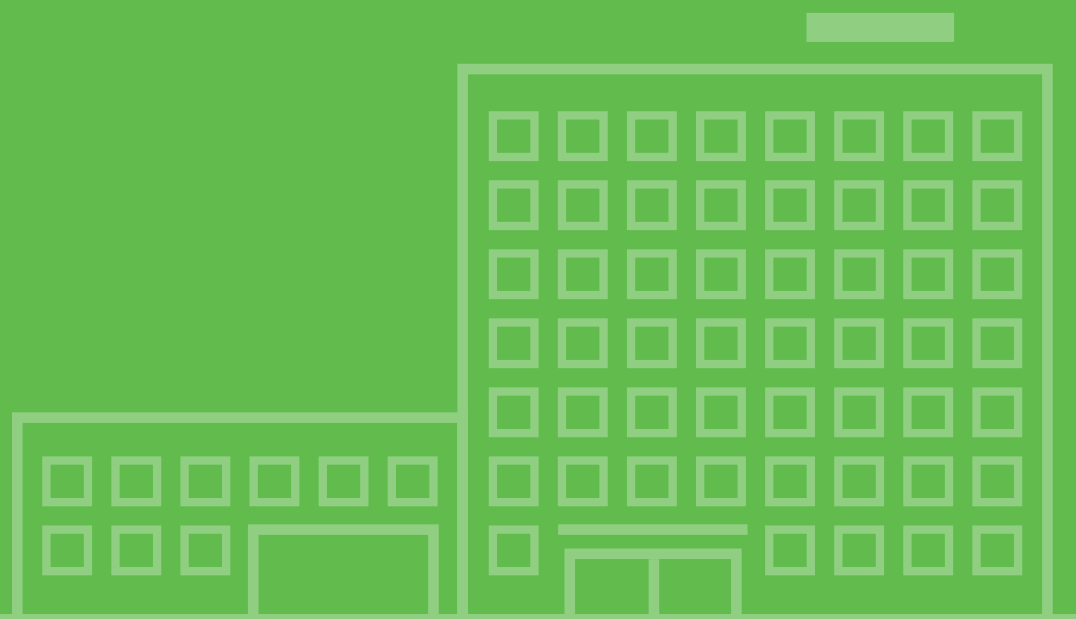
In 2021, we had 13 types of waste, four of which are categorized as hazardous types of waste. We have continued the trend of waste reduction at the headquarters, Krapinska 45 in Zagreb. Compared to 2020, the total amount of waste, especially plastic packaging, was reduced. This can primarily be attributed to the delivery of ordered materials in ecologically more acceptable packaging, more conscious sorting of waste packaging, as well as continuously raising awareness about the importance of responsible relation towards the environment and increasing knowledge on sustainability among employees and service providers, which is an important integral part of our business practice. A decrease in the amount of electronic waste and discarded equipment is the result of the intensive use of new technology and contracted services.

Considering the completion of the energy efficiency project, in 2021 we still had types of waste that are usually not typical for us (mixed construction waste and flat glass). We expect that in 2022 there will be a very small amount of these types of waste. In addition, the amount of waste batteries increased, which is directly linked to the newly contracted business, according to which we took over the responsibility towards the customer to take care of such type of waste.

Facts and figures

Waste generated at Ericsson Nikola Tesla's location in Zagreb, Krapinska 45, in 2021

Key waste code	Waste name	Amount in kg
15 01 01	Paper and cardboard packaging	31,070
20 01 01	Archive	3,760
16 06 01*	Batteries and accumulators	4,515
20 01 33*	Small batteries	140
15 01 02	Plastic packaging	14,140
15 01 03	Wooden packaging	21,040
17 04 05	Iron and steel	14,940
20 01 21*	Fluorescent tubes	180
16 02 13*	Electric and electronic waste	9,327
20 01 02	Flat glass	2,660
17 09 04	Mixed construction waste	5,780
20 03 07	Bulky waste	1,100
15 01 07	Packaging glass	520
Total (in kg)		109,172



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Ericsson Nikola Tesla Group

Social responsibility

Social responsibility

The Group has been continuously initiating and implementing activities related to its positive impact and changes in the society, primarily through technology leadership and innovative ICT solutions to improve people's lives and develop the society and the economy. Advanced technologies have proven to be crucial for the best possible quality of life and work, and we also want to emphasize this advantage to our society.

Owing to our stable business performance and economic sustainability, the Group contributes to the quality of national economy, invests in development and promotes positive practice in all aspects of business.

In the area of social responsibility, we have remained focused on three main areas that are closely correlated with the current needs of the society, as well as the Company's long-term goals and our comparative advantages:

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

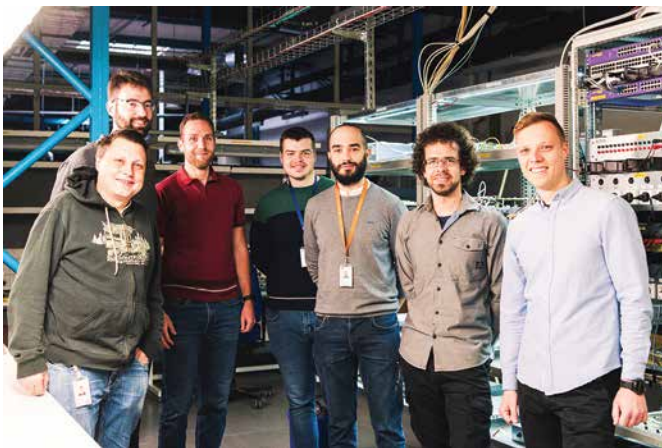


Young people in focus

We all know that the future belongs to young people. Young people who are still pursuing their education will be the ones who will work on the majority of the jobs in the future and, according to all indicators, the most successful ones will be the ones with STEM education.

In the European Union document "Path to the Digital Decade", the 2030 targets state that the current number of 8.4 million experts working in ICT (in 2021) will increase to an astounding 20 million of required professionals. This piece of information clearly illustrates the potential and the options this industry is opening for young people who have the required competences.

It is therefore extremely important that strong companies such as Ericsson Nikola Tesla provide the maximum support for the quality education of young people, thereby preparing them in the best way possible for future professional challenges. With this aim, the company carries out many and various activities with young people and/or aimed at young people.



External hackathon

The Research & Development (R&D) Center organized the first hackathon for participants other than our employees, and on this occasion, it was held online. This was a Digital Signal Processing hackathon. It lasted for a bit more than a month and 40 competitors were given tasks. Afterwards the solutions were submitted to our Github account for evaluation. We immediately hired the competitors who were best at task solving, and we expect that the project will have a further positive impact.



Traditionally attending the DUMP Days Conference

The association of young developers DUMP Days at the Split Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture enables different generations of developers, designers and digital engineers to exchange knowledge. In addition, they are focused on creating business connections with employers, and thus a large number of IT companies joins the gathering. What makes this conference different from other similar events is the fact that it is organized exclusively by students and is well accepted among both students and pupils. Representatives of Ericsson Nikola Tesla held several interesting lectures and have informed the participants about the possibilities of student work, employment, cooperation with regard to projects or writing their graduation thesis, etc.



Workshop on Embedded Systems

In 2021, we participated once more in the successful Workshop on Embedded Systems (WES), organized by the Faculty of Electrical Engineering and Computing in Zagreb. This free professional workshop was organized for the sixth time by EESTEC LC Zagreb and it was held under conditions that resembled the ones we were used to before the pandemic. Our R&D experts held a live presentation to students explaining what Ericsson Nikola Tesla does in the Embedded segment. In addition to the theoretical part, our experienced engineers shared information gained through practice, and the students tested their knowledge on a practical assignment.



Dialog with students

In addition to the above mentioned, we supported many student events dedicated to their employment. "A Walk through Careers" (Croatian: Karijerni špancir) held during the Career Week at the Faculty of Organization and Informatics (FOI) in Varaždin, Career Days at the Faculty of Science (PMF) in Zagreb, and Career Speed Dating at the Faculty of Electrical Engineering and Computing (FER) are just some of them. Our team of gathered experts presented various solutions and functionalities we have been developing to students, while the students shared information on what they are learning about these topics in their respective faculties; after this, both parties concluded how to apply this knowledge in practice.



Labor market needs to adjust

Craft College from Zagreb was the host of a study visit of the working group Education and Stakeholders of the European network Chain5 which works on the development of level 5 of the European Qualification Framework (higher professional education, short study visits). During the meeting with the representatives of the responsible ministry, agencies and educational institutions, the models of linking the employers and the needs of the labor market with educational system were considered, and the expert profiles that are scarce were detected, such as the ones in ICT industry. On this occasion, the representatives of high and higher educational institutions from the Netherlands, Belgium, United Kingdom, Estonia, Cyprus and Croatia visited Ericsson Nikola Tesla in Zagreb. During a fruitful discussion, they learned about the preferred profile of employees we have been intensively hiring, the required knowledge and skills, as well as about our cooperation with the academia as an important element to attract and retain quality experts.

Partnership for socio-economic development

Last, but not least, the United Nations' Sustainable Development Goal is "Partnerships for the Goals". We mention this to highlight the power the joined parties can have when they gather around a specific idea, agenda, goal, and are connected in a concrete and a constructive way.

This model has also been applied by our Group for many years with the aim of achieving growth and development for all stakeholders, including the society at large. When it comes to identifying needs, providing support and developing partnerships with the community, we are trying to use our proactive attitude to align local and national programs with the best international practice.

Together for gender equality

In Croatia, 29% of persons employed in tech companies are women, which is lower than the European average of 38%, and only 19.2% of women hold managerial positions. However, not everything is as hopeless as it seems and this can be seen in the fact that the comparison of salaries in the IT sector shows there is little or no difference in earnings between women and men, as compared to other sectors. The demand for workforce is high and jobs require certain skills and competences, which leaves no room for gender bias. Women can advance owing to their skills, competences and dedication to work, which is highly valued in our sector. Ericsson Nikola Tesla promotes and supports equality and equal rights for all; we are proud of our 580 female engineers and are convinced this number will continue to grow. We wish to copy this image onto the society in which we operate through cooperation with various stakeholders.

The exhibition "Women and technology - a gender-inclusive exhibition", the realization of which we have supported with exhibits from the company's archives, was opened in the Nikola Tesla Technical Museum in Zagreb. The exhibition was included in the permanent exhibition and addressed the topic of women that contributed to the development of science and technology, as well as the impact of science and technology on life and employment of women. It is also accompanied by the exhibition "140 years of telephony in Zagreb", which proved the fact that the telecommunications industry mostly hired women in the production in the second half of the 20th century. This exhibition also includes materials from Ericsson Nikola Tesla's archives as an

important link in hiring women in tech for more than seven decades.

The reason to be proud of strong women - employees of Ericsson Nikola Tesla was highlighted in Split. In the House of Language and Culture in Peristil, the newspaper Slobodna Dalmacija held an exhibition "A Woman who Inspires". Among the 23 strong and successful women included in the exhibition, three are from our company: Gordana Kovačević, a leader of a successful company, Ana Mijić, an engineer who, as a mountain climber and a speleologist, volunteers in rescue actions, and Nikolina Sušić Stanković, an expert working in the Company's Research and Development Center, who is a multiple ultra-marathon winner in numerous races worldwide.

Within the initiative "Women in Technology" that is also supported by our Group, we have participated in several events aimed at female students and educating them on technologies they can use in their future professions. For example, senior-year female students at schools of medicine gained a better insight in the contributions and advantages of using modern ICT technology and its application in health care, which also contributes to their empowerment.

Technology for improving the quality of life of persons with disabilities

At the end of September, Zagreb Association for the Blind organized presentations of the EVA app that was fully developed in Ericsson Nikola Tesla and put into production at the end of 2018. This app is actually a virtual assistant, primarily developed for the persons who are blind and visually impaired, in order to enable them an easier and a simpler use of modern-day technologies. EVA was later upgraded for other people who are also interested in using the service of a virtual assistant.



Together for children with developmental disabilities

The fifth edition of the UNICEF humanitarian race Milky Way was held virtually, meaning everyone could participate and "collect kilometers" on tracks across Croatia. The funds were gathered to finance projects to provide support to children with disabilities in order to secure crucial services for children and their families in the areas with the least available service. Our Group also contributed - the company secured finances for the donation and support for projects, and the employees who are members of the company's running club actively participated and collected kilometers in Split, Osijek and Zagreb. In addition to the running club members, other employees who advocate an active lifestyle joined this initiative, thus contributing to the humanitarian goal and promoting the company.

Encouraged by the support of Ericsson Nikola Tesla and its runners to the successful realization of Milky Way, and the contribution made by the company's representative who participated in the UNICEF's Think Tank about Children's Rights and CSR, the representative of UNICEF for Croatia, Regina M. Castillo and her female associates visited the company's headquarters in Zagreb. They presented a Certificate of Appreciation to President of Ericsson Nikola Tesla, Gordana Kovačević, and opened a dialog to cooperate on other goals and projects.

Helping the community

We are all both particularly sensitive to the needs of many of our less fortunate fellow citizens living in difficult circumstances, as well as aware of our own chance to help them. For Ericsson Nikola Tesla Group, giving without expecting anything in return, is the sign of selflessness and understanding the needs of the community to which it belongs and which, as a socially responsible company, strongly supports.

As well as 2020, last year will be remembered by the global crisis caused by the pandemic, and in Croatia, also by dealing with the aftermath of devastating earthquakes. Adding to numerous ongoing issues in the society, such as poverty of the socially vulnerable groups, the inability to attain decent and quality living conditions, such as the opportunity to acquire education for some of the members of certain groups, etc., it is clear that the society's needs are very complex and extensive. It is hard to expect that the private sector can solve all the problems in the society, however, it can certainly help in their planned and systematic solving. In 2021, the Group has focused all its abilities on four socially responsible actions, using the Group's own estimation of the priority needs and areas for improvement, for which it usually stands in its activities.

Getting life back to normal in areas hit by earthquake

Following the disastrous earthquake in December 2020, in addition to our quick reaction when we donated substantial funds to help the earthquake victims, we have also continued to provide further support. It was equally important to establish, as soon as possible, the work of institutions and expert services in the earthquake-affected area in the Sisak-Moslavina County, in order for life and work to return to more or less normal conditions. We helped in doing so by donating IT equipment for the towns, areas and institutions, such as the retirement home, etc. struck by earthquake.

We provided an opportunity for young people to continue their formal education

In the company of knowledge, we advocate that each person has the

possibility to use their full potential to continue quality education and learning. Therefore, we decided to help young people without adequate parental care so that, after they leave the children's home, they continue their education having secured living conditions in housing communities. Furthermore, we have equally taken care of young people from vulnerable groups, young people living in poverty and young people with developmental difficulties. The funds were donated to Children's Home Zagreb, Children's Home Maestral, Split, Youth Association Breza, Osijek, Center for upbringing and education, Zagreb, and UNICEF in Croatia.

We recognized challenges of senior citizens

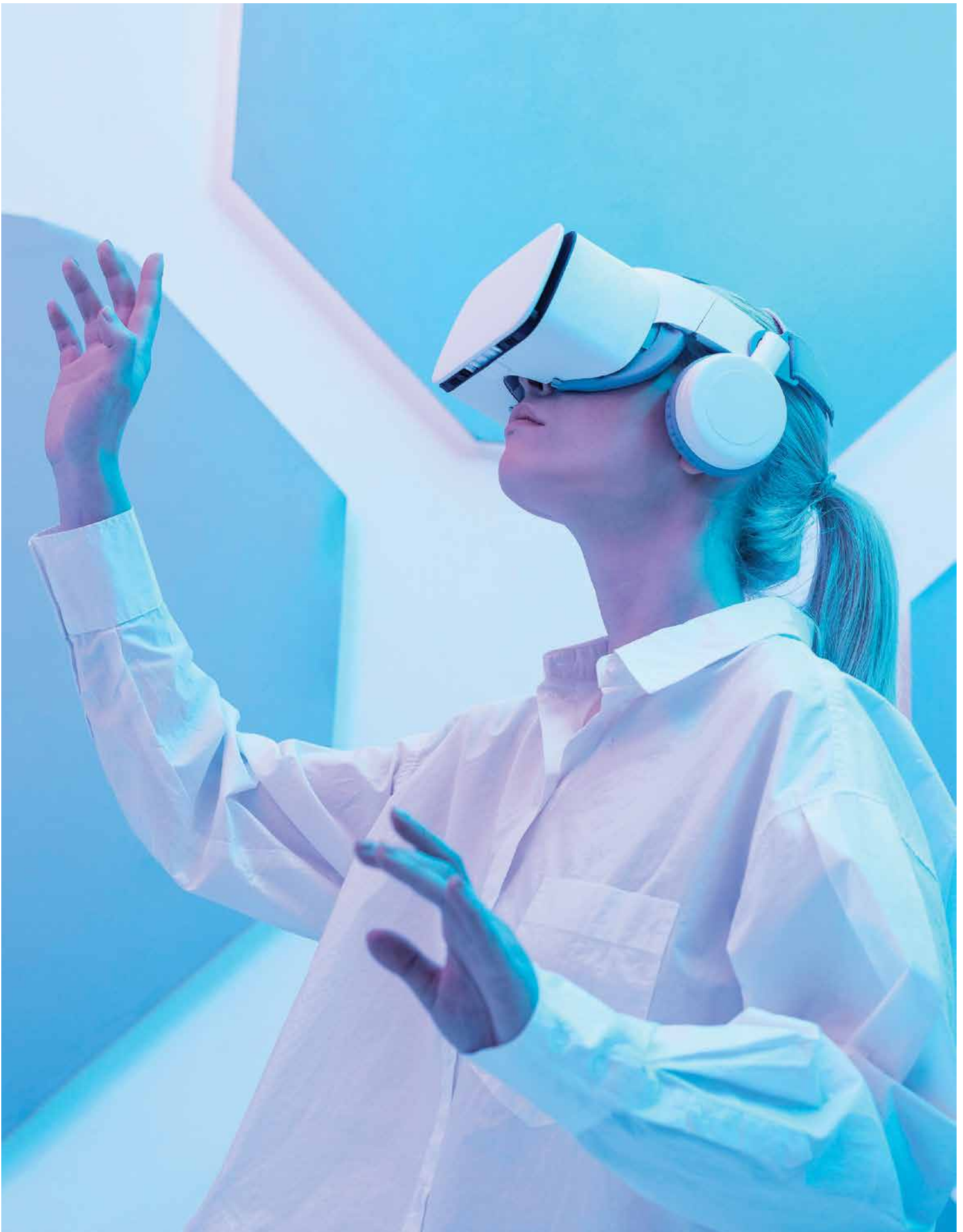
Since the population in Croatia is aging, it is clear that the requirements of senior citizens are increasing. The obstacles in achieving and maintaining a dignified and quality life in a senior age are becoming numerous and diverse, from health care to social issues. Senior citizens are often left on their own, while they are becoming less capable or even completely unable to live alone. We are aware that this situation differs from the dignified standard of living and have therefore donated funds to organizations that provide palliative care and support: an association of volunteers in palliative care, La Verna, and the Association "Zajednički put", as their work is of utmost importance for their residents and their families.

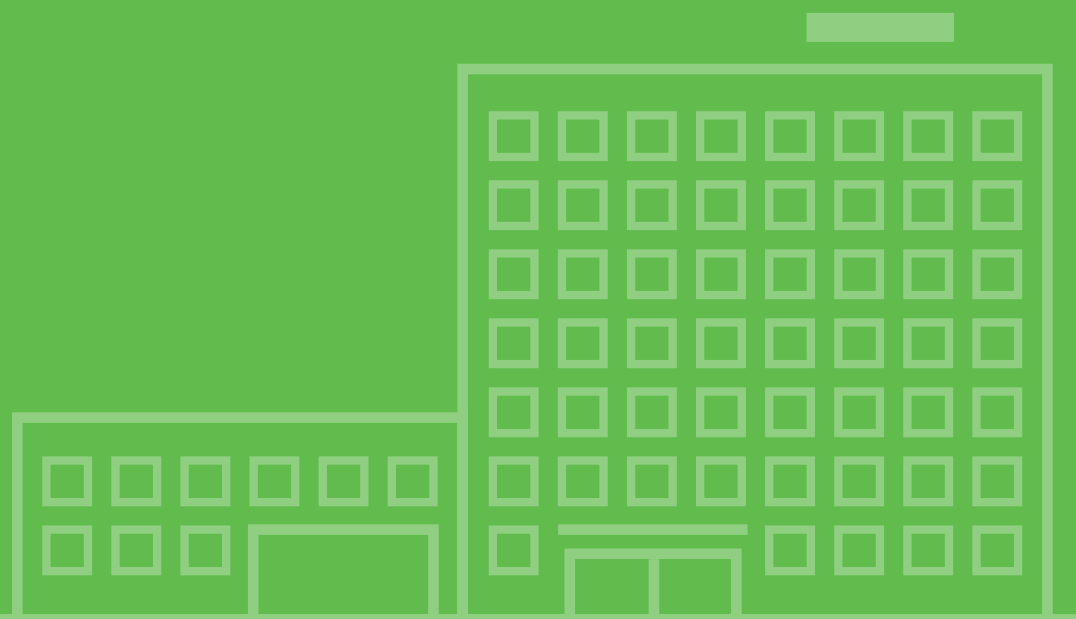
Furthermore, with the aim of improving living conditions, and in line with the definitions of circular economy, we equipped the Retirement Home Trešnjevka (the largest retirement home in Croatia) by donating our company's used furniture. Moreover, we continued with the practice of donating funds for hot meals in soup kitchens in Osijek, Split, Vukovar, and Zagreb.

Health and health care - always in our focus

After we helped healthcare institutions fighting against Covid-19 in 2020, last year we decided to help associations that provide support to people fighting cancer and their families as, unfortunately, the pandemic did not reduce the presence of other illnesses. Quite the contrary. These institutions are the following: Association for helping children and families facing malignant diseases "Kriješnica", Association of women fighting cancer and going through cancer treatment "Sve za nju", Association "Ana Rukavina", and Red Cross in Split.

In 2021, the Group has focused all its abilities on four socially responsible actions, using the Group's own estimation of the priority needs and areas for improvement, for which it usually stands in its activities.





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Ericsson Nikola Tesla Group

Objectives, achievements and indicators

Collaborate with us

This report and all the important information about Ericsson Nikola Tesla can be found at <https://www.ericsson.hr/en/homepage>.
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

2021

Recognition regarding environmental protection

For the first time, the Ministry of Economy and Sustainable Development awarded the business sector with national awards and recognitions for environmental protection in 2021. In the category "Management", Ericsson Nikola Tesla was recognized as an exceptional organization with a strategic vision and management system, which enable a continuous improvement of environmental characteristics. When awarding recognitions, it was highlighted that through a successfully realized energy efficiency project, Ericsson Nikola Tesla has already cut CO2 emission in half, which is the goal that the EU had set for 2030.



Recognition for the best Young Project Manager in 2020

Project Management Institute - PMI Croatia awarded the Recognition for the best Young Project Manager 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	2021 achievement
Implement customer projects and solutions related to the achievement of Sustainable Development Goals (SDGs)	Four cases were implemented: 3 in the Industry & Society segment - for Elektroprivreda HZHB - water quality monitoring at Hutovo Blato; for the Split-Dalmatia County - visualization of water quality at river mouths and seas; IRI project WaterQ Digital Transformation of Water Quality Monitoring. In transport segment, the project SumBooST2 represents the continuation of the SumBooST project that was realized in 2020. The implementation and validation of transport planning methodology based on Big Data was carried out. It will also be possible to use the developed methodology in other cities, and thus the new options of the tool will be applied in Zagreb, Dubrovnik, and Rijeka. They will identify the neighborhoods where car use is above average, and will identify transport, organizational and engineering measures to encourage transition to sustainable means of transport. The project was financed by the European Institute of Technology from H2020 program.
Encourage the reduction of impact on climate by reducing CO ₂ emissions in business-related activities	By implementing the project "Increasing Energy Efficiency and Using Renewable Energy Sources at Ericsson Nikola Tesla d.d.", we reduced dissipation of CO ₂ by 1375 t, compared to 2020. Considering the fact that in 2021 70% of employees worked remotely (worked from home), and that also business trips were reduced or limited, we decreased CO ₂ emission by an additional 933 t (extraordinary circumstances due to pandemic).

Risk mitigation objectives

Long-term objective	2021 achievement
Responsible sourcing: – percentage of audits performed out of total audits planned (with the weight of 40% in total result) – percentage of closed findings in total audit findings (with the weight of 60% in total result)	Achievement 96%
Compliance program	100% of active employees completed the courses regarding anti-corruption, data protection and health protection
Third Party Management 2.0	Implemented an improved procedure for checking and risk assessment of third parties (suppliers, partners in a consortium, etc.) under the name "TPM 2.0"
OHS 1. OHS-related audits: internal audits, supplier audits, field workers audits/15 audits, depending on the priorities 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/ 3 internal auditors 4. Workshops and lectures for employees regarding OHS (working in an ergonomic manner, working from home, health care topics, etc.) /2 workshops and/or lectures 5. Education of new evacuation managers in Zagreb and Split/ 30 employees 6. Improving the OHS system by introducing new tools	18 occupational health and safety audits were carried out at various locations and at the suppliers' locations. An instruction, as well as the form to report OHS incidents for all members of ENT Group were prepared and published on OHS Intranet pages, therefore, the objective was fully achieved. 10 employees of ENT Group passed the education for internal auditors for the ISO 45001 standard for Occupational Health and Safety. Within the new PrevENTION program, 4 lectures were held, as well as 10 online workshops, during which the employees could exercise with a personal trainer. 55 employees passed the education for evacuation and rescue managers. The goal was partially met by activating the joint platform to exchange OHS-related documents with the members of ENT Group, and further activities of an additional module will continue in 2022.

Statement on the application of the Code of Corporate Governance

The company applies the Code of Corporate Governance adopted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange.

The Code has been in force as of January 1, 2021 and is available on the website of the Zagreb Stock Exchange (<https://zse.hr/en>) and HANFA (<https://www.hanfa.hr/en/>).

The Company operates in line with good practice of corporate governance and mostly adheres to the recommendations of the Code. The explanation of deviations from certain recommendations, the application of which is currently not practical for the Company, are listed in the Annual Questionnaire on Compliance with the Code of Corporate Governance, which was approved by the Company's Supervisory Board. The Questionnaire is available on the websites of the Zagreb Stock Exchange and the Company.

Deviations from the Code of Corporate Governance are as follows:

– Chapter 3: Appointment of the members of the Management Board and the 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 pursuant to the Rules of Procedure of Ericsson Nikola Tesla d.d.'s Supervisory Board.

– Chapter 4: The Supervisory Board and its committees

Composition of the Supervisory Board
The company's Supervisory Board is not primarily composed of independent members. Out of a total of five members, two members are elected at the proposal of the largest shareholder, one member is the employee representative, 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 pursuant to the Rules of Procedure of Ericsson Nikola Tesla d.d.'s Supervisory Board.

– Chapter 5: Management Board

Composition of the Management Board

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

Management Board Duties

The Management Board does not have adopted Rules of Procedure: responsibilities and operation of the Company's Managing Director are defined by the Company's Articles of Association 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 the members of the Management Board and the Supervisory Board

Remuneration of the Management Board members

Remuneration Policy prescribes that the Company's Management Board shall not have the right to dispose shares it was attributed as part of the remuneration policy for at least a year since the date they were attributed. Share options are not a part of the package of the Management Board remuneration, therefore, the period during which the

Management Board should not use these options after the attribution date is not defined. The Remuneration Policy does not include the provisions that will closely determine the circumstances in which a part of the Management Board member remuneration would be retained or requested to be returned.

– Chapter 9: Shareholders and General Meeting

General Meeting

Due to the situation caused by COVID-19 pandemic, and in order to respect epidemiological measures, the members of the Supervisory Board gave their consent to one member to represent them at the General Meeting.

The Ten Principles of the UN Global Compact

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

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

principle		page
Human rights		
1.	Businesses should support and respect the protection of internationally proclaimed human rights; and	50, 62, 63, 64, 80
2.	make sure that they are not complicit in human rights abuses.	50, 62, 63, 64, 80
Labor		
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	62, 75
4.	the elimination of all forms of forced and compulsory labor;	50, 62, 64
5.	the effective abolition of child labor; and	62
6.	the elimination of discrimination in respect to employment and occupation.	62, 80
Environment		
7.	Businesses should support a precautionary approach to environmental challenges;	88-95
8.	undertake initiatives to promote greater environmental responsibility; and	88-92
9.	encourage the development and diffusion of environmentally friendly technologies.	90
Anti-Corruption		
10.	Businesses should work against corruption in all its forms, including extortion and bribery.	68

GRI index

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

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Economic performance (GRI 201)		
201-1	Direct economic value generated and distributed	online
201-2	Financial implications and other risks and opportunities due to climate change	online
201-3	Defined benefit plan obligations and other retirement plans	online
201-4	Financial assistance received from government	online

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

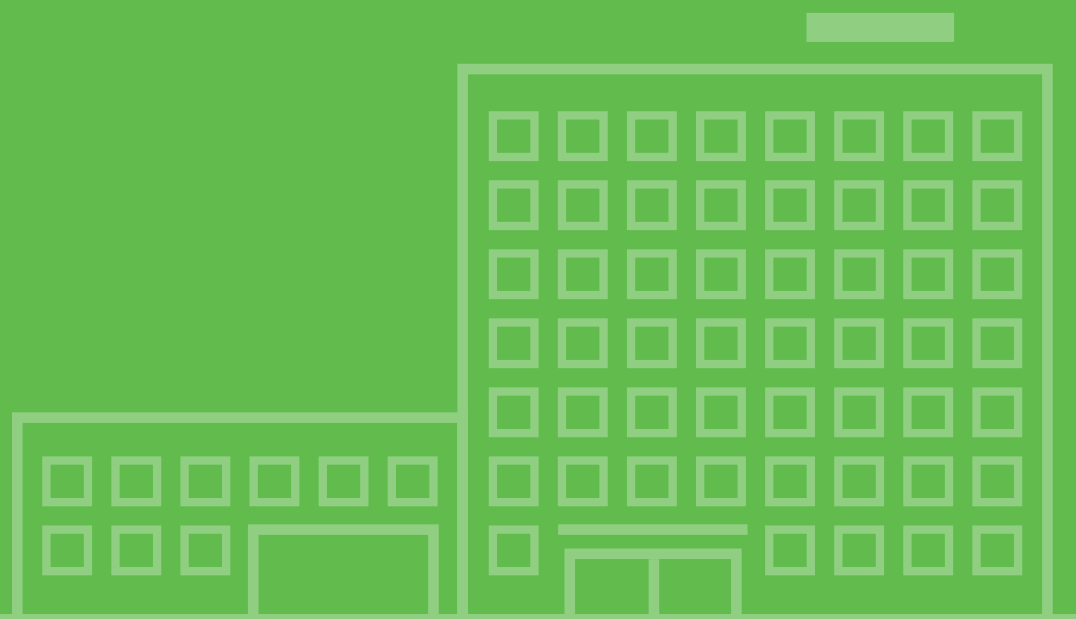
GRI	Topic-specific disclosures	reference
Market Presence (GRI 202)		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	83
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203-1	Infrastructure investment and services supported	98
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204-1	Proportion on spending on local suppliers	66
Anti-corruption		
205-1	Operations assessed for risks related to corruption	68
205-2	Communication and training about anti-corruption policies and procedures	68
205-3	Confirmed incidents of corruption and actions taken	68
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206	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	N/A
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Materials (GRI 301)		
301-1	Materials used by weight or volume	N/A
301-2	Recycled input materials used	95
301-3	Reclaimed products and their packaging materials	95
Energy (GRI 302)		
302-1	Energy consumption within the organization	94
302-2	Energy consumption outside the organization	N/A
302-3	Energy intensity	N/A
302-4	Reduction of energy consumption	94
302-5	Reductions in energy requirements of products and services	90
Water (GRI 303)		
303-1	Water withdrawal by source	N/A
303-2	Water sources significantly affected by withdrawal of water	94
303-3	Water recycled and reused	N/A
Biodiversity (GRI 304)		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A
304-2	Significant impacts of activities, products, and services on biodiversity	90
304-3	Habitats protected or restored	N/A
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	N/A
Emissions (GRI 305)		
305-1	Direct (Scope 1) GHG emissions	88, online
305-2	Energy indirect (Scope 2) GHG emissions	88, online
305-3	Other indirect (Scope 3) GHG emissions	online
305-4	GHG emissions intensity	88
305-5	Reduction of GHG emissions	88
305-6	Emissions of ozone-depleting substances (ODS)	N/A
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	N/A
Effluents and Waste		
306-1	Water discharge by quality and destination	94

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

GRI	Topic-specific disclosures	reference
306-2	Waste by type and disposal method	95
306-3	Significant spills	95
306-4	Transport of hazardous waste	N/A
306-5	Water bodies affected by water discharges and/or runoff	N/A
Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	88
Supplier Environmental Assessment		
308-1	New suppliers that were screened using environmental criteria	93
308-2	Negative environmental impacts in the supply chain and actions taken	93
Social		
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401-1	New employee hires and employee turnover	74
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	76
401-3	Parental leave	78
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403-1	Workers representation in formal joint management–worker health and safety committees	70
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	85
403-3	Workers with high incidence or high risk of diseases related to their occupation	70
403-4	Health and safety topics covered in formal agreements with trade unions	70
Training and Education (GRI 404)		
404-1	Average hours of training per year per employee	n.p.
404-2	Programs for upgrading employee skills and transition assistance programs	74
404-3	Percentage of employees receiving regular performance and career development reviews	74
Diversity and Equal Opportunity		
405-1	Diversity of governance bodies and employees	74, 80
405-2	Ratio of basic salary and remuneration of women to men	74
Non -discrimination		
406-1	Incidents of discrimination and corrective actions taken	N/A
Freedom of Association and Collective Bargaining		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	66
Child Labor		
408-1	Operations and suppliers at significant risk for incidents of child labor	62
Forced or Compulsory Labor		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	62
Security Practices		
410-1	Security personnel trained in human rights policies or procedures	50
Rights of Indigenous Peoples		
411-1	Incidents of violations involving rights of indigenous peoples	50
Human Rights Assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	62

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

GRI	Topic-specific disclosures	reference
412-2	Employee training on human rights policies or procedures	51
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	50, 62
Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	98-102
Supplier Social Assessment		
414-1	New suppliers that were screened using social criteria	66
414-2	Negative social impacts in the supply chain and actions taken	66
Public Policy		
415-1	Political contributions	N/A
Customer Health and Safety		
416-1	Assessment of the health and safety impacts of product and services categories	90
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	90
Marketing and Labeling		
417-1	Requirements for product and service information and labeling	N/A
417-2	Incidents of non-compliance concerning product and service information and labeling	N/A
417-3	Incidents of non-compliance concerning marketing communications	N/A
Customer Privacy		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	65
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	N/A



Annual report 2021
Ericsson Nikola Tesla Group

3 | Consolidated Financial Statements and Independent Auditors' report

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:

- two are domiciled in Croatia:
Ericsson Nikola Tesla Servisi d.o.o.
Libratel d.o.o.
- One is domiciled in Bosnia and Herzegovina:
Ericsson Nikola Tesla BH d.o.o.
- One is domiciled in Kosovo:
Ericsson Nikola Tesla d.d. - Branch office Kosovo
- One is domiciled in Belarus:
Ericsson Nikola Tesla BY d.o.o.

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 of Ericsson Nikola Tesla d.d.

Supervisory Board

The Supervisory Board members during 2021 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
Petra Vranjes	Member	Appointed on 29 June 2021
Ana Vrsaljko Metelko	Member	Appointed on 29 June 2021
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018
Vidar Mohammar	Member	Reappointed on 13 June 2019; member until 29 June 2021
Dubravko Radošević	Member	Reappointed on 20 June 2018; member until 29 June 2021

Ericsson Nikola Tesla Group

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

Audit Committee

The Audit Committee members during 2021 and up to the release of these consolidated statements were:

Olgica Spevec	Chairman	Appointed on 17 December 2020
Petra Vranjes	Member	Appointed on 12 July 2021
Vesna Vašiček	Member	Appointed on 21 February 2017
Vidar Mohammar	Member	Reappointed on 13 June 2019; member until 29 June 2021

Management Board

The Management Board has one member:

Gordana Kovačević	President	Reappointed on 17 December 2019
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Executive management

As at 31 December 2021, 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
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.
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
Željko Antolić	Director, Human Resources

Ericsson Nikola Tesla Group

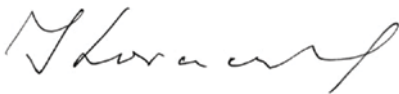
Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual consolidated financial statements

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 at the Annual General Meeting of Shareholders.

The consolidated financial statements set out below were authorized by the Management Board on 20 April 2022 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 2021, 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 2021 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 2021: HRK 2,203,897 thousand (2020: HRK 2,022,953 thousand). As at 31 December 2021: trade accounts receivable: HRK 201,473 thousand; contract liabilities: HRK 289,976 thousand (31 December 2020: trade accounts receivable: HRK 193,332 thousand; contract liabilities: HRK 192,322 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 2021, 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 (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 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 Statements (continued)

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 material 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.



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 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.



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 29 June 2021 to audit the consolidated financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2021. Our total uninterrupted period of engagement is three years, covering the year ended 31 December 2019, 31 December 2020 and 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 19 April 2022;
- 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.



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

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the consolidated financial statements, as included in the consolidated annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the consolidated financial statements in the applicable xHTML format and their publication
- the selection and application of appropriate iXBRL tags, using judgment where necessary
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Group's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the consolidated financial statements included in the consolidated annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)* issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the consolidated financial statements of the Group presented in human-readable format;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;



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

Report on Compliance with the ESEF Regulation *(continued)*

Auditors' Responsibilities *(continued)*

- evaluating the appropriateness of the consolidated use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the consolidated financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements of the Group as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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20 April 2022

Ericsson Nikola Tesla Group

Consolidated statement of comprehensive income

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Sales revenue	5, 6	2,203,897	2,022,953
Cost of sales	7	(1,949,570)	(1,848,582)
Gross profit		254,327	174,371
Selling expenses	7	(42,455)	(40,122)
Administrative expenses	7	(50,290)	(43,707)
Other operating income	7	26,000	23,185
Impairment loss on financial assets		(1,158)	(9,336)
Operating profit		186,424	104,391
Finance income	9	9,566	6,125
Finance expense	9	(1,802)	(3,884)
Finance income/(expense), net	9	7,764	2,241
Profit before tax		194,188	106,632
Income tax	10	(16,840)	(12,092)
Profit for the year		177,348	94,540
Other comprehensive income			
Currency translation differences		(115)	(222)
Total comprehensive income for the year		177,233	94,318
Earnings per share (HRK)	11	133	71

Ericsson Nikola Tesla Group

Consolidated statement of financial position

as at 31 December 2021

		2021	2020
Assets	Notes	HRK '000	HRK '000
Non-current assets			
Property, plant and equipment	12	134,198	153,802
Right of use assets	28	52,087	53,955
Intangible assets	13	5,257	4,522
Loans and receivables	14	21,928	37,867
Deferred tax assets	10	15,606	9,541
Total non-current assets		229,076	259,687
Current assets			
Inventories	15	142,852	86,616
Trade receivables	16	201,473	193,332
Receivables from related parties	29 (c)	76,808	89,002
Other receivables	17	35,994	6,226
Income tax receivables		181	11,979
Prepayments		6,787	33,411
Financial assets at fair value through profit or loss	18	32,997	32,966
Cash and cash equivalents	19	477,487	281,056
Total current assets		974,579	734,588
Total assets		1,203,655	994,275

Ericsson Nikola Tesla Group

Consolidated statement of financial position (continued)

as at 31 December 2021

		2021	2020
Equity and liabilities	Notes	HRK '000	HRK '000
Equity			
Share capital	20 (a)	133,165	133,165
Treasury shares	20 (b)	(12,421)	(506)
Legal reserves	20 (c)	6,658	6,658
Reserve for treasury shares	20 (d)	36,512	13,904
Reserve of currency conversion		(396)	(281)
Retained earnings		240,524	192,934
Total equity		404,042	345,874
Non-current liabilities			
Borrowings	21	17,031	30,387
Lease liabilities	28	33,674	37,384
Other non-current liabilities	22	446	1,095
Employee benefits	23 (a)	8,597	10,388
Total non-current liabilities		59,748	79,254
Current liabilities			
Payables to related parties	29 (c)	12,628	10,937
Borrowings	21	14,134	14,316
Trade and other payables	24	253,501	230,553
Income tax payable		16,806	2,463
Provisions	25	13,601	13,718
Accrued charges and deferred revenue	26	120,483	87,262
Contract liabilities	27	289,976	192,322
Lease liabilities	28	18,736	17,576
Total current liabilities		739,865	569,147
Total liabilities		799,613	648,401
Total equity and liabilities		1,203,655	994,275

Ericsson Nikola Tesla Group

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Share capital HRK '000	Treasury shares HRK '000	Legal reserves HRK '000	Reserve for treasury shares HRK '000	Translation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
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)
Shares granted, Note 23 (b)	-	969	-	(969)	-	-	-
Share-based payments, 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
As at 1 January 2021	133,165	(506)	6,658	13,904	(281)	192,934	345,874
Changes in equity for 2021							
Total comprehensive income	-	-	-	-	(115)	177,348	177,233
Dividend distribution for 2020, Note 20 (e)	-	-	-	-	-	(109,162)	(109,162)
Purchase of treasury shares, Note 20 (b)	-	(14,307)	-	-	-	-	(14,307)
Shares granted, Note 23 (b)	-	2,392	-	(2,392)	-	-	-
Transfer	-	-	-	25,000	-	(25,000)	-
Share-based payments, Note 23 (b)	-	-	-	-	-	4,404	4,404
Total contributions by and distributions to owners of the parent recognized directly in equity	-	(11,915)	-	(22,608)	-	(129,758)	(119,065)
As at 31 December 2021	133,165	(12,421)	6,658	36,512	(396)	240,524	404,042

Ericsson Nikola Tesla Group

Consolidated statement of cash flows

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Cash flows from operating activities			
Profit before tax		194,188	106,632
Adjustments for:			
Depreciation and amortization	7, 12, 13, 28	57,096	55,686
Effects of lease derecognition		(19)	(217)
Impairment losses and reversals		760	(8,715)
Gain on sale of property, plant and equipment		(68)	(168)
Net loss on remeasurement of financial assets		(121)	(265)
Amortization of discount		52	13
Interest income		(3,739)	(6,023)
Interest expense		1,728	1,943
Foreign exchange (gain)/losses, net		(4,806)	4,823
Share-based payments	23 (b)	4,404	3,269
Changes in working capital:			
In receivables		9,841	55,681
In inventories		(58,162)	86,097
In provisions		(1,903)	(2,589)
In payables		177,205	15,112
Cash generated from operations		376,456	311,279
Interest paid		(1,991)	(1,880)
Income taxes paid		(4,518)	(1,299)
Net cash from operating activities		369,947	308,100
Cash flows from investing activities			
Interest received		2,835	1,777
Dividends received		59	59
Proceeds from sale of property, plant and equipment		108	201
Purchases of property, plant and equipment, and intangible assets		(17,544)	(59,649)
Deposits given to financial institutions, net		(1,236)	789
Receipt of government grant		1,324	11,261
Net change of financial assets at fair value through profit and loss		-	5,013
Net cash used in investing activities		(14,454)	(40,549)

Ericsson Nikola Tesla Group

Consolidated statement of cash flows (continued)

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Cash flows from financing activities			
Proceeds from borrowings	21	-	53,182
Repayment of borrowings	21	(14,831)	(46,369)
Purchase of treasury shares	20 (b)	(14,307)	1,235
Dividends paid	20 (e)	(109,166)	(65,231)
Payment of lease liabilities	28	(22,807)	(23,050)
Net cash used in financing activities		(161,111)	(82,703)
Effects of exchange rate changes on cash and cash equivalents		2,049	(1,698)
Net increase/(decrease) in cash and cash equivalents		196,431	183,150
Cash and cash equivalents at the beginning of the year		281,056	97,906
Cash and cash equivalents at the end of the year	19	477,487	281,056



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 2021 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 2).

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 4.

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 and have been rounded to the nearest thousand.

✂ 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.

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

1 Significant accounting policies (continued)

Revenue recognition (continued)

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.

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 foreign exchange risks are presented as net foreign exchange gains and losses. 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 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.

2 Changes in accounting policies

There were no changes in accounting policies for the financial year ending as at 31 December 2021 in comparison with prior reporting period.

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

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 2021 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.

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) 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 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.

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

4 Critical accounting estimates and judgements (continued)

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

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.

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:

	2021			2020		
	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 from products	376,017	318,982	57,035	209,699	189,535	20,164
Sales revenue from services	1,827,880	1,519,241	308,639	1,813,254	1,510,814	302,440
	<u>2,203,897</u>	<u>1,838,223</u>	<u>365,674</u>	<u>2,022,953</u>	<u>1,700,349</u>	<u>322,604</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 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, Bosnia and Herzegovina, Belarus and Kosovo.

	2021			2020		
	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	1,051,212	748,133	303,079	926,636	674,701	251,935
Sales revenue in CIS countries	121,100	97,831	23,269	128,839	94,355	34,484
Sales revenue to Ericsson	899,522	899,522	-	861,964	861,964	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	108,968	72,785	36,183	94,569	61,629	32,940
Other export sales revenue	23,095	19,952	3,143	10,945	7,700	3,245
	<u>2,203,897</u>	<u>1,838,223</u>	<u>365,674</u>	<u>2,022,953</u>	<u>1,700,349</u>	<u>322,604</u>

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	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	957,335	980,436	582,007	464,834	658,841	569,604	5,714	8,079	-	-	2,203,897	2,022,953
Timing of revenue recognition:												
At a point in time	837,724	922,256	518,112	385,315	476,673	384,699	5,714	8,079	-	-	1,838,223	1,700,349
Over time	119,611	58,180	63,895	79,511	182,168	184,905	-	-	-	-	365,674	322,604
Operating profit	<u>99,615</u>	<u>85,152</u>	<u>61,774</u>	<u>40,818</u>	<u>74,872</u>	<u>21,825</u>	<u>453</u>	<u>303</u>	<u>(50,290)</u>	<u>(43,707)</u>	<u>186,424</u>	<u>104,391</u>
Finance income/ (expense), net											7,764	2,241
Profit before tax											<u>194,188</u>	<u>106,632</u>
Income tax											<u>(16,840)</u>	<u>(12,029)</u>
Profit for the year											<u>177,348</u>	<u>94,540</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:

	2021	2020
	HRK '000	HRK '000
Changes in contract work in progress (Note 15)	(39,371)	108,980
Material and external services ⁽¹⁾	1,008,483	851,955
Personnel expenses (Note 8)	1,014,203	913,899
Depreciation and amortization (Notes 12, 13, 28)	57,096	55,686
Value adjustments	1,904	1,891
	<u>2,042,315</u>	<u>1,932,411</u>

⁽¹⁾ Including fees to auditors of HRK 602 thousand (2020: HRK 622 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 15,336 thousand (2020: HRK 13,143 thousand) and other in total amount of HRK 10,664 thousand (2020: HRK 10,042 thousand).

8 Personnel expenses

	2021	2020
	HRK '000	HRK '000
Net salaries	580,745	505,077
Taxes and contributions	366,779	344,870
Other payroll-related costs	62,275	60,683
Share-based payments (Note 23 (b))	4,404	3,269
	<u>1,014,203</u>	<u>913,899</u>

Personnel expenses include HRK 158,659 thousand (2020: HRK 143,669 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 5,471 thousand (2020: HRK 4,459 thousand), and to transportation expenses and vacation accrual cost. As at 31 December 2021, the total number of employees was 3,471 (2020: 3,237).

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

9 Finance income/(expense), net

	2021	2020
	HRK '000	HRK '000
Interest income	3,739	6,023
Net foreign exchange gain	5,706	-
Net change in fair value of financial assets at fair value through profit and loss	121	102
Finance income	9,566	6,125
Interest expense	(1,751)	(1,836)
Net foreign exchange loss	-	(2,035)
Other expenses	(51)	(13)
Finance expense	(1,802)	(3,884)
Finance income/(expense), net	7,764	2,241

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:

	2021	2020
	HRK '000	HRK '000
Current income tax expense	(22,905)	(5,433)
Total deferred tax income/(expense)	6,065	(6,659)
Total income tax expense	(16,840)	(12,092)

Deferred tax from tax losses

As at 31 December the Group did not recognize deferred income tax assets of HRK 100 thousand (2020: HRK 721 thousand) in respect of cumulative tax losses amounting to HRK 553 thousand (2020: 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:

	2021	2020
	HRK '000	HRK '000
Tax loss for 2016 – expires 31 December 2021	-	1,577
Tax loss for 2017 – expires 31 December 2022	-	1,543
Tax loss for 2018 – expires 31 December 2023	-	2,578
Tax loss for 2019 – expires 31 December 2024	-	1,150
Tax loss for 2021 – expires 31 December 2026	553	-
	<u>553</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:

	2021	2020
	HRK '000	HRK '000
Profit before tax	194,188	106,632
Tax calculated at domestic tax rates applicable to profits in the respective countries	34,609	18,759
Tax effects of:		
Permanent non-deductible expenses	128	170
Effects of temporary differences	(227)	1,643
Tax incentives	(17,670)	(8,480)
Tax charge	16,840	12,092
Effective tax rate	<u>8.7 %</u>	<u>11.3 %</u>

Tax incentives totaling HRK 17,670 thousand (2020: HRK 8,480 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 15,606 thousand (2020: HRK 9,541 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 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
As at 1 January 2021	9,541
Tax credited to the Income statement	7,202
Tax charged to the Income statement	(1,137)
As at 31 December 2021	15,606

11 Earnings per share

	2021	2020
Profit for the year (HRK '000)	177,348	94,540
Weighted Average Number of Shares Outstanding at the year-end	1,330,723	1,331,096
Earnings per share (HRK)	133	71

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 HRK '000	Plant and equipment HRK '000	Asset under construction HRK '000	Other HRK '000	Total HRK '000
As at 1 January 2020					
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
Year ended 31 December 2021					
Opening net book amount	47,682	73,652	32,415	53	153,802
Transfer of asset under construction	30,667	1,482	(32,149)	-	-
Additions	1,078	15,427	513	-	17,018
Disposals	-	(292)	-	-	(292)
Depreciation charge	(4,219)	(32,103)	-	(8)	(36,330)
Closing net book amount	75,208	58,166	779	45	134,198
As at 31 December 2021					
Cost or valuation	208,977	274,190	588	328	484,083
Accumulated depreciation	(133,769)	(215,833)	-	(283)	(349,885)
Net book amount	75,208	58,357	588	45	134,198

As at 31 December 2021, the Group had contracts totaling HRK 698 thousand (2020: HRK 524 thousand) related to future equipment purchases.

Asset under construction mostly relates to building energy reconstruction in Krapinska 45, Zagreb.

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 4,752 thousand (2020: HRK 8,239 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

	Application software HRK '000	Goodwill (i) HRK '000	Total HRK '000
As at 1 January 2020			
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
Year ended 31 December 2021			
Opening net book amount	349	4,173	4,522
Additions	859	-	859
Amortization charge	(124)	-	(124)
Closing net book amount	1,084	4,173	5,257
As at 31 December 2021			
Cost or valuation	6,263	4,173	10,436
Accumulated amortization	(5,179)	-	(5,179)
Net book amount	1,084	4,173	5,257

(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

	2021	2020
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	7,295	18,018
Deposits with financial institutions, denominated in HRK	9,200	5,800
Non-current receivables from foreign customers, denominated in foreign currency	77	18,050
Loans given, Note 4 (b)	5,004	3,912
Receivables for sold apartments	369	436
Total loans and receivables	21,945	46,216
Impairment allowance on loans and receivables	(17)	(8,349)
	21,928	37,867

Deposits with financial institutions in the amount of HRK 14,701 thousand (2020: 22,020 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 1,794 thousand (2020: HRK 1,799 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

	2021	2020
Due	HRK '000	HRK '000
2022	-	21,666
2023	4,459	296
2024	622	-
	5,081	21,962

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

15 Inventories

	2021	2020
	HRK '000	HRK '000
Raw materials	39,151	22,286
Contract work in progress	103,701	64,330
	<u>142,852</u>	<u>86,616</u>

Slow-moving or obsolete inventories have been written down to their estimated realizable value through an impairment allowance. The impairment allowance is included within cost of sales in the consolidated statement of comprehensive income in total amount of HRK 1.927 thousand (2020: HRK 598 thousand).

16 Trade receivables

	2021	2020
	HRK '000	HRK '000
Foreign trade receivables	80,509	48,571
Current portion of non-current foreign receivables	20,367	10,805
Total current foreign receivables	<u>100,876</u>	<u>59,376</u>
Domestic trade receivables	106,906	134,399
Total current domestic receivables	<u>106,906</u>	<u>134,399</u>
Impairment allowance on receivables	<u>(6,309)</u>	<u>(443)</u>
	<u>201,473</u>	<u>193,332</u>

✂ 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:

	2021	2020
	HRK '000	HRK '000
As at 1 January	9,914	4,467
Impact of discounting non-current receivables	(269)	(2,046)
Receivables written off during the year as uncollectible	(1,304)	(1,339)
Impairment on receivables	(664)	8,832
As at 31 December ⁽¹⁾	7,677	9,914

¹⁾ Including impairment provision for receivables from related parties of 1,328 thousand (2020: HRK 1,104 thousand).

17 Other receivables

	2021	2020
	HRK '000	HRK '000
Advances given	18,785	1,207
Deposits	13,328	4,070
Net VAT receivables	2,564	-
Other receivables	1,317	949
	35,994	6,226

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

18 Financial assets at fair value through profit or loss

	2021	2020
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,544	1,503
- Investment in open-ended investment funds	31,453	31,463
	<u>32,997</u>	<u>32,966</u>

19 Cash and cash equivalents

	2021	2020
	HRK '000	HRK '000
Cash and demand deposits	479,650	282,131
Impairment loss (Note 30(d))	(2,163)	(1,075)
	<u>477,487</u>	<u>281,056</u>

20 Equity

(a) Share capital

As at 31 December 2021, the share capital is represented by 1,331,650 (2020: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2020: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2020: HRK 100). Holders of the ordinary shares are entitled to receive dividends as declared at the Annual General Meeting and are entitled to one vote per share at the Annual General Meeting.

The shareholders as at 31 December are:

	Number of shares	% held	Number of shares	% held
	2021		2020	
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Other shareholders	671,226	50.41	677,771	50.90
Treasury shares	6,951	0.52	406	0.03
	<u>1,331,650</u>	<u>100.00</u>	<u>1,331,650</u>	<u>100.00</u>

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

20 Equity (continued)

(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
	2021	2020
As at 1 January (Note 20 (a))	406	211
Purchased during the year	8,115	1,000
Distributed during the year	(1,570)	(805)
As at 31 December (Note 20 (a))	6,951	406

(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 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 is separated by the decision of Annual General Meeting.

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting of shareholders. On 29 June 2021, the Annual General Meeting approved a dividend in respect of 2020 of HRK 82.00 per share, totaling HRK 109,162 thousand.

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

	2021	2020
	HRK '000	HRK '000
HRK 82.00 per share for 2020	109,162	-
HRK 49.00 per share for 2019	-	65,231
Prior year dividend payout	4	-
	109,166	65,231

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

21 Borrowings

	2021	2020
	HRK '000	HRK '000
Loans	28,271	42,588
Borrowings, Note 4 (b)	2,894	2,115
Total liabilities for borrowings	31,165	44,703
Short term portion	14,134	14,316
Long term portion	17,031	30,387

Changes in liabilities from financing activities	Borrowings HRK '000
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
Year ended 31 December 2021	
Opening net book amount	44,703
Cash transactions	
Proceeds from loans	-
Repayment of loans and borrowings	(14,831)
Non-cash transactions	
Overtake of liability towards bank	1,787
Accrued interest	743
Foreign exchange differences	(3)
Release of obligations (Note 4(b))	(1,234)
Closing net book amount	31,165

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

	2021	2020
	HRK '000	HRK '000
Deferred revenue	-	684
Liabilities for issued guarantee, Note 4 (b)	297	294
Other non-current liabilities, Note 4 (b)	149	117
	<u>446</u>	<u>1,095</u>

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 2021 were a 1.92% discount rate (2020: 2.76%) and a 6.89% (2020: 7.37%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
	2021			2020		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	9,360	1,028	10,388	9,263	1,051	10,314
Obligation created during the year	-	461	461	1,442	91	1,533
Obligation fulfilled during the year	(875)	(24)	(899)	(1,122)	(48)	(1,170)
Obligation reversed during the year	(1,353)	-	(1,353)	(223)	(66)	(289)
As at 31 December	<u>7,132</u>	<u>1,465</u>	<u>8,597</u>	<u>9,360</u>	<u>1,028</u>	<u>10,388</u>

✂ 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 Annual General Meeting.

In 2021 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:

	2021	2020
	Number of shares	Number of shares
As at 1 January	6,915	7,915
Granted	9,335	-
Exercised	(1,570)	(805)
Expired	(225)	(195)
As at 31 December	14,455	6,915

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 2021, the Group had HRK 4,404 thousand expenses (2020: HRK 3,269 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

	2021	2020
	HRK '000	HRK '000
Trade payables	94,629	103,432
Liabilities to employees	132,550	99,117
VAT liabilities	-	3,157
Other current liabilities	26,322	24,847
	<u>253,501</u>	<u>230,553</u>

25 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 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	<u>2,317</u>	<u>5,031</u>	<u>6,370</u>	<u>13,718</u>
As at 1 January 2021	2,317	5,031	6,370	13,718
Additional provisions	821	7,238	-	8,059
Unused provisions reversed	(202)	(44)	(360)	(606)
Provisions used during the year	(807)	(6,514)	(249)	(7,570)
As at 31 December 2021	<u>2,129</u>	<u>5,711</u>	<u>5,761</u>	<u>13,601</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 Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 Accrued charges and deferred revenue

	2021	2020
	HRK '000	HRK '000
Deferred revenue	5,928	5,766
Accrued charges for unused holidays	31,728	29,725
Accrued charges in respect of service contracts	45,128	22,058
Other accrued charges	37,699	29,713
	<u>120,483</u>	<u>87,262</u>

Deferred revenue represents mainly government grants relating to costs which are deferred and recognized in income statement at 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 liabilities

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

	31 December 2021	31 December 2020
	HRK '000	HRK '000
Contract liabilities – advances from customers	52,528	10,513
Contract liabilities – deferred revenue	237,448	181,809
Total current contract liabilities	289,976	192,322

As at 31 December 2021 the Group recognized HRK 289,976 thousand of contract liabilities in respect of the 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 2020: HRK 192,232 thousand).

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

	31 December 2021	31 December 2020
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied	107,350	389,001
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied	363,166	52,486
	470,516	441,487

The Group expects to recognize approximately 34% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2022, 56% as revenue in financial year 2023, 4% as revenues in financial year 2024, 3% as revenues in financial year 2025 and 3% as revenues in financial year 2026.

All other contracts are for periods of one year or less or are billed based on time incurred.

✂ 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.

	2021	2020
	HRK '000	HRK '000
Balance as at 1 January	53,955	51,920
Depreciation charge for the year	(20,642)	(21,844)
Increase of right-of-use assets	20,810	32,451
Modifications	382	-
Derecognition of RoU assets	(2,418)	(8,572)
Balance as at 31 December	52,087	53,955

Amounts recognized in Statement of comprehensive income

	2021	2020
	HRK '000	HRK '000
Leases under IFRS 16		
Interest on lease liabilities	1,205	1,243
Income from sub-leasing	180	30
Expenses relating to short-term leases	1,929	1,210

✂ 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:

	2021	2020
	HRK '000	HRK '000
Balance as at 1 January	54,960	52,641
Repaid lease liability	(22,807)	(23,050)
Additions to lease liability	20,810	32,451
Modifications	382	-
Derecognition of lease	(2,436)	(8,789)
Interest expense	1,205	1,243
Interest paid	(1,205)	(1,243)
FX rate	1,501	1,707
Balance as at 31 December	52,410	54,960

(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 2021 was HRK 15,092 thousand (2020: HRK 13,103 thousand).

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

	2021	2020
	HRK '000	HRK '000
Operating leases under IFRS 16		
Less than one year	7,611	6,809
Between one and three years	12,063	2,184
Between three and five years	7,607	3,513
More than five years	7,775	13,472
Total	35,056	25,978

✂ 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% (2020: 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	
	2021	2020	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	-	899,522	855,074	899,522	855,074
Other income	-	-	496	3,370	496	3,370
	<u>-</u>	<u>-</u>	<u>900,018</u>	<u>858,444</u>	<u>900,018</u>	<u>858,444</u>
Purchases of goods and services						
Licenses	6,400	5,734	18,559	18,637	24,959	24,371
Cost of sales	-	-	272,240	290,368	272,240	290,368
	<u>6,400</u>	<u>5,734</u>	<u>290,799</u>	<u>309,005</u>	<u>297,199</u>	<u>314,739</u>

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 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 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.

	2021	2020
	HRK '000	HRK '000
Salaries and other short-term employee benefits	31,279	25,672
	<u>31,279</u>	<u>25,672</u>

The members of the executive management and the Supervisory Board held 4,429 ordinary shares at the year-end (2020: 4,711 shares). In addition, the Group paid remuneration totaling HRK 423 thousand (2020: HRK 393 thousand) to the Supervisory Board and Audit Committee members during 2021.

(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:

	Potraživanja		Obveze	
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	55	-
Other Ericsson Group companies	76,808	89,002	12,573	10,937
	<u>76,808</u>	<u>89,002</u>	<u>12,628</u>	<u>10,937</u>

✂ 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 2021, if the euro and US dollar had weakened/strengthened by 1% (2020: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 1.334 thousand higher/lower (2020: HRK 939 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.

2021	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	10,264	1,828	-	12,092	9,836	21,928
Trade and other receivables	162,888	5,189	15,376	183,453	115,107	298,560
Financial assets at fair value through profit or loss	-	-	1,259	1,259	31,740	32,999
Cash and cash equivalents	82,952	14,339	9,188	106,479	384,326	490,805
	256,104	21,356	25,823	303,283	541,009	844,292
Borrowings and lease liabilities	(53,223)	5	-	(53,218)	(30,357)	(83,575)
Trade and other payables	(59,933)	(1,669)	(988)	(62,590)	(272,429)	(335,019)
	(113,156)	(1,664)	(988)	(115,808)	(302,786)	(418,594)
Currency gap	180,938	19,692	24,835	187,475	238,223	425,698

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
	207,164	34,876	27,625	269,665	387,951	657,616
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)
	(126,436)	(1,786)	(538)	(128,760)	(198,489)	(327,249)
Currency gap	80,963	30,090	27,087	140,905	189,462	330,367

✂ 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 2021:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: HRK 15 thousand);
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: HRK 50 thousand);
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: HRK 43 thousand).

The following table presents the annual average interest rates exposure of financial assets.

	Average interest rates	Average interest rates
	2021	2020
	%	%
Loans and receivables	0.14	0.48
Cash and cash equivalents	0.07	0.04

✂ 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 2021, the five largest customers represent 57% of total net trade receivables (2020: 69%). 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 including impairment for 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 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.

Impairment of receivables

Cash equivalents amounted to HRK 479,288 thousand as at 31 December 2021 (31 December 2020: HRK 285,096 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 2,163 thousand as at 31 December 2021 (31 December 2020: HRK 1,075 thousand). The Group's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 278,281 thousand as at 31 December 2021 (31 December 2020: HRK 284,252 thousand). Provisions for expected credit losses on trade receivables and receivables from related party amounted to HRK 7,654 thousand as at 31 December 2021 (31 December 2020: HRK 9,896 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 2021.

Table 1	Payment due date for total customer loans and receivables*					
	Due balance HRK '000	Up to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
2021						
Foreign receivables	2,170	64,778	32,589	6,138	109	105,784
Domestic receivables	90,056	17,009	13	-	-	107,078
Receivables from related parties	6,514	71,630	-	-	-	78,144
	<u>98,740</u>	<u>153,417</u>	<u>32,602</u>	<u>6,138</u>	<u>109</u>	<u>291,006</u>
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
	<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

Table 2	Ageing of total due customer loans and receivables				
	Up to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
2021					
Foreign receivables	2,170	-	-	-	2,170
Domestic receivables	78,322	11,278	400	56	90,056
Receivables from related parties	3,413	2,634	371	96	6,514
	<u>83,905</u>	<u>13,912</u>	<u>771</u>	<u>152</u>	<u>98,740</u>
2020					
Foreign receivables	216	-	-	-	216
Domestic receivables	3,360	1,188	95	-	4,643
Receivables from related parties	3,862	(55)	211	96	4,114
	<u>7,438</u>	<u>1,133</u>	<u>306</u>	<u>96</u>	<u>8,973</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 2021, the facility remained untapped.

2021	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	3	18	54	20,059	1,794	21,928
Trade and other receivables	196,665	72,027	28,626	1,242	-	298,560
Current financial assets	32,999	-	-	-	-	32,999
Cash and cash equivalents	477,488	-	13,317	-	-	490,805
	<u>707,155</u>	<u>72,045</u>	<u>41,997</u>	<u>21,301</u>	<u>1,794</u>	<u>844,292</u>
Borrowings	-	-	(28,222)	(3,431)	-	(31,653)
Lease liabilities	-	-	(18,736)	(33,186)	-	(51,922)
Trade and other payables	(218,814)	(112,342)	(3,421)	(442)	-	(335,019)
	<u>(218,814)</u>	<u>(112,342)</u>	<u>(50,379)</u>	<u>(37,059)</u>	<u>-</u>	<u>(418,594)</u>
Maturity gap	<u>488,341</u>	<u>(40,297)</u>	<u>(8,382)</u>	<u>(15,758)</u>	<u>1,794</u>	<u>425,698</u>

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	(130,074)	(113,994)	-	(1,095)	-	(245,163)
	<u>(130,221)</u>	<u>(113,994)</u>	<u>(59,932)</u>	<u>(40,769)</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>

✂ 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 2021 0,75% (2020: 0.59%) interest rates were used for determining fair values, which are based on available market rates for similar financial instruments.

(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.



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

31 Subsequent events

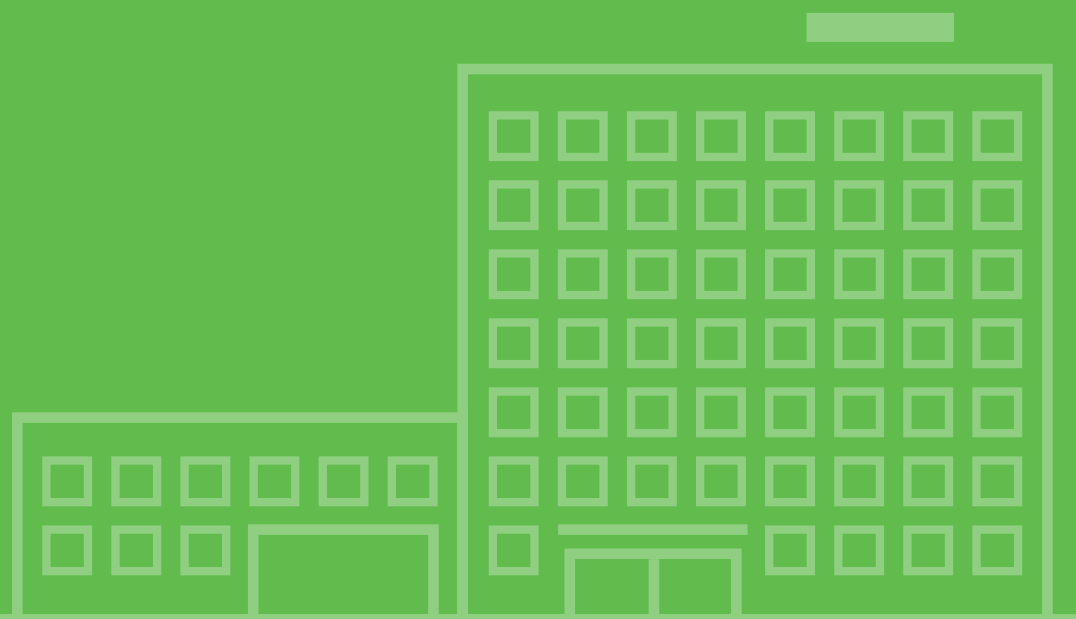
Regarding the situation caused by the invasion of Ukraine, the Group has no contractual obligations in Russia and Ukraine; however, political and economic uncertainty that has grown into a riskier form of business conditions for now adversely affects both the implementation of Ericsson Nikola Tesla's contracted business in Belarus and new planned business opportunities.

In Belarus, we have a local company with 25 employees, and one of our most important activities is the expansion of LTE networks for their operators and the informatization of the central health system of that country. In 2021, revenue from these activities accounted for about 4% of the Group's total sales results and significantly contributed to operating cash flow.

The Management Board and Executive Management continuously monitor the situation in order to react in a timely manner and mitigate risks. In doing so, we act in accordance with binding legislation, sanctions and restrictive measures, among which we single out the decisions of the EU, the Republic of Croatia, the Croatian Bank for Reconstruction and Development, the World Bank and Ericsson guidelines.

Although the situation is challenging and uncertain in several markets, the Management Board and Executive Management have assessed that Ericsson Nikola Tesla Group maintains business and financial stability. Potential cessation of our market activities in the Belarus market would certainly affect our plans and results, including the planned sales revenue, operating margin and operating cash flow, but it would not ultimately disrupt Ericsson Nikola Tesla Group's business and financial stability.

Given the wide range of jobs and markets in which our experts work, we are taking action to reduce the negative impact of this crisis on business by increasing the engagement of our experts in research and development and other high-value services within the global organization.



Annual report 2021
Ericsson Nikola Tesla Group

4 | Financial Statements of Ericsson Nikola Tesla d.d. and Independent Auditors' report

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 2021, Telefonaktiebolaget LM Ericsson (Ericsson) holds 49.07% of the Company's shares. Other shareholders own the remaining 50.41% of the Company's shares and 0.52% 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 of Ericsson Nikola Tesla d.d.

Supervisory Board

The Supervisory Board members during 2021 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
Petra Vranjes	Member	Appointed on 29 June 2021
Ana Vrsaljko Metelko	Member	Appointed on 29 June 2021
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018
Vidar Mohammar	Member	Reappointed on 13 June 2019; member until 29 June 2021
Dubravko Radošević	Member	Reappointed on 20 June 2018; member until 29 June 2021

Ericsson Nikola Tesla d.d.

Company profile (continued)

Audit Committee

The Audit Committee members during 2021 and up to the release of these consolidated statements were:

Management Board

Olgica Spevec	Chairman	Appointed on 17 December 2020
Petra Vranjes	Member	Appointed on 12 July 2021
Vesna Vašiček	Member	Appointed on 21 February 2017
Vidar Mohammar	Member	Reappointed on 13 June 2019; member until 29 June 2021

The Management Board has one member:

Gordana Kovačević	President	Reappointed on 17 December 2019
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Executive management

As at 31 December 2021, 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
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.
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
Željko Antolić	Director, Human Resources

Ericsson Nikola Tesla d.d.

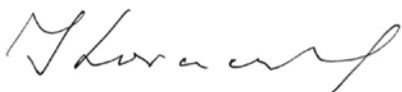
Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements

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 Annual General Meeting of Shareholders.

The financial statements set out below were authorized by the Management Board on 20 April 2022 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 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 2021, 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 2021 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 2021: HRK 1,522,626 thousand (2020: HRK 1,417,214 thousand). As at 31 December 2021: trade receivables: HRK 108,484 thousand; contract liabilities: HRK 247,309 thousand (31 December 2020: trade receivables: HRK 81,353 thousand; contract liabilities: HRK 167,119 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 2021, 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>

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.



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

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

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 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.



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 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.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 29 June 2021 to audit the separate financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2021. Our total uninterrupted period of engagement is three years, covering the year ended 31 December 2019, 31 December 2020 and 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 19 April 2022;
- 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.



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

Report on Compliance with the ESEF Regulation

In accordance with the requirements of Article 462 paragraph 5 of Capital Market Act, we are required to express an opinion on compliance of the separate financial statements, as included in the separate annual report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation of the separate financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the separate financial statements in the applicable xHTML format and their publication
- the selection and application of appropriate iXBRL tags, using judgment where necessary
- ensuring consistency between digitised information and the separate financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the Company's ESEF reporting, as a part of the financial reporting process.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the separate financial statements included in the separate annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)* issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the separate financial statements of the Company presented in human-readable format;
- evaluating the completeness of the Company's tagging of the separate financial statements;



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

Report on Compliance with the ESEF Regulation *(continued)*

Auditors' Responsibilities (continued)

- evaluating the appropriateness of the consolidated use of iXBRL elements selected from the ESEF taxonomy used and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements; and
- evaluating the appropriateness of the format of the consolidated financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements of the Group as at and for the year ended 31 December 2021 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
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20 April 2022

Ericsson Nikola Tesla d.d.

Statement of comprehensive income

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Sales revenue	5, 6	1,522,626	1,417,214
Cost of sales	7	(1,351,875)	(1,272,263)
Gross profit		170,751	144,951
Selling expenses	7	(42,775)	(39,710)
Administrative expenses	7	(39,965)	(33,714)
Other operating income	7	22,918	20,301
Impairment loss on financial assets		(385)	(9,336)
Operating profit		110,544	82,492
Finance income	9	9,630	6,133
Finance expense	9	(1,142)	(3,385)
Finance income/(expense), net	9	8,488	2,748
Profit before tax		119,032	85,240
Income tax	10	(3,825)	(8,749)
Profit for the year		115,207	76,491
Other comprehensive income		-	-
Total comprehensive income for the year		115,207	76,491
Earnings per share (HRK)	11	87	57

Ericsson Nikola Tesla d.d.

Statement of financial position

as at 31 December 2021

		2021	2020
Assets	Notes	HRK '000	HRK '000
Non-current assets			
Property, plant and equipment	12	129,380	148,687
Right of use assets	29	29,231	37,780
Intangible assets	13	1,080	347
Investments in subsidiaries	15	1,053	1,053
Loans and receivables	14	21,976	37,867
Deferred tax assets	10	12,555	8,397
Total non-current assets		195,275	234,131
Current assets			
Inventories	16	89,048	44,179
Trade receivables	17	108,484	81,353
Receivables from related parties	30 (c)	80,178	97,933
Other receivables	18	36,236	5,729
Income tax receivable		-	11,651
Prepayments		6,335	32,379
Financial assets at fair value through profit or loss	19	32,997	32,936
Cash and cash equivalents	20	332,301	245,833
Total current assets		685,579	551,993
Total assets		880,854	786,124

Ericsson Nikola Tesla d.d.

Statement of financial position (continued)

as at 31 December 2021

		2021	2020
Equity and liabilities	Notes	HRK '000	HRK '000
Equity			
Share capital	21 (a)	133,165	133,165
Treasury shares	21 (b)	(12,421)	(506)
Legal reserves	21 (c)	6,658	6,658
Reserve for treasury shares	21 (d)	36,512	13,904
Retained earnings		139,322	153,872
Total equity		303,236	307,093
Non-current liabilities			
Borrowings	22	16,982	30,292
Lease liabilities	29	21,314	26,559
Other non-current liabilities	23	442	411
Employee benefits	24 (a)	6,102	7,335
Total non-current liabilities		44,840	64,597
Current liabilities			
Payables to related parties	30 (c)	5,797	29,759
Borrowings	22	14,088	14,236
Trade and other payables	25	148,676	112,735
Income tax payable		4,103	-
Provisions	26	13,307	13,598
Accrued expense and deferred revenue	27	91,365	65,300
Contract liabilities	28	247,309	167,119
Lease liabilities	29	8,133	11,687
Total current liabilities		532,778	414,434
Total liabilities		577,618	479,031
Total equity and liabilities		880,854	786,124

Ericsson Nikola Tesla d.d.

Statement of changes in equity

for the year ended 31 December 2021

	Share capital HRK '000	Treasury shares HRK '000	Legal reserves HRK '000	Reserve for treasury shares HRK '000	Retained earnings HRK '000	Total HRK '000
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
Transactions with owners						
Dividend distribution for 2019, Note 21 (e)	-	-	-	-	(65,231)	(65,231)
Share-based payments, Note 24 (b)	-	-	-	-	3,268	3,268
Purchase of treasury shares, Note 21 (b)	-	(1,235)	-	-	-	(1,235)
Shares granted, 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
As at 1 January 2021	133,165	(506)	6,658	13,904	153,872	307,093
Changes in equity for 2021						
Profit for the year	-	-	-	-	115,207	115,207
Transactions with owners						
Dividend distribution for 2020, Note 21 (e)	-	-	-	-	(109,162)	(109,162)
Share-based payments, Note 24 (b)	-	-	-	-	4,405	4,405
Purchase of treasury shares, Note 21 (b)	-	(14,307)	-	-	-	(14,307)
Transfer	-	-	-	25,000	(25,000)	-
Shares granted, Note 24 (b)	-	2,392	-	(2,392)	-	-
Total contributions by and distributions to owners recognized directly in equity	-	(11,915)	-	(22,608)	(129,757)	(119,064)
As at 31 December 2021	133,165	(12,421)	6,658	36,512	139,322	303,236

Ericsson Nikola Tesla d.d.

Statement of cash flows

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Cash flows from operating activities			
Profit before tax		119,032	85,240
Adjustments for:			
Depreciation and amortization	7,12,13,29	45,171	42,734
Effects of lease derecognition		(3)	-
Impairment losses and reversals		(400)	9,934
Gain on sale of property, plant and equipment		(43)	(25)
Net loss on remeasurement of financial assets		(121)	(265)
Amortization of discount		52	13
Interest income		(3,741)	(6,031)
Interest expense		1,058	1,291
Foreign exchange (gain)/losses, net		(4,651)	4,783
Share-based payments	24 (b)	4,405	3,268
Changes in working capital:			
In receivables		4,580	135,657
In inventories		(44,869)	125,746
In provisions		(1,524)	748
In payables		128,943	(125,472)
Cash generated from operations		247,889	277,621
Interest paid		(1,238)	(1,224)
Income taxes paid		(78)	(407)
Net cash from operating activities		246,573	275,990
Cash flows from investing activities			
Proceeds from loans given		-	16,014
Loans given		-	(15,000)
Interest received		2,834	1,784
Dividends received		59	59
Proceeds from sale of property, plant and equipment		108	169
Purchases of property, plant and equipment, and intangible assets		(15,262)	(59,252)
Deposits given to financial institutions, net		(1,208)	789
Receipt of government grant		1,325	11,261
Net change of financial assets at fair value through profit and loss		-	5,013
Net cash used in investing activities		(12,144)	(39,163)

Ericsson Nikola Tesla d.d.

Statement of cash flows (continued)

for the year ended 31 December 2021

		2021	2020
	Notes	HRK '000	HRK '000
Cash flows from financing activities			
Proceeds from borrowings	22	-	20,609
Repayment of borrowings	22	(14,831)	(13,796)
Purchase of treasury shares	21 (b)	(14,307)	(1,235)
Dividends paid	21 (e)	(109,166)	(65,231)
Payment of lease liabilities	29	(11,697)	(11,502)
Net cash used in financing activities		(150,001)	(71,155)
Effects of exchange rate changes on cash and cash equivalents		2,040	(1,672)
Net increase (decrease) in cash and cash equivalents		86,468	164,000
Cash and cash equivalents at the beginning of the year		245,833	81,833
Cash and cash equivalents at the end of the year	20	332,301	245,833

 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 2).

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 2021 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 20 April 2022. 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 2021 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 have been rounded to the nearest thousand. The closing exchange rate as at 31 December 2021 was HRK 6.643548 per USD 1 (2020: HRK 6.139039) and HRK 7.517174 per EUR 1 (2020: HRK 7.536898).

✂ 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.

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Revenue recognition (continued)

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.

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
Bulidings	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 foreign exchange risks are presented as net foreign exchange gains and losses. 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 amortized 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

a) 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.

b) 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.

c) 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.

2 Changes in accounting policies

There were no changes in accounting policies for the financial year ending as at 31 December 2021 in comparison with prior reporting period.

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

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 2021 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.

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) 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 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.

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

4 Critical accounting estimates and judgements (continued)

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

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.

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:

	2021			2020		
	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 from products	350,490	296,739	53,751	178,046	160,744	17,302
Sales revenue from services	1,172,136	1,051,720	120,416	1,239,168	1,125,102	114,066
	<u>1,522,626</u>	<u>1,348,459</u>	<u>174,167</u>	<u>1,417,214</u>	<u>1,285,846</u>	<u>131,368</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 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.

	2021			2020		
	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	412,192	291,186	121,006	372,543	305,513	67,030
Sales revenue in former CIS countries	118,585	97,831	20,754	127,000	94,355	32,645
Sales revenue to Ericsson	895,268	895,268	-	855,102	855,102	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	73,486	44,222	29,264	51,624	23,176	28,448
Other export sales revenue	23,095	19,952	3,143	10,945	7,700	3,245
	<u>1,522,626</u>	<u>1,348,459</u>	<u>174,167</u>	<u>1,417,214</u>	<u>1,285,846</u>	<u>131,368</u>

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	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	920,767	938,021	576,430	455,870	19,715	15,244	5,714	8,079	-	-	1,522,626	1,417,214
Timing of revenue recognition												
At a point in time	809,274	885,232	513,820	377,292	19,651	15,244	5,714	8,079	-	-	1,348,459	1,285,846
Over time	111,493	52,789	62,610	78,578	64	-	-	-	-	-	174,167	131,368
Operating profit	<u>90,899</u>	<u>76,921</u>	<u>57,937</u>	<u>38,195</u>	<u>1,238</u>	<u>792</u>	<u>435</u>	<u>303</u>	<u>(39,965)</u>	<u>(33,714)</u>	<u>110,544</u>	<u>82,492</u>
Finance income/ (expense), net											8,488	2,748
Profit before tax											<u>119,032</u>	<u>85,240</u>
Income tax											<u>(3,825)</u>	<u>(8,749)</u>
Profit for the year											<u>115,207</u>	<u>76,491</u>

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

7 Expenses by nature

Trošak prodanih proizvoda, troškovi prodaje i administrativni troškovi sastoje se od sljedećih troškova po vrsti:

	2021	2020
	HRK '000	HRK '000
Changes in contract work in progress (Note 16)	(44,869)	126,344
Material and external services ⁽¹⁾	573,720	399,441
Personnel expenses (Note 8)	860,593	775,277
Depreciation and amortization (Notes 12, 13, 29)	45,171	42,734
Value adjustments	-	1,891
	<u>1,434,615</u>	<u>1,345,687</u>

⁽¹⁾ Including fees to auditors of HRK 417 thousand (2020: HRK 466 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 16,961 thousand (2020: HRK 14,470 thousand), and other in total amount of HRK 5,957 thousand (2020: HRK 5,831 thousand).

8 Personnel expenses

	2021	2020
	HRK '000	HRK '000
Net salaries	490,300	427,907
Taxes and contributions	315,363	299,735
Other payroll-related costs	50,526	44,367
Share-based payments (Note 24 (b))	4,405	3,268
	<u>860,593</u>	<u>775,277</u>

Personnel expenses include HRK 134,990 thousand (2020: HRK 123,255 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 5,471 thousand (2020: HRK 4,899 thousand).

As at 31 December 2021, total number of employees was 2,669 (2020: 2,571).

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

9 Finance income/(expense), net

	2021	2020
	HRK '000	HRK '000
Interest income	3,741	6,031
Net foreign exchange gain	5,768	-
Net change in fair value of financial assets at fair value through profit and loss	121	102
Finance income	9,630	6,133
Interest expense	(1,091)	(1,291)
Net foreign exchange loss	-	(2,081)
Other expenses	(51)	(13)
Finance expense	(1,142)	(3,385)
Finance income/(expense), net	8,488	2,748

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rate of 18% (2020: 18%). Income tax expense recognized in the statement of comprehensive income comprises:

	2021	2020
	HRK '000	HRK '000
Current income tax expense	(7,983)	(1,697)
Total deferred tax income/(expense)	4,158	(7,052)
Total income tax expense	(3,825)	(8,749)

✂ 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:

	2021	2020
	HRK '000	HRK '000
Profit before tax	119,032	85,240
Tax calculated at domestic tax rates applicable to profits in the respective countries	21,426	15,343
Tax effects of:		
Permanent non-deductible expenses	53	390
Effects of temporary differences	-	1,493
Tax incentives	(17,654)	(8,473)
Tax charge	3,825	8,753
Effective tax rate	3.2%	10.3%

Tax incentives totaling HRK 17,654 thousand (2020: HRK 8,473 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 12,555 thousand (2020: HRK 8,397 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 2020	15,449
Tax credited to the Income statement	5,594
Tax charged to the Income statement	(12,646)
As at 31 December 2020	8,397
As at 1 January 2021	8,397
Tax credited to the Income statement	5,424
Tax charged to the Income statement	(1,266)
As at 31 December 2021	12,555

11 Earnings per share

	2021	2020
Profit for the year (HRK '000)	115,207	76,491
Weighted Average Number of Shares	1,330,723	1,331,096
Earnings per share (HRK)	87	57

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 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 2020					
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	-	(124)	-	-	(124)
Depreciation charge	(3,644)	(27,351)	-	(8)	(31,003)
Closing net book amount	47,682	69,099	31,854	52	148,687
As at 31 December 2020					
Cost or valuation	177,232	336,705	31,854	327	546,118
Accumulated depreciation	(129,550)	(267,606)	-	(275)	(397,431)
Net book amount	47,682	69,099	31,854	52	148,687
Year ended 31 December 2021					
Opening net book amount	47,682	69,099	31,854	52	148,687
Transfer of asset under construction	30,667	1,482	(32,149)	-	-
Additions	1,078	12,966	513	-	14,557
Disposals	-	(305)	-	-	(305)
Depreciation charge	(4,219)	(29,333)	-	(7)	(33,559)
Closing net book amount	75,208	53,909	218	45	129,380
As at 31 December 2021					
Cost or valuation	208,977	250,199	218	327	459,721
Accumulated depreciation	(133,769)	(196,290)	-	(282)	(330,341)
Net book amount	75,208	53,909	218	45	129,380

As at 31 December 2021, the Company had contracts totaling HRK 698 thousand (2020: HRK 498 thousand) related to future equipment purchases.

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 7,366 thousand (2020: HRK 8,239 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

	Application software HRK '000
As at 1 January 2020	
Cost or valuation	2,991
Accumulated amortization	(2,765)
Net book amount	226
Year ended 31 December 2020	
Opening net book amount	226
Additions	357
Amortization charge	(236)
Closing net book amount	347
As at 31 December 2020	
Cost or valuation	3,348
Accumulated amortization	(3,001)
Net book amount	347
Year ended 31 December 2021	
Opening net book amount	347
Additions	852
Amortization charge	(119)
Closing net book amount	1,080
As at 31 December 2021	
Cost or valuation	4,200
Accumulated amortization	(3,120)
Net book amount	1,080

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

14 Loans and receivables

	2021	2020
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	7,295	18,018
Deposits with financial institutions, denominated in HRK	9,200	5,800
Non-current receivables from foreign customers, denominated in foreign currency	77	18,050
Loans given, Note 4 (b)	5,052	3,912
Receivables for sold apartments	369	436
Total loans and receivables	21,993	46,216
Impairment allowance on loans and receivables	(17)	(8,349)
	21,976	37,867

Deposits with financial institutions in the amount of HRK 14,701 thousand (2020: 22,020 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 1,794 thousand (2020: HRK 1,799 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

	2021	2020
Due	HRK '000	HRK '000
2022	-	21,666
2023	4,458	296
2024	671	-
	5,129	21,962

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

15 Investments in subsidiaries

		2021	2020
	Ownership	HRK '000	HRK '000
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 Kosovo	100%	1	1
		<u>1,053</u>	<u>1,053</u>

16 Inventories

	2021	2020
	HRK '000	HRK '000
Contract work in progress	89,048	44,179
	<u>89,048</u>	<u>44,179</u>

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 1.927 thousand (2020: HRK 598 thousand).

17 Trade receivables

	2021	2020
	HRK '000	HRK '000
Foreign trade receivables	80,395	48,571
Current portion of non-current foreign receivables	<u>20,367</u>	<u>10,805</u>
Total current foreign receivables	<u>100,762</u>	<u>59,376</u>
Domestic trade receivables	13,926	22,420
Total current domestic receivables	<u>(6,204)</u>	<u>(443)</u>
	<u>108,484</u>	<u>81,353</u>

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

17 Trade receivables (continued)

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

	2021	2020
	HRK '000	HRK '000
As at 1 January	9,914	4,467
Impact of discounting non-current receivables	(269)	(2,046)
Receivables written off during the year as uncollectible	(1,304)	(1,339)
Impairment on receivables	(781)	8,832
As at 31 December ⁽¹⁾	7,560	9,914

¹⁾ Including impairment provision for receivables from related parties of HRK 1,326 thousand (2020: HRK 1,119 thousand).

18 Other receivables

	2021	2020
	HRK '000	HRK '000
Advances given	17,983	1,034
Deposits	13,317	4,040
Net VAT receivables	4,049	-
Other receivables	887	655
	36,236	5,729

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

19 Financial assets at fair value through profit or loss

	2021	2020
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,544	1,503
- Investment in open-ended investment funds	31,453	31,433
	<u>32,997</u>	<u>32,936</u>

20 Cash and cash equivalents

	2021	2020
	HRK '000	HRK '000
Cash and demand deposits	333,819	246,908
Impairment loss (Note 31(d))	(1,518)	(1,075)
	<u>332,301</u>	<u>245,833</u>

21 Equity

(a) Share capital

As at 31 December 2021, the share capital of the Company is represented by 1,331,650 (2020: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2020: HRK 133,165 thousand).

The nominal value of one share is HRK 100 (2020: HRK 100). The holders of the ordinary shares are entitled to receive dividends as declared at the Annual General Meeting and are entitled to one vote per share at the Annual General Meeting.

The Company's shareholders as at 31 December are:

	Number of shares	% held	Number of shares	% held
	2021		2020	
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Ostali dioničari	671,226	50.41	677,771	50.90
Vlastite dionice	<u>6,951</u>	<u>0.52</u>	<u>406</u>	<u>0.03</u>
	<u>1,331,650</u>	<u>100.00</u>	<u>1,331,650</u>	<u>100.00</u>

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

21 Equity (continued)

(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 2021	Number of shares 2020
As at 1 January	406	211
Purchased during the year	8,115	1,000
Distributed during the year	(1,570)	(805)
As at 31 December	6,951	406

(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 is separated by the decision of Annual General Meeting.

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting of shareholders. On 29 June 2021, the Annual General Meeting approved a regular dividend in respect of 2020 of HRK 82.00 per share, totaling HRK 109,162 thousand.

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

	2021 HRK '000	2020 HRK '000
HRK 82.00 per share for 2020	109,162	-
HRK 49.00 per share for 2019	-	65,231
Prior year dividend payout	4	-
	109,166	65,231

✎ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

22 Borrowings

	2021	2020
	HRK '000	HRK '000
Loans	28,176	42,412
Borrowings, Note 4 (b)	2,894	2,115
Total liabilities for borrowings	31,070	44,528
Short term portion	14,088	14,236
Long term portion	16,982	30,292
		Borrowings
Changes in liabilities from financing activities		HRK '000
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
Year ended 31 December 2021		
Opening net book amount		44,528
Cash transactions		
Proceeds from loans		-
Repayment of loans and borrowings		(14,831)
Non-cash transactions		
Overtake of liability towards bank		1,787
Accrued interest		743
Foreign exchange differences		(3)
Release of obligations (Note 4(b))		(1,154)
Closing net book amount		31,070

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

	2021	2020
	HRK '000	HRK '000
Liabilities for issued guarantee, Note 4 (b)	296	294
Other non-current liabilities, Note 4 (b)	146	117
	<u>442</u>	<u>411</u>

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 2021 were a 1.92% discount rate (2020: 2.76%) and a 6.26% (2020: 7.37%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
			2021			2020
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	6,647	688	7,335	6,327	753	7,080
Obligation created during the year	-	222	222	1,141	48	1,189
Obligation fulfilled during the year	(635)	(24)	(659)	(821)	(48)	(869)
Obligation reversed during the year	(796)	-	(796)	-	(65)	(65)
As at 31 December	<u>5,216</u>	<u>886</u>	<u>6,102</u>	<u>6,647</u>	<u>688</u>	<u>7,335</u>

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

24 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 Annual General Meeting.

In 2021 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:

	2021	2020
	Number of shares	Number of shares
As at 1 January	6,915	7,915
Granted	9,335	-
Exercised	(1,570)	(805)
Expired	(225)	(195)
As at 31 December	14,455	6,915

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 2021, the Company had HRK 4,405 thousand expenses (2020: HRK 3,269 thousand) in respect of share-based payments, which are 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

	2021	2020
	HRK '000	HRK '000
Trade payables	14,406	3,481
Liabilities to employees	111,901	84,092
VAT liabilities	-	3,826
Other current liabilities	22,369	21,336
	<u>148,676</u>	<u>112,735</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 2020	2,433	8,241	2,430	13,104
Additional provisions	543	3,226	5,723	9,492
Unused provisions reversed	-	(4)	(1,778)	(1,783)
Provisions used during the year	(781)	(6,434)	-	(7,215)
As at 31 December 2020	<u>2,195</u>	<u>5,029</u>	<u>6,374</u>	<u>13,598</u>
As at 1 January 2021	2,195	5,029	6,374	13,598
Additional provisions	635	7,238	-	7,873
Unused provisions reversed	(202)	(44)	(360)	(606)
Provisions used during the year	(792)	(6,513)	(253)	(7,558)
As at 31 December 2021	<u>1,836</u>	<u>5,710</u>	<u>5,761</u>	<u>13,307</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

	2021	2020
	HRK '000	HRK '000
Deferred revenue	5,928	5,766
Accrued charges for unused holidays	27,301	25,573
Accrued charges in respect of service contracts	39,196	17,837
Other accrued charges	18,940	16,124
	<u>91,365</u>	<u>65,300</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 reporting date.

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

28 Contract liabilities

The Company has recognized the following liabilities arising from contracts with customers:

	31 December 2021	31 December 2020
	HRK '000	HRK '000
Contract liabilities – advances from customers	52,528	10,512
Contract liabilities – deferred revenue	194,781	156,607
Total current contract liabilities	247,309	167,119

As at 31 December 2021 the Company recognized HRK 247,309 thousand of contract liabilities in respect of the 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 2020: HRK 167,119 thousand).

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

	31 December 2021	31 December 2020
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied	107,350	389,001
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied	363,166	47,108
	470,516	436,109

The Company expects to recognize approximately 34% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2022, 56% as revenues in the financial year 2023, and 4% as revenues in the financial year 2024, 3% as revenues in the financial year 2025 and 3% as revenues in the financial year 2026.

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.

	2021	2020
	HRK '000	HRK '000
Balance as at 1 January	3,780	27,572
Depreciation charge for the year	(11,492)	(11,495)
Increase of right-of-use assets	5,785	21,704
Modifications	382	-
Derecognition of RoU assets	(3,224)	-
Balance as at 31 December	29,231	37,780

Amounts recognized in Statement of comprehensive income

	2021	2020
	HRK '000	HRK '000
Interest on lease liabilities	573	798
Income from sub-leasing	796	132
Expenses relating to short-term leases	325	36

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

29 Leases (continued)

(a) 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:

	2021	2020
	HRK '000	HRK '000
Balance as at 1 January	38,246	27,881
Repaid lease liability	(11,697)	(11,502)
Additions to lease liability	5,785	21,159
Modifications	382	-
Derecognition of lease	(3,225)	-
Interest expense	573	798
Interest paid	(573)	(798)
FX rate	(44)	708
Balance as at 31 December	29,447	38,246

(b) 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 2021 was HRK 16,961 thousand (2020: HRK 14,470 thousand).

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

	2021	2020
Operating leases under IFRS 16	HRK '000	HRK '000
Less than one year	9,163	7,705
Between one and three years	12,680	3,079
Between three and five years	7,607	4,110
More than five years	7,775	13,472
Total	37,225	28,366

✂ 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% (2020: 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	
	2021	2020	2021	2020	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services								
Sales revenue	-	-	895,268	855,102	7,119	14,464	902,387	869,566
Other income	-	-	21,242	61,686	147	132	21,389	61,818
	-	-	916,510	916,788	7,266	14,596	923,776	931,384
Purchases of goods and services								
Licenses	3,074	2,747	17,647	18,341	-	-	20,721	21,088
Cost of sales	-	-	256,109	288,541	20,838	24,355	276,947	312,896
	3,074	2,747	273,756	306,882	20,838	24,355	297,668	333,984

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

	2021	2020
	HRK '000	HRK '000
Salaries and other short-term employee benefits	26,455	21,730
	<u>26,455</u>	<u>21,730</u>

The members of the executive management and the Supervisory Board held 4,429 ordinary shares at the year-end (2020: 4,711 shares). In addition, the Group paid remuneration totaling HRK 423 thousand (2020: HRK 393 thousand) to the Supervisory Board and Audit Committee members during 2021.

(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	
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	-	-
Other Ericsson Group companies	74,383	87,903	3,977	6,598
Subsidiaries:				
Ericsson Nikola Tesla BH d.o.o	2,626	7,377	812	-
Ericsson Nikola Tesla Servi d.o.o.	3,050	2,282	718	23,105
Ericsson Nikola Tesla d.d. – Branch office Kosovo	72	76	-	-
Libratel d.o.o.	-	-	-	-
Ericsson Nikola Tesla BY	47	295	290	56
	<u>80,178</u>	<u>97,933</u>	<u>5,797</u>	<u>29,759</u>

✂ 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 2021, if the euro and US dollar had weakened/strengthened by 1% (2020: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 1.545 thousand higher/lower for the Company (2020: HRK 952 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.

2021	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	10,312	1,828	-	12,140	9,835	21,975
Trade and other receivables	162,655	5,189	1,709	169,553	37,980	207,533
Financial assets at fair value through profit or loss	-	-	1,259	1,259	31,740	32,999
Cash and cash equivalents	78,650	14,339	9,438	102,427	243,191	345,618
	251,617	21,365	12,406	285,379	322,746	608,125
Borrowings and lease liabilities	(30,361)	5	-	(30,356)	(30,161)	(60,517)
Trade and other payables	(52,497)	(1,754)	185	(54,066)	(157,479)	(211,545)
	(44,868)	(1,749)	185	(84,422)	(187,640)	(272,062)
Currency gap	206,749	19,607	12,591	200,957	135,106	336,063

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	199,653
Financial assets at fair value through profit or loss	-	-	1,291	1,291	31,645	32,936
Cash and cash equivalents	42,773	12,073	10,624	65,470	180,363	245,833
	197,329	35,053	14,041	246,423	266,866	513,289
Borrowings and lease liabilities	(34,547)	(2)	-	(34,660)	(48,112)	(82,772)
Trade and other payables	(86,728)	(2,075)	(619)	(89,422)	(53,482)	(142,904)
	(121,386)	(2,077)	(619)	(124,082)	(101,594)	(225,676)
Currency gap	75,943	32,976	13,422	122,341	165,272	287,613

✂ 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 2021:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: HRK 15 thousand).
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: HRK 50 thousand).
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2020: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 0 thousand higher/lower (2020: USD 43 thousand);

The following table presents the annual average interest rates exposure of financial assets and liabilities:

	Average interest rates	Average interest rates
	2021	2020
	%	%
Loans and receivables	0.14	0.48
Cash and cash equivalents	0.08	0.04

✂ 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 2021, the five largest customers represent 67% of total net trade receivables (2020: 69%).

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 including impairment for 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

Cash equivalents amounted to HRK 334,101 thousand as at 31 December 2021 (31 December 2020: HRK 245,835 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 1,518 thousand as at 31 December 2021 (31 December 2020: HRK 1,075 thousand). The Company's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 188,662 thousand as at 31 December 2021 (HRK 181,204 as at 31 December 2020). Provisions for expected credit losses on trade receivables and receivables from related party amounted to HRK 7,547 thousand as at 31 December 2021 (HRK 9,911 as at 31 December 2020). 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 2021 and 2020.

Table 1	Payment due date for total customer loans and receivables*					
	Due balance HRK '000	Up to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
2021						
Foreign receivables	2,170	64,666	32,589	6,138	109	105,672
Domestic receivables	10,051	4,035	13	-	-	14,099
Receivables from related parties	10,066	71,438	-	-	-	81,504
	<u>22,287</u>	<u>140,139</u>	<u>32,602</u>	<u>6,138</u>	<u>109</u>	<u>201,275</u>
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
	<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

Table 2	Ageing of total due customer loans and receivables				
	Up to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
2021					
Foreign receivables	2,170	-	-	-	2,170
Domestic receivables	8,329	1,301	365	56	10,051
Receivables from related parties	7,204	2,395	371	96	10,066
	<u>17,703</u>	<u>3,696</u>	<u>736</u>	<u>152</u>	<u>22,287</u>
2020					
Foreign receivables	216	-	-	-	216
Domestic receivables	785	673	95	-	1,553
Receivables from related parties	3,838	(59)	211	96	4,086
	<u>4,839</u>	<u>614</u>	<u>306</u>	<u>96</u>	<u>5,855</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 2021, the facility remained untapped.

2021	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	3	18	54	20,057	1,843	21,975
Trade and other receivables	123,864	55,186	27,241	1,242	-	207,533
Current financial assets	32,999	-	-	-	-	32,999
Cash and cash equivalents	332,301	-	13,317	-	-	345,618
	<u>489,167</u>	<u>55,204</u>	<u>40,612</u>	<u>21,299</u>	<u>1,843</u>	<u>608,125</u>
Borrowings	-	-	(28,176)	(3,195)	-	(31,371)
Lease liabilities	-	-	(8,134)	(21,012)	-	(29,146)
Trade and other payables	(121,677)	(86,005)	(3,421)	(442)	-	(211,545)
	<u>(121,677)</u>	<u>(86,005)</u>	<u>(39,731)</u>	<u>(24,649)</u>	<u>-</u>	<u>(272,062)</u>
Maturity gap	<u>367,490</u>	<u>(30,801)</u>	<u>881</u>	<u>(3,350)</u>	<u>1,843</u>	<u>336,063</u>

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	20,715	1,392	-	192,628
Current financial assets	32,937	-	-	-	-	32,937
Cash and cash equivalents	245,835	-	-	-	-	245,835
	<u>412,752</u>	<u>36,546</u>	<u>30,445</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	(85,016)	(57,017)	(460)	(411)	-	(142,904)
	<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>

✂ 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 2021 0.75% (2020: 0.59%) interest rates were used for determining fair values, which are based on available market rates for similar financial instruments.

(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.

✂ Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

32 Subsequent events

Regarding the situation caused by the invasion of Ukraine, the Company has no contractual obligations in Russia and Ukraine; however, political and economic uncertainty that has grown into a riskier form of business conditions for now adversely affects both the implementation of Ericsson Nikola Tesla's contracted business in Belarus and new planned business opportunities.

In Belarus, we have a local company with 25 employees, and one of our most important activities is the expansion of LTE networks for their operators and the informatization of the central health system of that country. In 2021, revenue from these activities accounted for about 5% of the Company's total sales results and significantly contributed to operating cash flow.

The Management Board and Executive Management continuously monitor the situation in order to react in a timely manner and mitigate risks. In doing so, we act in accordance with binding legislation, sanctions and restrictive measures, among which we single out the decisions of the EU, the Republic of Croatia, the Croatian Bank for Reconstruction and Development, the World Bank and Ericsson guidelines.

Although the situation is challenging and uncertain in several markets, the Management Board and Executive Management have assessed that Ericsson Nikola Tesla d.d. maintains business and financial stability. Potential cessation of our market activities in the Belarus market would certainly affect our plans and results, including the planned sales revenue, operating margin and operating cash flow, but it would not ultimately disrupt Ericsson Nikola Tesla's business and financial stability.

Given the wide range of jobs and markets in which our experts work, we are taking action to reduce the negative impact of this crisis on business by increasing the engagement of our experts in research and development and other high-value services within the global organization.



The Report of Ericsson Nikola Tesla d.d. Supervisory Board on the supervision performed on the Company's operations in 2021

April 20, 2022

Pursuant to the provisions of the Croatian Companies Act and Ericsson Nikola Tesla d.d. Articles of Association, the Supervisory Board of Ericsson Nikola Tesla d.d. monitored the managing of Company's business operations, taking respective decisions and conclusions at four (4) regular and four (4) extraordinary Supervisory Board meetings, held in 2021.

In 2021, the members of the Supervisory Board were:

Franck Pierre Roland Bouétard (Chairperson)

Olgica Spevec (Deputy Chairperson)

Vidar Mohamimar (Member until June 29, 2021)

Dubravko Radošević (Member until June 29, 2021)

Petra Vranjes (Member as of June 29, 2021)

Ana Vrsaljko Metelko (Member as of June 29, 2021)

Vladimir Filipović (Member and Employees' Representative)

There was full attendance of the Supervisory Board members at the meetings, except for the meeting held on April 7, 2021, when Dubravko Radošević was absent, and the meeting held on December 17, when Petra Vranjes was absent.

The Company's Management Board regularly informed the Supervisory Board on all important business activities, assets and liabilities positions, revenues, and the course of business performance.

At the regular meetings, the Supervisory Board discussed business environment, risk management, activities with the customers, focus areas, strategic projects, realization of targets and financial performance. Further topics of discussion encompassed investments, compliance, significant business transactions that include the Company and its related parties, 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 solutions 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 2021, approval of annual financial reports for 2020, dividend proposal for 2020, succession planning for Management Board and Supervisory Board, Remuneration Policy and Report as well as



introduction of new Supervisory Board members Ana Vrsaljko Metelko and Petra Vranjes. Petra Vranjes was also elected as a new member of the Audit Committee.

The Supervisory Board approved Decision on Remuneration of Supervisory Board members, Remuneration Policy for the Management Board as well as Remuneration Report for Supervisory Board and Management Board in 2020. Based on the Supervisory Board Chairperson proposal, Supervisory Board approved a contract salary increase for Management Board of 3% and one-time extraordinary bonus for exceptional contribution in 2020 of 2 monthly contract salaries. During the year, the Supervisory Board worked on the Management Board succession plan, identifying a pool of candidates.

In September 2021, a strategy workshop between the Management Board and the Supervisory Board was launched to discuss and agree on the Ericsson Nikola Tesla Group strategic direction from 2023-2028 with an objective to finalize it by mid-2022.

The Supervisory Board strongly supported the activities on strengthening ethics and compliance business practice to ensure that the Company meets the highest standards, in line with the Code of Business Ethics of Ericsson Nikola Tesla Group. Members of the Supervisory Board and Audit Committee passed vetting and compliance training.

Furthermore, the Supervisory Board analyzed the effectiveness of the risk management and internal control system and based on the recommendation of the Audit Committee, appointed an independent internal audit officer of Ericsson Nikola Tesla Group.

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

The evaluation was performed by the Supervisory Board itself, without the engagement of external advisors. Evaluation tools included detailed questionnaires and discussions.

The overall conclusion is that Ericsson Nikola Tesla's Supervisory Board and its Audit Committee performed well, had sufficient knowledge and experience, and were efficient in performing their tasks. Especially strong is alignment with the Executive management, diversity of the Supervisory Board members in terms of their qualifications and gender representation, commitment to fulfilling obligations in accordance with their legal role, and continuous support to the Management Board to overcome various challenges.



The Supervisory Board will continue to monitor compliance with corporate governance regulations to ensure that the Company operates in a legal and ethical manner. It will continue to evaluate the proposed targets / strategy, including key assumptions, main risks and required resources, as well as to intensify communication of the Supervisory Board members with the shareholders in order to receive feedback about the shareholders' expectations.

The Management Board assessed its own effectiveness and presented its conclusions at the meeting of the Supervisory Board. The Supervisory Board members agreed with the self-assessment of the Management Board and thanked the Management Board for successfully managing the Ericsson Nikola Tesla Group in challenging times and contributing to the results achieved in 2021.

In 2020, the Supervisory Board set a target percentage regarding the representation of women; namely 40% of women in the Supervisory Board and 30% in the Executive Management, among managers and at the level of the entire company in the next five years. In 2021, with the appointment of two new female members, the representation of women in the Supervisory Board exceeded the target and is 60%. At the Group's level, the representation of women in Executive Management is 23.5%, among line managers & program and project managers 24%, and among the total number of employees 25%.

Analyzing the reports of the Management Board and monitoring the development of the key financial indicators, the Supervisory Board assessed that Ericsson Nikola Tesla Group achieved excellent business results in 2021, despite numerous economic and political risks and the continuation of the COVID-19 pandemic. In addition to an increase in sales revenue in all market segments, a significant growth of profitability was achieved, as well as a strong cash flow from business activities. The business year was marked by the allocation of the frequency spectrum for 5G network in the domestic market, which boosted the implementation of 5G technology. Numerous business activities have been carried out on the modernization and expansion of telecommunications networks and digital transformation of the public and private sectors in the domestic and export markets. Furthermore, new responsibilities have been obtained from Ericsson Corporation in research and development as well as in the area of solutions and services. Ericsson Nikola Tesla Group remains focused on its strategic directions, risk management and cost and operational efficiency, with the aim of achieving defined targets and building an even stronger company in the future.



The Audit Committee, a sub-committee of the Supervisory Board of Ericsson Nikola Tesla d.d., held six (6) meetings in 2021, during which it discussed the financial performance during the year and annual financial statements, audit plan for 2021, audit findings, key risks, quality control and risk management system, issues regarding compliance and safety and performed other tasks defined by Audit Act and the Audit Committee Charter.

The Audit Committee met regularly with external auditors to review the audit plan and the audit report on the annual financial statements. It also pre-approved all non-audit services provided by the external auditors.

The Audit Committee reached decisions about the reported compliance concerns. It evaluated Ericsson Nikola Tesla Group's Ethics and compliance program, and monitored the implementation of these activities with a special focus on anti-bribery and corruption risk assessment processes, conducted internally and externally. The Committee's opinion is that Ericsson Nikola Tesla Group has well established and efficient compliance procedures.

The Audit Committee analyzed in detail the risk management system, conducted the selection process and proposed to the Supervisory Board the appointment of an independent internal audit officer. Furthermore, it monitored the activities and approved the Independent Internal Audit Plan for 2022. Considering OE/OD&Q network's activities performed during 2021 together with the introduction of Ericsson Nikola Tesla Group Independent Internal Audit as reinforcement of Enterprise Risk Management („3rd line of defense“), the Committee concluded that Ericsson Nikola Tesla Group has an efficient risk management and internal control system, deeply incorporated into organization at all levels.

Based on the recommendation of the Audit Committee, the Supervisory Board proposed to the General Meeting of Shareholders the appointment of KPMG Croatia as the auditor of Ericsson Nikola Tesla d.d. for 2022.

During 2021, the members of the Audit Committee were: Olgica Spevec (Chairperson), Vesna Vašiček (Member), Vidar Mohammar (Member until June 29, 2021), and Petra Vranjes (Member as of July 12, 2021). There was full attendance of Audit Committee members at the meetings.

Based on the review of financial and other relevant business documents, the Management Board's report, and the Company's auditors' report, the Supervisory Board concluded the following:



- To the best of our knowledge, Ericsson Nikola Tesla d.d. in all material aspects operates in compliance with the laws and Company's enactments and in accordance with the decisions made by the Annual General Meeting
- The annual financial reports have been prepared in accordance with the business records of Ericsson Nikola Tesla d.d. and its subsidiaries, and in all material aspects reflect the correct financial and business situation of Ericsson Nikola Tesla d.d. and its subsidiaries
- The Management Board's proposal relating to net profit allocation is supported and approved
- There are no objections regarding the Management Board's report and consequently the report is approved
- There are no objections regarding the Auditors' report and consequently the report is approved
- Pursuant to the above stated, the submitted annual financial statements are approved.

Pursuant to the Croatian Companies Act, Article 300 d, the following documents are enclosed to this Report:

- Management Board's Decision on Approving consolidated and non-consolidated annual financial statements;
- Decision by the Supervisory Board on Approving consolidated and non-consolidated annual financial statements.

For the Supervisory Board

Franck Pierre Roland Bouétard, Chairperson

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Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45

OIB: 84214771175

Zagreb, 20. travnja 2022

Zagreb, April 20, 2022

**Predmet: Odluka Uprave Društva o utvrđenju godišnjih
financijskih izvješća**

**Subject: Management Board Decision on Approving
Annual Financial Reports**

Temeljem članka 300.d Zakona o trgovačkim društvima, a nakon primitka suglasnosti Nadzornog odbora dioničkog društva Ericsson Nikola Tesla d.d. Zagreb donosim slijedeću ODLUKU:

In accordance with the Company Act, Article 300.d and subsequent to the approval of the Supervisory Board of the Joint Stock Company Ericsson Nikola Tesla d.d. Zagreb, I herewith forward the following DECISION:

- Utvrđuju se godišnja financijska izvješća Društva za 2021.g.
- Utvrđuju se godišnja konsolidirana financijska izvješća Društva i njegovih podružnica („Grupa“) za 2021.g.

- The Annual Financial Statements of the Company for 2021 have been approved.
- The Annual Consolidated Financial Statements of the Company and its subsidiaries (the “Group“) for 2021 have been approved.

Ericsson Nikola Tesla d.d. Zagreb
Uprava



Gordana Kovačević

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Ericsson Nikola Tesla d.d.
Krapinska 45
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Ericsson Nikola Tesla d.d. Zagreb
Management Board



Gordana Kovačević

Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45
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Zagreb, 20. travnja 2022.

Zagreb, April 20, 2022

**Predmet: Odluka Nadzornog odbora Društva o
utvrđenju godišnjih financijskih izvješća**

**Subject: Supervisory Board Decision on Approving
Annual Financial Reports**

Temeljem članka 300.d Zakona o trgovačkim
društvima, Nadzorni odbor dioničkog društva Ericsson
Nikola Tesla d.d. Zagreb donosi sljedeće:

Pursuant to the Company Act, Article 300.d the
Supervisory Board of the Joint Stock Company
Ericsson Nikola Tesla d.d. Zagreb, hereby confirms
that:

- Utvrđuju se godišnja financijska izvješća
Društva za 2021.g.
- Utvrđuju se godišnja konsolidirana financijska
izvješća Društva i njegovih podružnica
 („Grupa“) za 2021. godinu.

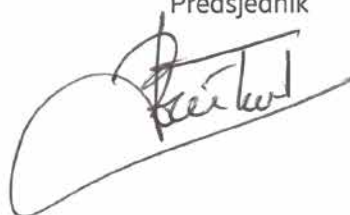
- The Annual Financial Statements of the
Company for 2021 have been approved.
- The Annual Consolidated Financial
Statements of the Company and its
subsidiaries (the "Group") for 2021 have been
approved.

Ericsson Nikola Tesla d.d. Zagreb
Za Nadzorni odbor

Ericsson Nikola Tesla d.d. Zagreb
For Supervisory Board

Franck Pierre Roland Bouétard
Predsjednik

Franck Pierre Roland Bouétard
Chairperson



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Ericsson Nikola Tesla d.d. Zagreb
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Zagreb, 20. travnja 2022.

Predmet: Prijedlog Odluke Uprave i Nadzornog odbora Društva o raspodjeli zadržane dobiti iz 2020. i o uporabi dobiti Društva ostvarene u financijskoj godini 2021.

Temeljem članka 300.b Zakona o trgovačkim društvima, Uprava i Nadzorni odbor dioničkog društva Ericsson Nikola Tesla d.d. Zagreb predlažu Glavnoj skupštini Društva usvajanje sljedeće odluke:

- Dobit Društva za financijsku godinu 2021. u iznosu od 115.206.994,95 kuna rasporedit će se u zadržanu dobit.
- Iznos od 10.000.000,00 kuna iz zadržane dobiti za 2020. godinu rasporedit će se u rezerve za vlastite dionice.
- Dioničarima Društva isplatit će se dividenda u iznosu od 64 kune po dionici iz zadržane dobiti iz 2020. i 2021. godine.

Zagreb, April 20, 2022

Subject: Management Board and Supervisory Board Decision proposal on allocating retained earnings from year 2020 and the Company profit achieved in the financial year 2021

Pursuant to the Company Act, Article 300.b the management Board and the Supervisory Board of the Joint Stock Company Ericsson Nikola Tesla d.d. Zagreb, propose to shareholders at the Annual General Meeting to adopt the following decision:

- The Company's net profit for the financial year 2020, amounting to HRK 115,206,994.95 will be allocated to retained earnings.
- The amount of HRK 10,000,000.00 from 2020 retained earnings will be allocated to reserves for treasury shares.
- The Company shareholders shall be paid dividend of HRK 64 per share out of retained earnings from year 2020 and retained earnings from year 2021.

Ericsson Nikola Tesla d.d. Zagreb

Za Nadzorni odbor



Franck Pierre Roland Bouétard
Predsjednik

Ericsson Nikola Tesla d.d. Zagreb

For Supervisory Board



Franck Pierre Roland Bouétard
Chairperson

Uprava



Gordana Kovačević

Management Board



Gordana Kovačević

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