

Ericsson Nikola Tesla Group
Annual report
2022



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GAS TURBINE XI201

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Condition Control

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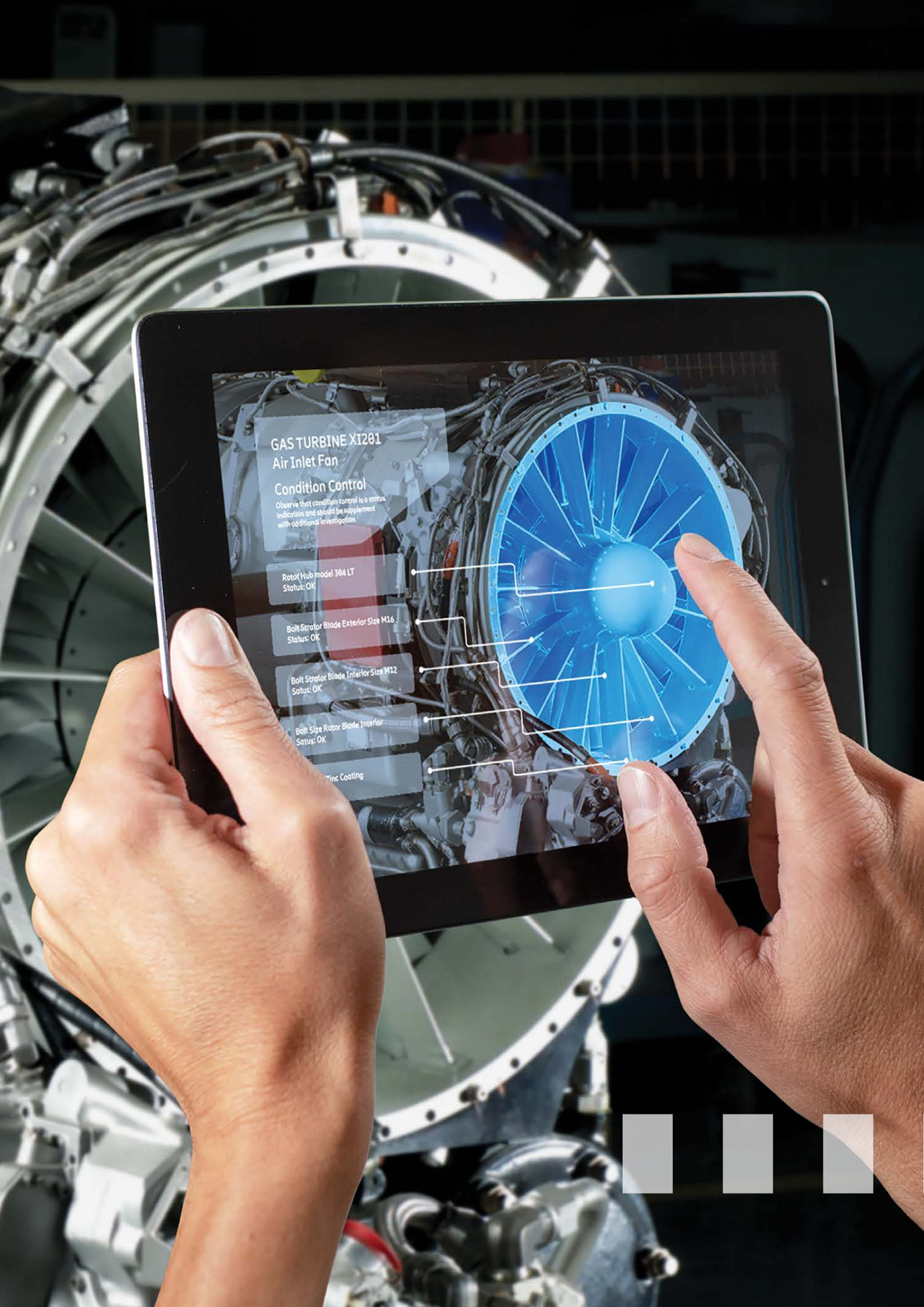
Rotor Hub model 384 LT
Status: OK

Bolt Strator Blade Exterior Size M16
Status: OK

Bolt Strator Blade Interior Size M12
Status: OK

Bolt Size Rotor Blade Interior
Status: OK

Zinc Coating





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 Vukovarska ul. 7A, HR-51000 Rijeka
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 50.18 percent treasury shares 0.75 percent (as at December 31, 2022)
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 and branch offices

Ericsson Nikola Tesla Servisi d.o.o.

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

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, Arberia 3- Veranda
C2.10 - Objekti D3, Nr:39, 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

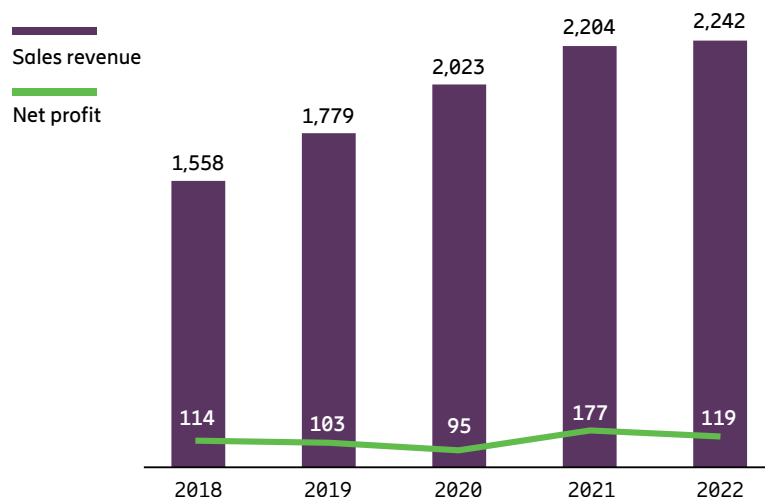
Director Mario Lovreković

Highlights 2022

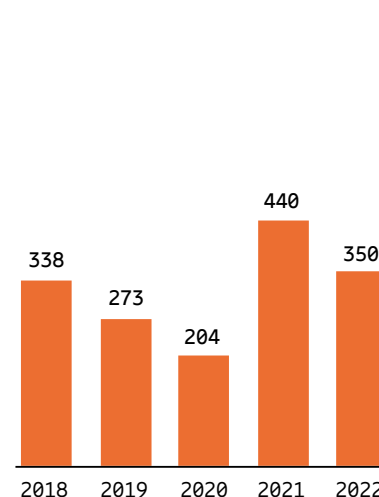


- Sales revenue MHRK 2,242 (MHRK 2,204)
- Gross margin 8.2 % (11.5 %)
- Net profit MHRK 119 (MHRK 177)
- Cash flow from operating activities MHRK 187 (MHRK 370)
- Multi-year strategic contracts signed with the customers in Croatian and export markets
- In cooperation with the leading Croatian operators (HT, A1 HR) – continuation of fiber optic and 5G network rollout
- In the Digital Society segment - several contracts signed aimed at further digital transformation of public services
- Growth of R&D activities and provision of services to Ericsson, important contribution in the development of 5G and in the Cloud area
- Further quality cooperation with the operators in the neighboring countries' markets - HT Mostar, Crnogorski Telekom, IPKO Kosovo; new contract with the operator Telekom Kosovo
- The share of export in the total revenue remained at a high level of 56.7%
- Strong market activities in line with our focused strategy
- Continuation of investments in research, development and implementation of modern ICT solutions, development of employees' knowledge and skills, and our own digital transformation
- Excellence in project execution with high cost and operational efficiency
- Strengthening the culture of ethics, integrity and compliance; risk management, profitability and cash flow have been continuously in our focus
- In addition to Zagreb, Split and Osijek, the company also has a newly opened office in Rijeka
- Further employment: 350 new experts employed, mainly highly educated in STEM (440)

Sales revenue and net profit (in MHRK)



Newly employed



Annual report on Group performance

At the beginning of 2022, we hoped that after two pandemic years, life and business will return to normal; but due to geopolitical situation and, consequentially, challenging economic circumstances, this did not happen. However, the demand for digitalization of public services and solutions and services based on mobile technologies which experienced a strong growth during the pandemic, has continued. Therefore, we are optimistic about new business opportunities.



Gordana Kovačević
President of Ericsson Nikola Tesla

Market overview

In 2022, Ericsson Nikola Tesla Group successfully navigated many challenges and despite a turbulent business environment, achieved sales revenue of more than HRK 2.24 billion, 1.7% more compared to the record 2021. The share of export in the total revenue remained at a high level of 56.7%, which confirms the company's leading position in the ranking of Croatian exporters. In line with our strategic directions, we have focused on excellence in the implementation of many projects for customers in the domestic and export markets, as well as finding new business opportunities which partially offset the negative impact of sanctions imposed on Belarus. Furthermore, we had a strong focus on monitoring and mitigating the impacts of many risks, especially inflationary effects that manifested in the

increase of prices of materials and raw materials, services, significant growth of energy prices and increase in labor costs. The domestic market was marked by the continued investment of the leading operators, Hrvatski Telekom and A1 Hrvatska, in the build of fiber and 5G networks, in which we, as the long-term reliable partner, support them. Due to negative global trends, such as rising prices of electricity and inflation, the operators have optimized the investment dynamics in certain business segments, which was reflected in the reduction of our sales revenues. In the Digital Society segment, we have signed several contracts aimed at further digital transformation of public services, which partially offset lower revenues in the operator segment. We worked intensely on projects in e-Health, e-Business, public security,

transport and on innovative solutions for Industry 4.0, that resulted in cooperation agreements with the Ministry of Justice and Public Administration of the Republic of Croatia, Ministry of Culture and Media of the Republic of Croatia, Croatian Health Insurance Fund, State Geodetic Administration, Ministry of the Interior of the Republic of Croatia, and the City of Split.

In the neighboring markets, we have continued a quality cooperation with the operators HT Mostar, Crnogorski Telekom and Ipko Kosovo on the modernization of mobile networks. Moreover, at the end of 2022 we signed a contract with a new customer Telekom Kosovo, with which we started the cooperation related to the modernization of core and radio network. With this partnership, we strengthen our position on the Kosovo market, where we

have been present for many years, and since 2013 we have had an office in Pristina, which we plan to expand.

The situation caused by the invasion of Ukraine shocked us all and caused numerous reactions in social, political and economic terms. In the Ericsson Nikola Tesla Group, we empathize with the Ukrainian people, and we express our solidarity as a company and as individuals in different ways.

The company had no contractual obligations in Russia and Ukraine, however, the situation adversely affected the implementation of Ericsson Nikola Tesla's contracted business in Belarus as well as new business opportunities. Following the imposition of sanctions on Belarus, we terminated the contract for the project of implementation of eHealth of the Republic of Belarus and stopped all new sales activities in this market. We have continued with the execution of contracts in the operator segment in the market of Belarus that had been signed before the sanctions, strictly adhering to the decisions of sanctions that were introduced by the EU institutions. In accordance with the new situation, we have completely restructured our office in Belarus.

A significant part of our business refers to services to Ericsson through activities of our Research and Development Center and other expert centers. This business segment has been recording a continuous growth and accounted for almost 46% of the sales revenue. By working on products and projects that secure Ericsson's technology leadership, our Research and Development Center (R&D) has positioned itself as one of the top-rated centers within the global corporation. We would like to highlight the contribution of our experts in the development of new features in 5G, as well as taking over new responsibilities in Cloud. Our experts in expert centers for solutions and services also record excellent results on many projects worldwide

and significantly contribute to the company's results.

Key performance indicators

In regard to key performance indicators, sales revenue increased by 1.7% year-over-year, primarily owing to sales growth in services to Ericsson, as well as Digital Society segment in the domestic market. Gross margin decreased to 8.2%, as a result of sanctions in Belarus, but also due to business mix, increase in labor costs, increase of the prices of services as well as energy, raw materials and materials. Operating profit decreased by 31.1% to MHRK 128.5. If we exclude the one-off impact of the termination of eHealth contract in Belarus, gross margin was 9.7% compared to 11.5% in 2021, while the operating profit decreased by 15% to MHRK 158.4. Cash flow from operating activities was MHRK 187.0, which is better than planned, considering the market environment. Cash and cash equivalents, including the short-term financial assets at the end of the year amounted to MHRK 557.5 (44.4% of the total assets).

Main business risks

Business risks that marked 2022 also impact the business performance in 2023. Geopolitical conflicts and macroeconomic instability adversely affect the realization of certain contractual obligations, collection of receivables, demand for our products and those of our customers, and limit our growth. We are also faced with the lack of ICT experts and inflationary pressures in the form of increase of prices of labor, services, energy and materials and disruptions in supply chains. The demand for customer financing continues, as well as our exposure to increased credit and financial risk in case our customers face adverse financial

conditions. A challenging global environment, as well as consolidation among the providers of products and services, and new ICT companies entering the market leads to an increased competition, which impacts the demand and prices of our products and services.

Our well-established process of integrated business risk management (Enterprise Risk Management), which has been an integral part of our management system for many years and that we have been continuously improving, helps us significantly in identifying and mitigating the risks we face.

Business ethics and compliance

The driving force behind our company's culture are high standards in ethics and 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. The Supervisory Board and the Executive Management have been regularly analyzing key risks during meetings and discussing about compliance issues in order to ensure that the company operates in line with the highest standards. We require all employees, as well as all stakeholders with whom the Group has a contractual relationship, to act in accordance with the provisions of the Code of Business Ethics and the Code of Conduct for Business Partners of the Ericsson Nikola Tesla Group in their daily work. During 2022, further improvements were made following the Anti-bribery and Corruption Risk Assessment at the Group level, and an assessment of the effectiveness of checking the integrity of business partners was carried out. Further education in the field of compliance and anti-corruption for employees continued, along with checking the integrity of employees in key positions.

Sustainability and corporate responsibility

Excellence and excellent reputation of our experts and the use of modern ICT technologies in creating innovative solutions for challenges faced by our customers, as well as a response to today's biggest challenges such as climate change, are our main foundations for ensuring long-term business sustainability.

We attach special importance on the collaboration with the academia because we believe that as a socially responsible company we have to make a substantial and quality contribution to the development of education in Croatia i.e., its adaptation to the needs of the labor market. Through tradition of cooperation with the academic community that includes Ericsson Nikola Tesla's Summer Camp for STEM students and through other projects and study programs, we strive to contribute to the development of quality ICT experts.

In 2022 we hired more than 350 new experts, and in order to additionally award and motivate our key employees, in line with the decision of the General Meeting, the Management Board was given consent to distribute additional 5,000 treasury shares to employees. We have continued to buy our own shares and during 2022 we have bought additional 6,585 shares on the Zagreb Stock Exchange.

In line with our strategy of growth and business decentralization, at the beginning of June we opened an office in Rijeka. I believe that this office will, like our locations in Split and Osijek, become a center of excellence where ICT experts, by working on the latest technologies, contribute to the digital transformation of Croatia and other countries where we operate. In September, we marked 40 years of business operations of Ericsson

Nikola Tesla's office in Split that employs almost 700 experts. Our office in Osijek that has more than 80 employees, also has potential for further growth.

As a socially responsible company, we are focused on the quality cooperation with all stakeholders: customers, partners, employees and shareholders. Therefore, we are especially pleased that our efforts have been recognized and valued by Hanfa award for the best compliance with the Code of Corporate Governance among the issuers on the Regular Market of the Zagreb Stock Exchange, and the "Award for building public trust" for the most transparent reporting awarded by PwC Croatia in cooperation with the Zagreb Stock Exchange. We were awarded the "Hrvoje Požar" recognition for the project of rational energy management, and we have also received recognition for the investment in a new energy efficient Data Center.

Outlook

In 2023, we expect the trend of growing demand for ICT solutions to continue, which opens new opportunities for our company on the market.

Therefore, we continue to implement our strategy, with an emphasis on investing in research, development and implementation of modern ICT solutions, the development of employees' knowledge and skills, and in the digital transformation of the Ericsson Nikola Tesla Group. By hiring and retaining talented experts and investing in people, we will be able to respond to market demands and secure the long-term sustainability of business. As a company with globally recognized experts, we have the potential for even more active contribution to achieving the targets of EU for Digital Decade in

cooperation with other stakeholders in the ecosystem in Croatia and beyond.

Considering that business challenges that marked 2022, such as high inflation, geopolitical conflicts, and macroeconomic uncertainty, are also impacting business operations this year, our strong focus remains on risk management, cost optimization, profitability and cash flow, as well as corporate social responsibility. We are also committed to further strengthen the company's culture based on integrity, ethics and compliance, and we are certain that with the highest standards in the area of compliance, we secure additional competitive advantage and sustainability.

Our long-term strategic positioning in ICT technologies, innovative solutions, strong leadership and employees' competences provide an excellent position for further growth and success of the company and create additional value for all our stakeholders.

I would like to use this opportunity to thank all the employees of Ericsson Nikola Tesla Group for their dedicated work, innovative approach and reliable support to our customers, and thank our customers and partners for their cooperation and trust.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2022 Annual Report, consisting of General Report, Non-financial report, and Consolidated and Non-Consolidated Financial Statements, including the Independent Auditors' Report as at December 31, 2022.

Business model

Operating in a constantly changing and diverse business environment our business model is driven by creating a value for all stakeholders - our customers, our customers’ customers (end users), our partners and suppliers, governments and regulators as well as the society surrounding us.

We create value for our stakeholder by focusing on:

- Customers – enabling new sources of revenue, increase end-customer experience and continuously growing efficiency
- Employees – attracting, retaining and developing top talents
- Shareholders – creating new value
- Society – being responsible and relevant driver of positive change

Company foundations:

- Purpose: To provide connectivity and innovation platforms for digital transformation
- Vision: A world where ICT solutions transform society, securing sustainable future and value for all


Business foundations:

- Highly competent & innovative people, strong company culture
- Best-in-class digital infrastructure, solutions and services offering
- Leading position & expertise in areas of SW development and services delivery
- Strong local presence & perception


Our business segments are created accordingly.

Business segments


Segments




Telco Segment & Managed Services



Digital Society



R&D and software development



ICT Services

Telco Customers

Wanted position: Trusted advisor to our customers and a market leader in our markets / for our customers.

Customers from Digital Society

Wanted Position: Partner of choice that leads digital transformation in selected verticals like e-health, land registry, intelligent transport systems (ITS), etc.

Software development and System integration services

Wanted Position: Among the best performing, most competent and reliable sites for SW development, positioned in strategically important product areas, as well as highly competent and competitive customization and SI services hub providing the highest technical, consultative and innovation capabilities.

Company strategy

Company strategy is providing a framework within which we agilely identify and act upon new opportunities and threats, with a goal of creating a world where ICT solutions transform society, securing sustainable future and value for all.

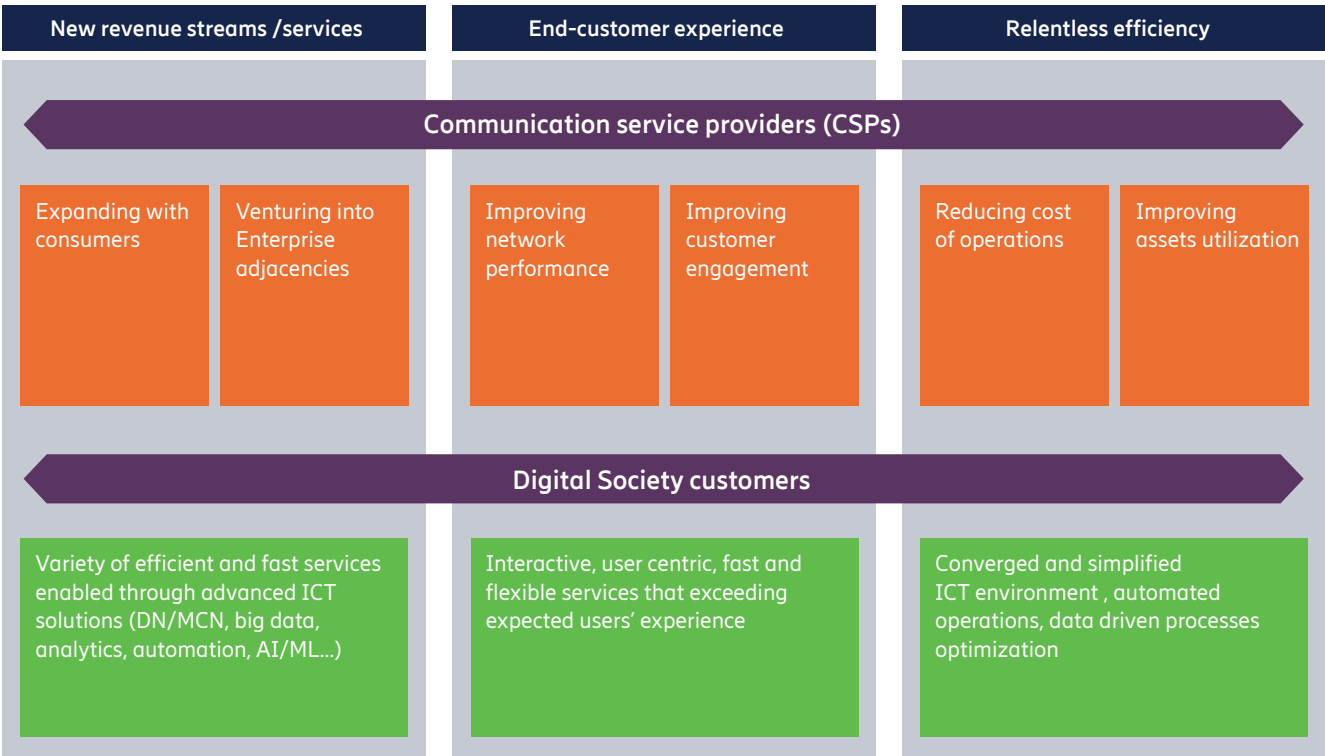
Strategy of our company is constantly evolving and adapting to key themes and trends on the market. Three key themes can be identified as market priorities:

- New revenue streams/services
- End-customer experience
- Relentless efficiency

Our strategic focus remains on Digital infrastructure, Innovative ICT solutions, SW development and other services through:

- Scalable, resilient and reliable networks and platforms, superior efficiency and customer experience with automated operations and services
- Integrated information systems, platform-based offerings, data driven operations and integration capabilities for selected industries
- Leading edge technical expertise and competences, securing efficient development of innovative, fault free, value-added SW products and services

Creating value for our customers



By strict following of our strategic choices, we address CSPs and enterprises need for mobile broadband with ubiquitous high speed and low latency connectivity as well as supporting digital transformation with solutions spanning from dedicated networks to SW products and services for e-health, land registry, ITS and other selected verticals.

We address needs of corporate customers through relentless focus on quality, delivering best-in-class lead times and cost/performance benefits in development of SW products and execution of ICT services.

Foundations for our strategy are:

- Highly competent & innovative people, strong company culture
- Best-in-class digital infrastructure, solutions and services offering
- Leading position & expertise in areas of SW development and services delivery
- Strong local presence & perception

Business strategy

Purpose

To provide connectivity and innovation platforms for digital transformation

Vision

A world where ICT solutions transform society, securing sustainable future and value for all

Our customers' needs

New revenue streams

End-customer experience

Relentless efficiency

Our focus

Digital infrastructure, innovative ICT solutions, SW development and services...

...for CSPs and Enterprise use

...for Corporate Customers

Foundation

Highly competent & innovative people, strong company culture

Best-in-class digital infrastructure, solutions and services offering

Leading position & expertise in areas of SW development and services delivery

Strong local presence & perception

Business responsibilities and activities

Ericsson Nikola Tesla d.d.

Ericsson Nikola Tesla is the leading provider of communications products and services for communications service providers, as well as a provider of ICT solutions and engineering ICT services. The company has a strong Research & Development Center, as well as many Service Centers. The company provides a modern test environment which enables quality testing of the operators' and internal users' networks. It is among the leading exporters in Croatia, and number one when it comes to exporting knowledge and providing engineering ICT services.

The company meets customer demands by combining an advanced Ericsson portfolio with an innovative portfolio of Ericsson Nikola Tesla, with the support of highly educated employees. The company's vision is a world where ICT solutions transform society, securing sustainable future and value for all.

The company's main activities encompass:

- research and development, software development and other services
- creating and implementing e2e ICT solutions for communications service providers and ICT solutions for Digital Society
- local, regional, and global service provisioning
- 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 are:

- 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 in the market of Belarus and delivers products and services offered by Ericsson Nikola Tesla Group solely to fulfill the remaining obligations from the contracts that were signed before March 2, 2022, in the civil telecommunications sector, in line with the valid sanction regulations of the Republic of Croatia and the European Union and the necessary time-limited export licenses issued by authorities.

Products and services

In the telecommunication segment, the Group delivers an entire range of ICT products, solutions and services of Ericsson Nikola Tesla, Ericsson, and other selected providers. Modern solutions that we offer are based on cloud infrastructure with network functions virtualization. We create and implement e2e solutions for radio, transmission and core networks, offer business support systems, as well as other solutions such as media solutions and solutions for private networks. The services we offer to telecommunication operators are planning and design of networks, design, build, monitoring and maintenance of fixed and mobile telecommunications infrastructure, network integration and optimization, support and consulting.

For selected industry and market segments, Ericsson Nikola Tesla Group provides

its customers and partners its own products, solutions and services for digital transformation of health care, transport, public administration and public and national security, solutions for managing land and infrastructure, and solutions for sustainability and smart energy management.

The company's research & development center was recognized both in the region and within the Ericsson corporation for its quality, reliability, and expertise. The company's services centers provide highly efficient technical and consulting services.

We enable automation of business processes for business systems and offer IS/IT services ranging from design, implementation and integration to maintenance.

Innovations represent an indispensable component in the development and application of the overall offer of solutions, services and products of Ericsson Nikola Tesla Group.



Business situation in major markets

Of the total sales revenue, the domestic market accounted for 43.3%, services to Ericsson accounted for 45.7%, while other export markets accounted for 11%. The share of the total export represents 56.7% of the company's revenue.

In the domestic market, sales revenue amounted to MHRK 970.7 (2021: MHRK 1,051.2); down by 7.7 % year-over-year. Sales in the operator segment decreased by 11%, while in the Digital Society segment sales increased by almost 20%.

With Hrvatski Telekom we have continued a quality cooperation in all business segments. Based on the existing 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, all the agreed targets were realized until the end of Q4. The deliveries related to contracts for the design and build of the passive part of FTTH networks and procurement and installation of passive FTTH material, co-financed by the European Structural and Investment Funds, are also ongoing as planned.

Our strategic partnership in the domain of the radio part of mobile network has certainly contributed to the fact that Hrvatski Telekom, in addition to winning the umlaut Best in Test award, once again won the Ookla Speedtest Awards and recorded the best annual Speed Score™ as well as the best Coverage Score™ result.

With the strategic partner A1 Hrvatska we have continued the activities related to the expansion of the radio 5G network coverage and capacity, as well as modernization and expansion of radio access network capacities. At the same time, the cooperation continued on the realization of contracts related to build of convergent core network, as well as on the modernization of microwave transmission systems. The realization of contract for the delivery of radio access active equipment for the build of the next generation mobile broadband access network in areas without broadband infrastructure and without sufficient market interest

for investments, co-financed by the Operational Programme Competitiveness and Cohesion funds, is ongoing.

In the Digital Society segment, we have been working intensely on projects in the segment of e-Health, management of spatial plans, digitalization of public administration and public safety, as well as on new innovative solutions for the digital transformation of industry and society. We would like to highlight the contract with the Ministry of the Interior for the delivery of new mobile systems for monitoring the green border, and a new three-year framework agreement for the maintenance of the emergency call system. We have contracted the continuation of cooperation related to the support services for the application system of the Joint Information System of Land Registry and Cadaster (JIS) for the Ministry of Justice and Public Administration and State Geodetic Administration. With Hrvatske ceste, we have contracted the establishment of the national access point for multimodal information in transport, as well as the development of a route guide as part of the provision of multimodal information services in transport. In the e-Health segment, we continued the informatization of the central healthcare IT system with the Ministry of Health. The contracts related to maintenance and upgrade were also signed with several hospitals. With the Croatian Health Insurance Fund, a contract was

signed for the procurement of adjustment and migration services of the CEZIH application system, and with the Central State Office for the Development of the Digital Society, a contract was signed for the project Consolidation of CEZIH Healthcare Infrastructure System with the aim to further upgrade the national healthcare IT system. The project of digitalization of cultural heritage of the Republic of Croatia with the Ministry of Culture and Media continues.

In export markets (excluding services to Ericsson) sales revenue amounted to MHRK 247.2 (2021: MHRK 253.2), down by 2.3% year-over-year.

The quality cooperation with the operators HT Mostar, Crnogorski Telekom and IPKO continues on the expansion and modernization of their telecommunication networks.

With HT Mostar, we have contracted the final phase of the 4G/4G+ mobile network implementation project, as well as services with regard to support and expansion of this operator's transmission network. Based on these contracts, coverage and capacity will increase, and HT Mostar users will enjoy higher speeds and better user experience on the road to 5G.

In 2022, several contracts were also signed with Crnogorski Telekom. We would like to highlight a five-year contract signed in October, by which a long-term successful cooperation on the improvement and

Sales by markets (in MHRK)

	2018	2019	2020	2021	2022
services to Ericsson	956	1,028	862	900	1,024
domestic market	372	497	927	1,051	971
export markets	230	254	234	253	247
total sales revenue	1,558	1,779	2,023	2,204	2,242

modernization of Crnogorski Telekom mobile network continues. During Q4, the activities continued on the mobile network modernization which include an increase of capacity, expansion and coverage of Montenegro with 5G signal.

In the Kosovo market, with the operator Telekom Kosovo, we started the cooperation related to the modernization of core and radio network and maintenance of this operator's network. This contract encompasses the modernization and virtualization of the entire core network, introduction of the state-of-the-art equipment in the radio part of the network and the implementation of Kosovo international code 383 in the network.

After the sanctions had been imposed on Belarus, we have terminated the contract for the project of implementation of eHealth of the Republic of Belarus and have stopped the signing of the already agreed new contracts in the operator segment. In line with the obtained time-limited permits from sanctions committees of the Republic of Croatia and the European Union, we are finishing the realization of certain obligations in the operator segment for the contracts that were signed before the EU's sanctions for Belarus came into force.

Services to Ericsson recorded sales revenue of MHRK 1,024.2 (2021: MHRK 899.5), up by 13.9% year-over-year.

In 2022, the Research and Development (R&D) Center of Ericsson Nikola Tesla

successfully delivered key functionalities in all business areas (Networks, Mobile Switching Center, Unified Data Management, Cloud). We would like to highlight a significant contribution of our experts in the development of New Radio (NR) Dual Connectivity feature by which Ericsson has achieved 4Gps, which is at the moment record speed in 5G telecom networks. The contribution of Ericsson Nikola Tesla's R&D teams was also recognized in developing the first Voice over New Radio release and its commercial launch at a few 5G networks. Due to this, the customers can provide a new and superior user experience via a cloud-native 5G Standalone architecture. We are proud that we were able to contribute to such an important milestone, as standalone 5G is the future of wireless.

Ericsson Nikola Tesla's R&D Center also received new responsibilities. Within the Cloud area, after Ericsson had discontinued assignments with the suppliers in Russia, we have dedicated additional teams and took over their responsibilities and have successfully delivered the projects/products in line with the initial plan. Thereby, we have proven the organization's strong flexibility in challenging and unpredictable situations.

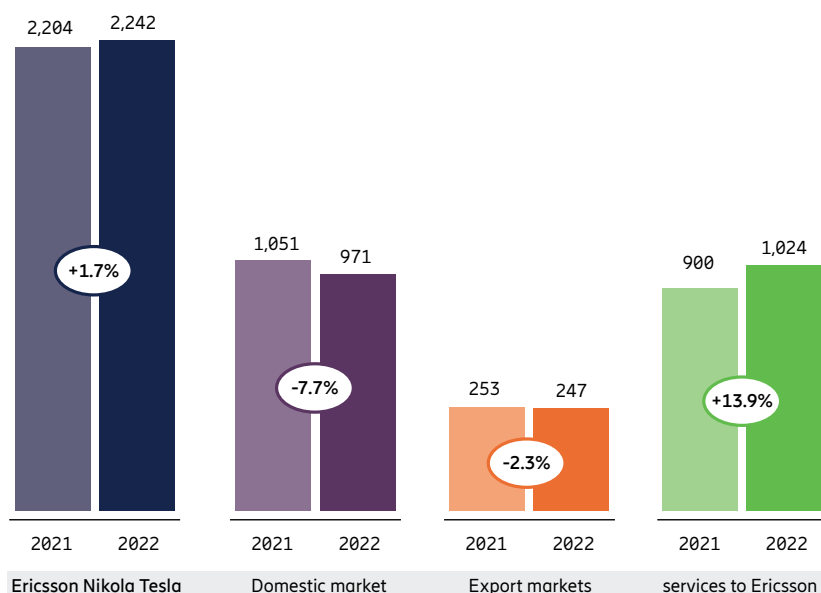
Experts from Customer Services and Solutions Center, in addition to projects for the customers of Ericsson Nikola Tesla Group, have worked on projects for

Ericsson customers on the activities of creating solutions and defining network parameters, optimization and integration of solutions and technologies in many EU Member States and other countries such as the United Kingdom, Switzerland, the United States of America, Canada, Japan, Singapore, Indonesia, India, Saudi Arabia, etc. These are complex projects that, among other activities, include the introduction of 5G technology, operational and business support systems, as well as projects for the introduction of core solutions in Cloud. The activities have also continued on developing and implementing software tools for mobile networks management and optimization, which are used in network rollout by many operators worldwide.

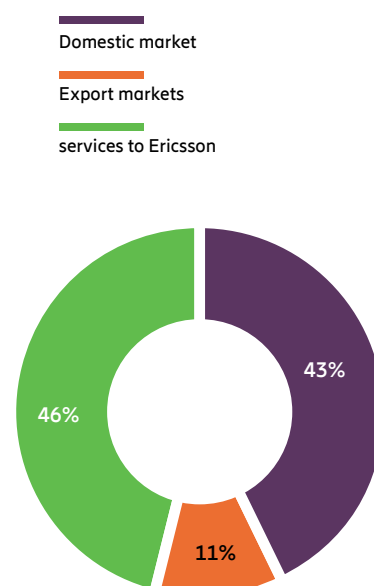
In the Digital Society segment, our experts, in addition to many projects for Ericsson Nikola Tesla's customers, also achieved quality results on projects regarding IoT platforms and Connected Urban Traffic for the needs of Ericsson corporation.

The teams working on activities in the area of IT& Engineering Services, in addition to providing excellent support and achieving excellent results on test environment management projects and IT operations for the Ericsson corporation, also had a key role in digital transformation processes of Ericsson Nikola Tesla Group and provided quality support for work for Ericsson Nikola Tesla Group's employees, as well as remote support to customers.

Sales revenue (in MHRK; YoY)



Sales by markets



Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are aligned with long-term strategic business development goals. They are focused on the 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 is Ericsson Nikola Tesla's Research Unit. This unit is responsible for Ericsson Nikola Tesla's Institute that virtually connects all the people across the company who participate in scientific research. In research on joint projects, we cooperate with R&D centers in the corporation as well as with 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. We have continued to successfully work on H2020 project PHARa-ON, which is a four-year project that started at the end of 2019. The purpose of the project is to test and consolidate the technology-assisted living platforms for the elderly. The system's architecture had been defined, and the pilot projects in Italy and Slovenia, for which we are responsible, have started. The overall ecosystem was also launched, in which we work with new partners and services that are aimed to be provided as an extended solution of the defined platform. We have very successfully continued to work on H2020 project INSULAE, that lasts for four years, and its purpose is to apply technology to improve life on European islands. Our company participates in the case for the island Unije in Croatia, where the elements for energy consumption control in households were successfully developed. The results of the project have initiated business interest in the application of such technology solutions for new commercial cases. The work on H2020 project OLGA has continued. The purpose of this innovation project is the application of technology solutions for sustainable business related to several airports in Europe, and our role as a partner is to work on solutions for airport

building sustainability and the optimization of Zagreb airport traffic. All the necessary elements for the experimental application of technology have been defined. Mid-2022, the work on H2020 TRUSTEE project began. In the following three years the project will research concepts for distributed security. Our role is related to defining the architecture of such a system and creating concepts for testing and checking the security of the proposed system. The work also started on the H2020 project SmartEPC in the domain of planning and optimizing electricity consumption, with a highlight on public lighting and new services for energy savings.

We have continued a quality research cooperation with the Faculty of Electrical Engineering and Computing, University of Zagreb. A highlight was given to the project of research into the communication between various devices in the overall machine communication, the application of machine learning to air quality control, as well as the impact of new services on the planned network infrastructure to achieve continuous quality of service. We carried on with the research into the system for the optimization of radio signal transmission. Special focus was put 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 working on these projects along with the faculty professors and the company's employees who already have a PhD. With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, we have worked on the project of data reliability in sensor networks with a special emphasis on data transfer security and the application

of machine learning to replace data in time series data collection. The projects are carried out within our research laboratory on the premises of the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split. With the University of Split, we are already successfully cooperating on 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 work. A special contribution was made in cooperation between the faculty and our company through the implementation of a project in collaboration with students and data preparation and analysis for certain studies and joint solutions in commercial tenders in the domain of traffic.

The research team continued to work on analyzing the large amount of data, and during the year worked on projects for application of machine learning and artificial intelligence, paying special attention to personalized medicine and application in predicting fires, with an additional focus on soil analysis in the area where fire can develop in correlation with the impact of other weather conditions. Research was carried out about the possibility to apply homomorphic computers to perform artificial intelligence algorithms on the network edge. The results of a research project in the application of the Internet of Things in the domain of environmental control, with a concrete case of testing drinking water and other types of freshwaters were transformed into a commercial project, and the research was expanded, and the work continued on the research and development (IRI) project, financed from the EU structural fund for the control of water eutrophication in rivers and

the quality of drinking water in water supply systems. Last year the industry research stage was completed, and the experimental development started. A very successful cooperation was realized with Ericsson global research unit in the development of technologies for a digital twin in the business environment for industry application, based on the Internet of Things, with a highlight on managing knowledge. Joint work resulted in a well-accepted conceptual demo for the presentation of the work of a digital twin for management in an industrial environment.

During the year, we have continued to work with our partners within the Centre of Research Excellence for Data Science and Cooperative Systems that we are a part of. We worked with partners on the preparation of the start of digital innovation hubs operation, which will be co-financed for the next three years by the EU and by the country for the domain of artificial intelligence application in healthcare (EDIH AI4Health) and smart urban environment (EDIH Adria). Through hubs we will create an ecosystem in the development of new technologies and the application of innovative technology in local environments.

We have continued a research project in Split that has been researching analytical

methods for connecting heterogeneous types of data, with the purpose to better predict and create AI in the field of enrichment of available sensor data, and with the purpose of reaching a more precise and faster conclusion, decreasing the number of necessary physical sensors, reducing communication capacity and saving energy. In terms of research of large amounts of data, we cooperate on two projects of the Croatian Science Foundation in Split. New methods for heterogeneous data correlation were established in order to enable fast searching and reaching conclusions based on the available data types.

Successful industry research continued on three projects co-financed by the European Structural Fund within the Competence Center for Smart Cities (CEKOM), led by the City of Rijeka. Our company is a partner along with other 20 members. We lead two projects, and through development in these projects, 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 greater satisfaction and lower costs for citizens. Over the year, the industry research finished, and experimental development started in

the practical application of technology in partner organizations.

We have successfully held Ericsson Nikola Tesla's 21st Summer Camp at our locations in Zagreb and Split, where 48 students from 15 institutions of higher education from Croatia and the region participated. They worked on 17 projects and were mentored by 34 experts from the company and universities. In addition, eight members of the steering board regularly controlled the implementation and technological progress of all projects. All the projects gave an interesting confirmation of research concepts, and the students were pleased with the work and the obtained results. On the last day of Summer Camp, the presentation of the projects' results was held for all the interested company's employees. As many as 30 students continued to work with us on the development of projects in the company's development teams, and a small number of them continued with the research project. Part of the projects' results was applied for further development of our own solutions for the market.

We have published several articles in magazines and at conferences, and during conferences (SoftCOM, MIPRO) we have organized events that were hosted by our researchers.



Important events

January-March

- A new contract was signed with HT Mostar, worth more than MHRK 11, related to management of software and licenses for Ericsson solutions in HT Mostar's network. By implementing this contract, HT Mostar will be able to use the latest software versions of Ericsson solutions, as well as a simplified and more agile management of network elements.
- Within the initiative "Women in Technology" that is also supported by Ericsson Nikola Tesla, an online lecture was held at the Company's headquarters about the possibilities of the Central Healthcare Information System of the Republic of Croatia, that was developed and is continuously updated and maintained with new functionalities by Ericsson Nikola Tesla's experts. The lecture was aimed at senior-year female students at schools of medicine in order for them to gain a better insight in the contributions and advantages of using modern ICT technology and its application in health care.
- At the annual "Hrvoje Požar" award ceremony of the Croatian Energy Association and "Hrvoje Požar" Foundation, Ericsson Nikola Tesla was awarded the annual award in the category for the Realized Project of Rational Energy Management for the project "Increasing energy efficiency and using renewable energy sources at Ericsson Nikola Tesla d.d.".
- Ericsson Nikola Tesla Group's 2021 business results were published: the Group realized a successful business performance and achieved excellent results, record revenue and growth in all markets.
- In cooperation with Ericsson Nikola Tesla, Crnogorski Telekom put 5G network in commercial operation in Podgorica, which makes Crnogorski Telekom the first operator in Montenegro to put 5G network into commercial operation. Dynamic Spectrum Sharing (DSS) technology was implemented which enables the dynamic use of current radio frequencies and this means that in the area covered by 5G signal, users can use their 4G or 5G devices in the same frequency range.
- A contract was signed in Sarajevo between BH Telecom and Ericsson Nikola Tesla, worth HRK 14.8 million, and the contracted activities encompass an upgrade of a part of BH Telecom's core network, as well as the necessary services of implementation and integration. The Contract was signed for a five-year period.
- Ericsson Nikola Tesla and the Slovenian company Realis informacijske tehnologije, as a Bidding Consortium, have signed a contract with Hrvatske ceste worth HRK 3.9 million. This is a project that establishes a national access point for multimodal information in transport, as well as develop a route guide as part of the provision of multimodal information services in transport.
- A consortium comprising Ericsson Nikola Tesla and King ICT signed a new three-year framework agreement with the Ministry of the Interior of the Republic of Croatia on the maintenance of the emergency call system worth HRK 13.5 million.
- Gospić General Hospital marked a decade of using the Hospital Information System. This event was attended by the representatives of Ericsson Nikola Tesla, a company that developed, implemented and has been providing maintenance for this system for Gospić General Hospital.
- At the conference "Water on the Palm of the Hand", a representative of Ericsson Nikola Tesla spoke about the company's expertise in the field of water ecosystem monitoring and presented ICT solutions that we have been developing for this purpose. Their main aim is monitoring, visualization and analysis of water quality parameters.
- Ericsson Nikola Tesla representative participated at the conference "3T Tourism, Travel & Tech" and held a lecture "Crowdsourcing Methods in Participative and Sustainable Development of Tourism", highlighting the importance of synergy of society, environment and the economy.
- At the conference "Automate business!", the company's representative presented the automation of the business process for managing standard operating procedures in the Agency for Medicinal Products and Medical Devices of Croatia (HALMED), a part of the overall Digital archive information system that our company implemented in 2014. Our solutions serve as a repository for more than 5 million documents with more than 8.7 TB of data. The greatest value that this system provides is the quality of documentation management, which is one of the foundations in business quality certification and receiving high marks from external regulatory bodies, which HALMED has been continuously achieving and is ranked at top of European national agencies for medicinal products.
- We have responded to UNICEF's call for solidarity with children and families of Ukraine in providing financial aid for taking care of them, which was also accompanied by a significant financial donation to Croatian Red Cross for the same purpose.



2022

April-June

- With the operator HT Mostar, we have signed a new contract worth more than MHRK 16, thus continuing a long-term successful cooperation. The contracted services include providing support for the maintenance of Ericsson's solutions in fixed and mobile network of HT Mostar until the end of 2023.
- The Company's representatives participated at the third conference "5G Day", organized by the Croatian Regulatory Authority for Network Industries (HAKOM) in Zagreb and presented the latest Ericsson radio units and the application of 5G networks in the industry.



- Ericsson Nikola Tesla experts took part in an international conference in Dubrovnik - VII. Croatian Congress on Cadaster & Land Administration Domain Model 2022 workshop and presented two papers: "Managing Land Data using the Joint Information System of Land Registry and Cadaster (JIS)" and "Toward Croatian utility registration implementation model based on LADM".
- Ericsson Nikola Tesla participated as the gold sponsor at the 6th Symposium of PhD students of Faculty of Science.
- City Red Cross Society, Croatian Institute for Transfusion Medicine and Ericsson Nikola Tesla, organized another voluntary blood donation event at the company's premises in Zagreb.
- Our experts participated at the JobFair 2022 and held a lecture about the employment perspective in 5G, a workshop about full stack app creation, and presented many possibilities of 5G and IoT by using a popular LegoCity model.
- The company's representatives participated at the 6th Dump Days in Split.
- As part of a pilot project, companies Ericsson Nikola Tesla and Odašiljači i veze (OIV) implemented a private 5G network at a factory in the Šibenik-Knin County.
- At the 27th conference DORS/CLUC 2022 - Days of open computer systems, Ericsson Nikola Tesla's experts presented the project WaterQ which deals with the digital transformation of water quality monitoring.
- At the 10th JavaCro conference our expert held a lecture titled "ZUP IT system for the analysis of General Administrative Procedure Act implementation."
- The representatives of Ericsson Nikola Tesla participated at the 45th MIPRO conference, of which the company is a long-term partner. During the panel discussion "Smart and green Croatia

-How to achieve it?", the company's president talked about the company's internal initiatives and processes through which we take note of our own impact on the climate and the environment. Ericsson Nikola Tesla was the holder of two thematic consultations - Artificial Intelligence Systems, and Software and System Engineering. Our experts from various areas presented papers about irreplaceable tokens, application of GDPR, IoT for Active and Healthy Ageing, Operations Wisdom Logging. A joint paper "The Challenges of Digitalization at Unije Island" was also presented with L. Perinić (Regional Energy Agency Kvarner, Rijeka, Croatia), and M. Jarak (WWF Adria, Zagreb, Croatia).

- A member of Ericsson Nikola Tesla's executive management participated at Greencajt on the panel titled "Go green and keep clean – are corporations ready for changes?".
- Ericsson Nikola Tesla opened an office in Rijeka, and during the opening ceremony which was attended by numerous guests as well as high representatives of local and regional bodies, members of the academia and businessmen, we have signed a cooperation agreement with the Faculty of Humanities and Social Sciences in Rijeka.



- At the Gallery Modulor of the Cultural Center Trešnjevka, a joint exhibition of Art and Photography group of Ericsson Nikola Tesla's employees and pensioners was held.
- A member of the executive management participated at Lider's conference "Sustainable Finances", where she spoke about social responsibility as the company's strategic direction.
- A member of Ericsson Nikola Tesla's executive management represented the company at "Trade Finance" workshop organized by Privredna banka Zagreb and Croatian Chamber of Economy.
- The Annual General Meeting of Ericsson Nikola Tesla joint-stock company was held on June 27, 2022, at the company's headquarters in Zagreb, Krapinska 45. For the participation in the work of the Annual General Meeting, 66.57 percent of the Company's equity capital was registered, which was sufficient for the Annual General Meeting to reach valid decisions.
- At the official award ceremony of the Digital Innovation Incubator, where Ericsson Nikola Tesla was a strategic partner for the ICT area, awards were presented to the best young innovators. Our company received a recognition for contributing to the development of young people's creativity and entrepreneurship.

July-September

- Graduation workshop (DIRA) of the Department of Electronic Systems and Information processing was held for the 13th time at the Faculty of Electrical Engineering and Computing, and our company sponsored the second prize.
- Ericsson Nikola Tesla delivered an ICT solution for digitalized monitoring of water in the area of Hutovo Blato.
- Within the Innovation Academy organized by UNICEF, at the end of August the company was visited by more than 40 students from various high schools.
- In August and September, Ericsson Nikola Tesla contracted more than HRK 46 million worth of business. With the Ministry of Justice and Public Administration, we have contracted activities related to the upgrade of the information system of land registry and cadaster. With the State Geodetic Administration on the basis of a two-year framework agreement, we have contracted the basic and expanded maintenance of the Infrastructure Cadaster System. In cooperation with the Ministry of the Interior, we have continued to work on the maintenance of the system for monitoring the state border of the Republic of Croatia. With the City of Split, the activities have been contracted for the communication infrastructure relocation.
- The 21st edition of Ericsson Nikola Tesla Summer Camp finished. During Summer Camp, approximately 50 students from 14 faculties successfully completed their work on 17 projects in the Big Data domain with the support of 33 mentors.
- Our employees participated in the UNICEF campaign Milky Way.
- The delegation of Ericsson Nikola Tesla participated in the fifth Western Balkans Digital Summit (WBDS) held in Pristina.
- At the conference “Why is paternity leave important?”, a member of the company’s executive management presented the company’s paternity leave concept as an example of good practice in Croatia.
- We have celebrated 40 years of successful business of Ericsson Nikola Tesla’s office in Split, which today employs almost 700 experts, thus representing the largest concentration of highly educated experts in ICT in Split-Dalmatia County. On this occasion, we donated electroacoustic verbotonal devices to the Center for upbringing and education “Slava Raškaj” in Split. These devices are used for individual speech therapy and speech development exercises for children with speech and language disorders.



October-December

- At the 14th Sustainable Development Conference, the most successful Croatian companies were awarded the Croatian Index of Sustainability (HRIO) Awards, and Ericsson Nikola Tesla was awarded in the category Sustainable Corporate Governance.
- Our company’s representative participated at this year’s JumpIT Forum.
- Organized by the Agency for Electronic Communications and Postal Services of Montenegro (EKIP), Budva hosted the 19th International regulatory conference titled “Current and future regulatory challenges, harmonization with the European regulatory frame”, where our experts held a lecture during the session “Experiences related to 5G implementation, increase of networks and services availability, QoS and QoE of networks and services”.
- Ericsson Nikola Tesla’s representatives took part in the 11th KosICT (Kosovo ICT) in Pristina, where they held a lecture about “High employee rating in ICT industry: How to achieve and retain it”, and “5G from SW developer perspective”.
- Ericsson Nikola Tesla participated at the fourth Open Doors Day and Career Day (DOVIK) at the Faculty of Electrical Engineering, Computer Science and Information Technology Osijek (FERIT).
- At the end of September and at the beginning of October, the 6th Croatian Congress for School and University Medicine was held in Split, as well as the 21st EUSUHM (European Union for School and University Health and Medicine) Congress. The representative of our company held a lecture “National Croatian eHealth system (CEZIH) as enabler for public health improvement”.
- The company’s representatives participated at the Croatian Healthcare Employers Congress, held for the 125th time. The Congress was organized by the Croatian Healthcare Employers Association in Vodice, under the auspices of the President of the Republic of Croatia. During Congress, the representative of the ministry of Health and our company’s representative talked about electronic healthcare record, and in a joint presentation presented the project that aims to increase the use of electronic healthcare record.
- Business weekly Lider initiated in 2016 the project Lider Invest as part of which the best production investments in Croatia are awarded. At the official award ceremony for 2022, the company received the ECO Lider Invest, an award for the investment that most contributed to sustainable development and the quality of life of citizens, as well as to the protection of premises and the environment, for the investment in the new Data Center.
- Crnogorski Telekom and Ericsson Nikola Tesla signed a five-year agreement worth EUR 12.5 million (approximately HRK 95 million) in Podgorica. This represents a continuation of a successful long-term cooperation in the field of Crnogorski Telekom’s mobile network maintenance, improvement and modernization.



- Ericsson Nikola Tesla's experts presented three papers at the 15th Symposium of Chartered Geodetic Engineers "Geodesy and Waters" within the session "Modern cadaster and physical planning". The Symposium was organized by the Croatian Chamber of Chartered Geodetic Engineers (HKOIG) in cooperation with the Council of European Geodetic Surveyors (CLGE) and the European Spatial Data Research (EuroSDR).
- In cooperation with the Financial Agency (FINA), the magazine Gloria gave awards to the most successful women of Croatian business across various industries and most successful companies managed by women. Ericsson Nikola Tesla was awarded based on business results for 2021 in the category IT&Tech.
- Ericsson Nikola Tesla representatives participated at the first Career Day at the University of Rijeka – UNIRI Career Days.
- At this year's 53rd counseling of Croatian archivists with the topic Digitalization, in a lecture "Experiences from the eCulture project – digitalization of cultural heritage", our company's experts presented the business and technical architecture of the entire system, from the digitalization of archival material in the archives to the publication on the national portal eCulture and the European portal Europeana.
- With the operator HT Mostar we have signed new contracts worth more than MHRK 57 for the upgrade and expansion of LTE RAN network, and for the expansion of the transmission network.



- We participated at Career Day at the Faculty of Science and Career Day at the Faculty of Mechanical Engineering and Naval Architecture.
- UNICEF office for Croatia and the Advisory Board for Children's Rights and Corporate Social Responsibility held the conference "What do young people need to be more competitive in the labor market?". A member of Ericsson Nikola Tesla's executive management talked about the opportunities that we provide for young people to develop competitiveness in the labor market.
- Ericsson Nikola Tesla's representative participated at the 16th medical conference Future is Now in Bratislava and presented the business practice and practical examples of how technology can help solve problems and improve public health indicators.

- We attended the official ceremony of marking the Day of FER where, for the 24th time, Ericsson Nikola Tesla awards were presented to the three best papers in the field of telecommunications. This award is an award with the longest tradition that a company has been awarding to FER students.
- At the conference about corporate governance organized by Hanfa and Jutarnji list, Ericsson Nikola Tesla was awarded the recognition for the best compliance with the Code of Corporate Governance in 2021.
- Ericsson Nikola Tesla representatives participated at the event "Swedish Day", organized by the Swedish Embassy and the Faculty of Economics and Business in Zagreb. The company's representative participated in a panel "Path towards sustainability & innovation", where she explained the way in which Ericsson Nikola Tesla contributes to the development of the society and economy.
- At this year's award ceremony of the Zagreb Stock Exchange, Ericsson Nikola Tesla received the Building Public Trust Award for the most transparent reporting, awarded by PwC Croatia in cooperation with the Zagreb Stock Exchange.
- By signing a contract worth more than HRK 65 million, Kosovo Telecom and Ericsson Nikola Tesla started their cooperation related to the modernization of core and radio network and the maintenance of the network of this Kosovo operator. This contract encompasses the modernization and virtualization of the entire core network, introduction of the state-of-the-art equipment in the radio part of the network and the implementation of Kosovo international code 383 in the network.



- The company donated money to purchase food for the users of Saint Joseph soup kitchen in Zagreb, Centers for the Homeless of the Most association in Split, Soup kitchen of Caritas in Osijek, and charity association Duga in Vukovar.
- A company's representative participated at the marking of the 5th anniversary of the Center for Information Technologies of the University of Mostar – SUMIT and held a lecture "Synergy of the academic community and the economy".
- We have signed contracts in the field of society's digital transformation with the Ministry of Justice and Public Administration of the Republic of Croatia, Croatian Health Insurance Fund, and in cooperation with the company Securitas Hrvatska we have signed a contract with the Ministry of the Interior.
- First Advent celebration held at ENT Group brought joy to many customers and business partners, employees and especially the little ones who got to experience Children's Day organized for the children of the company's employees.

Memberships, initiatives

By participating in the work of various professional associations, organizations, scientific institutions, etc., the Group's experts enable the transfer of knowledge and experience and contribute to a more efficient representation of certain positions and realization of goals in a specific area, regarding an issue, crisis, etc.

Here are just a few:

- Croatian Employers' Association
- Croatian Chamber of Economy
- Lider's Club of Exporters
- Croatian Business Council for Sustainable Development (HR PSOR)
- Croatian Standards Institute
- IEEE Institute (Institute of Electrical and Electronics Engineers)
- PMI Croatia
- and many others.

Initiatives

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

- UNICEF's Think Tank on Children's rights and CSR
- HR PSOR Diversity Charter, etc.

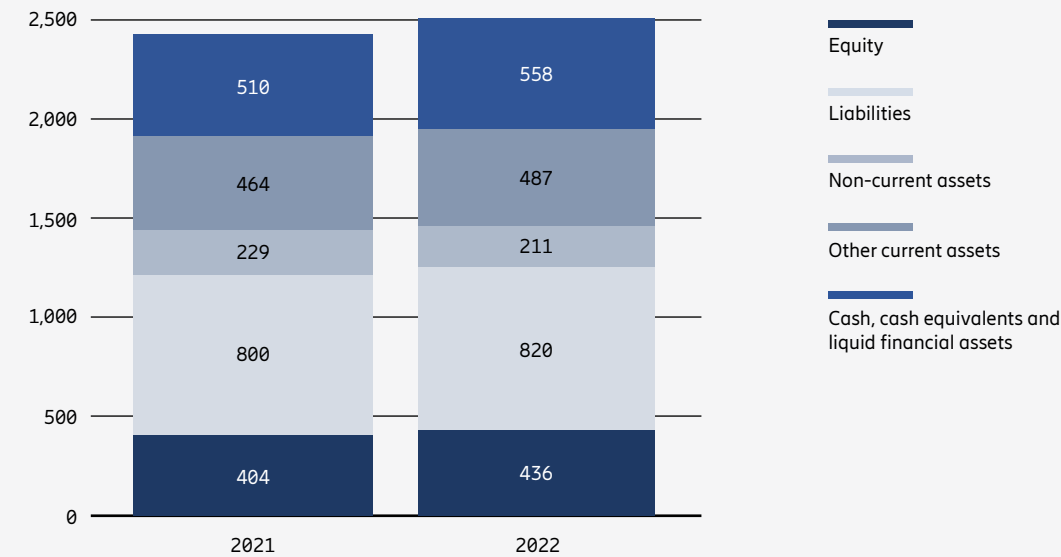
Financial highlights

2022

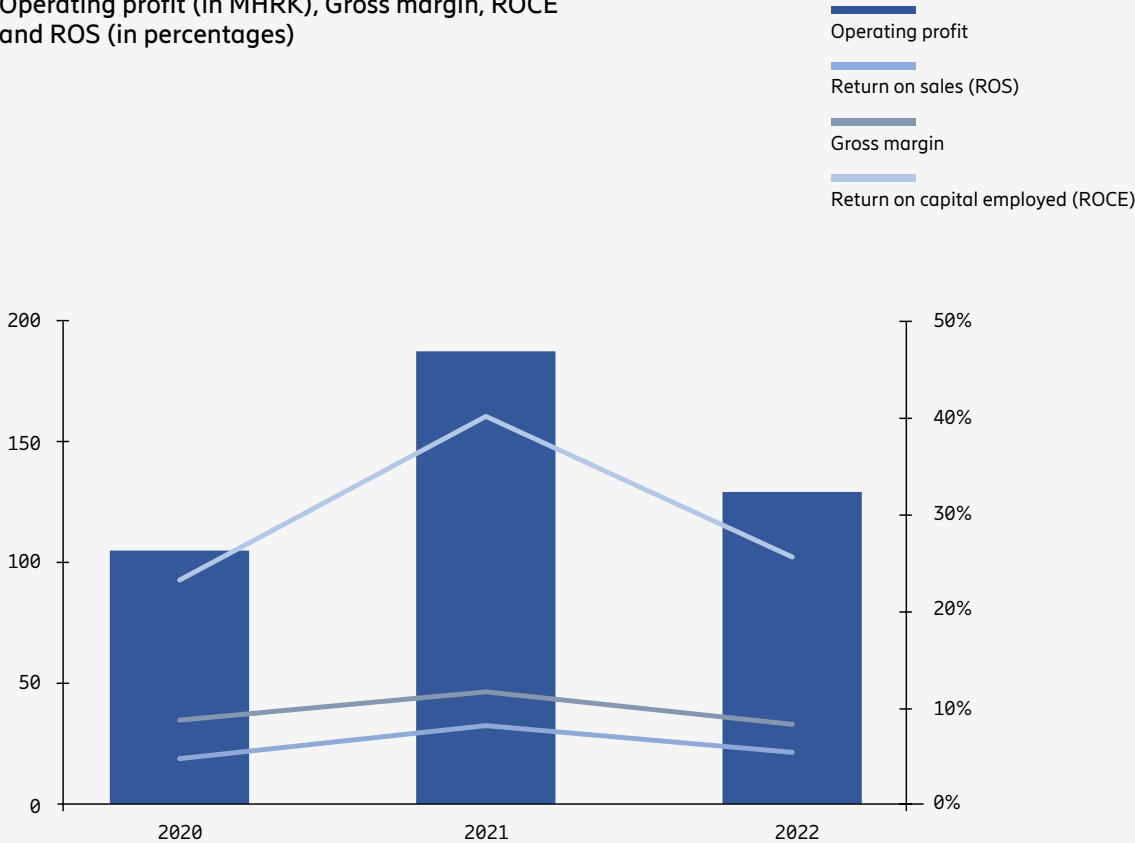
	Ericsson Nikola Tesla Group			Ericsson Nikola Tesla d.d.		
	2022	2021	2020	2022	2021	2020
Statement of comprehensive income and cash flow items (in HRK million)						
Sales revenue	2,242	2,204	2,023	1,661	1,523	1,417
Selling and Administration expenses	-95	-93	-84	-84	-83	-73
Operating profit	128	186	104	145	111	82
Profit for the year	119	177	95	148	115	76
Operating cash flow	187	370	308	201	247	276
Year-end position (in HRK million)						
Total assets	1,255	1,204	994	1,022	881	786
Cash, cash equivalents and liquid financial assets	558	510	314	488	364	279
Capital employed	473	464	425	402	348	372
Equity	436	404	346	371	303	307
Per share indicators						
Earnings per share (EPS) in HRK	90	133	71	111	87	57
Dividends per share in HRK	6 EUR*	64 HRK	82 HRK	6 EUR*	64 HRK	82 HRK
Number of shares outstanding, average (in millions)	1,323	1,331	1,331	1,323	1,331	1,331
Other information (in HRK million)						
Additions to property, plant and equipment	16	17	45	14	15	41
Depreciation of property, plant and equipment	29	36	35	27	34	31
Alternative Performance Measures (APMs)						
Gross margin	8.2%	11.5%	8.6%	7.9%	11.2%	10.2%
Operating margin	5.7%	8.5%	5.2%	8.7%	7.3%	5.8%
EBITDA Margin	7.9%	11.0%	7.9%	10.9%	10.2%	8.8%
Return on equity (ROE)	28.4%	47.3%	28.6%	43.8%	37.8%	25.5%
Return on capital employed (ROCE)	25.4%	39.9%	23.1%	39.3%	32.0%	21.1%
Return on sales (ROS)	5.3%	8.0%	4.7%	8.9%	7.6%	5.4%
Equity ratio	34.7%	33.6%	34.8%	36.3%	34.4%	39.1%
Capital turnover	4.8	5.0	4.9	4.4	4.2	3.9
Current ratio	1.3	1.3	1.3	1.3	1.3	1.3
P/E ratio	18.9	13.8	21.1	15.4	21.3	26.1

* 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)

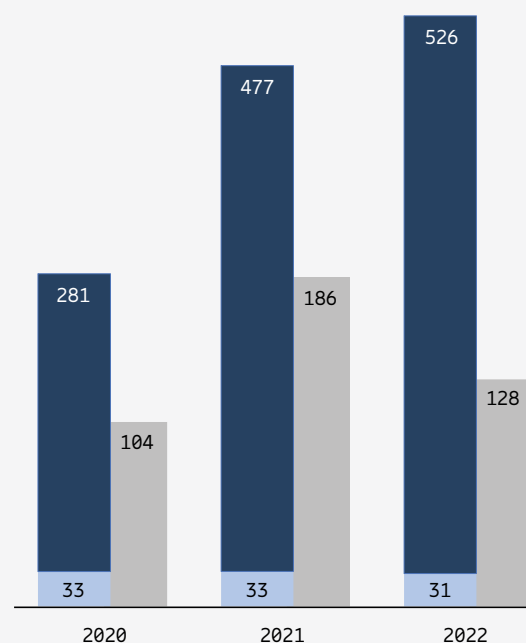


Development of liquid financial assets and operating profit (in MHRK)

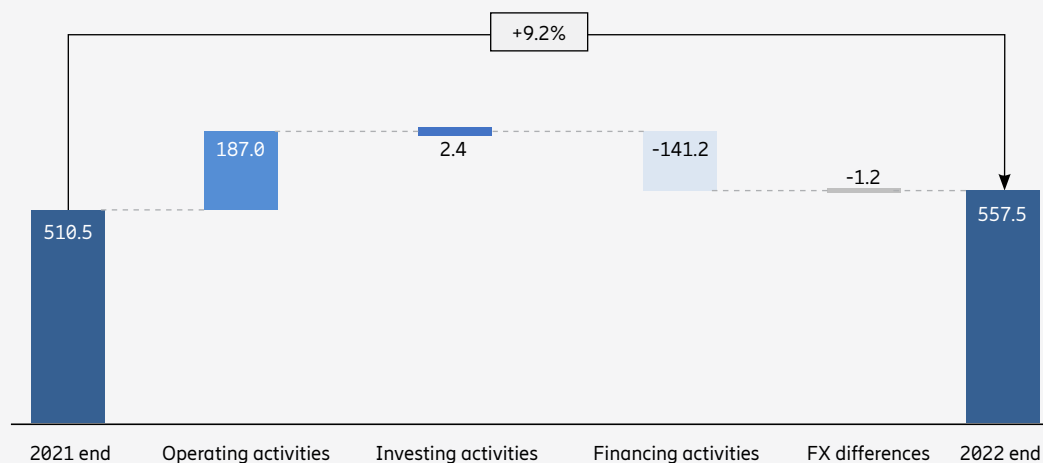
Cash and cash equivalents

Liquid financial assets

Operating profit



Change in liquid assets (in MHRK)

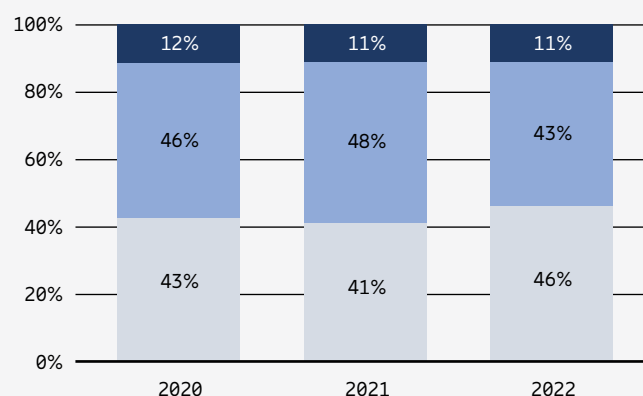


Sales revenue by market (in percentage)

Export

Domestic market

Ericsson



Financial performance in 2022

In the last year's review on the achieved financial results of Ericsson Nikola Tesla Group for 2021, we had recognized the influences and risks that we have expected to affect business operations in 2022. Primarily, this was an unstable geopolitical situation accompanied by sanctions, inflation accompanied by an increase in the prices of goods, raw materials, energy and labor costs combined with problems in supply chains. The listed risks proved to be a reality during 2022, and we focused on their mitigation and timely adjustment in order to achieve our strategic directions and goals for 2022.

The achieved results for 2022 show that we are firmly on the outlined path and that we do not allow the situation development related to recognized risks to hinder us from achieving good and quality results, which is a prerequisite to continue good business performance in the coming years.

Due to war in Ukraine and EU sanctions against Belarus, we have terminated the contract for the eHealth implementation project for the Republic of Belarus, and all new sales activities on this market were stopped. The remaining activities are coming to an end and are under strict supervision. Due to such circumstances, already from the first quarter of 2022 we have focused more on other export markets and domestic market, with the intention of finding new business opportunities to compensate for the decline in sales caused by sanctions and the slowdown in investments by our customers.

In addition to the efforts to seize new business opportunities in accordance with our strategy, we have also seized the moment to see the aspects of our own business from the new post-pandemic perspective, and to continue implementing the necessary optimization. We continued to digitalize all aspects of business operations that also make it easier to exercise the legal right to work remotely, and wrapped up by optimizing resources in our company in Belarus. These were the required steps by which we create the necessary preconditions to additionally increase internal efficiency and cost effectiveness which, along with a continuous investment in knowledge and competencies of key employees and constant monitoring of the Group's processes, contribute to better profitability.

Ericsson Nikola Tesla Group's performance indicators in 2022 are influenced by the termination of a significant contract with a

Belarusian customer, and despite this they show an increase in sales by 1.7% from HRK 2,203.9 to HRK 2,242.1 million. This is primarily the result of stability and further growth in Ericsson's market and sales in the Digital Society segment in the domestic market. Gross margin reached 8.2% and is also influenced by the termination of the Belarusian contract, as well as by the increase in labor costs, energy, raw materials, and goods, which leads to a drop in operating profit compared to the previous year by 31.1% to HRK 128.5 million. If the one-off impact of the termination of the eHealth implementation contract in Belarus is excluded, gross margin is 9.7% compared to 11.5% in 2021, while the operating profit is 15% lower and amounts to HRK 158.4 million.

Timely recognition, assessment and mitigation of situations bearing risk are an integral part of the risk management process and system at the Group level. We believe that competent and proactive employees are the company's most valuable assets, and the backbone of protection against threats and risks in business. Investing in our employees, in their knowledge and skills, innovativeness, efficiency and quality in key areas, is the basis of business continuity and sustainable development, and we will continue to do so in 2023.

In accordance with our plans to secure new contracts, we have intensified our work on new business opportunities. This, together with the implementation of the highest standards in our ethics and compliance programs, resulted in a slight increase in selling and administrative expenses by 2.5% to HRK 95.1 million. The share of selling and administrative expenses in sales revenue is at the level of the previous year and amounts to 4.2%. Financial income is most influenced by the movement of market prices on investments in financial assets and is lower than last year's also due to the absence of interest yield after the expiration of certain long-term customer financing contracts, amounting to HRK 3.8 million. The amount of net profit of HRK 119.2 million is in line with the expectations for the year, and the same applies for the 5.3% return on sales.

The financial positions of the balance sheet for the Group have not changed significantly compared to 2021. The increase of 4.3% was largely generated by



Damir Bušić

Director Finance, Sourcing and Commercial Management

a slight increase in receivables and cash on the asset side and increase in liabilities to suppliers on the short-term liabilities side, as a result of regular business activities during 2022. We consider that the stable balance is the result of our effort to always respect the guidelines in the following areas: (i) strengthening the company's cash flow by generating business and monitoring its collection, (ii) implementing projects while optimizing costs and working capital, (iii) securing new contracts within our focus areas, in accordance with the set plans and strategy, (iv) overall optimization of the company's costs and management of business critical investments, and (v) further improvement of our ethics and compliance program and building a company culture based on integrity and moral principles. Adhering to these guidelines in their daily work and when fulfilling the set goals, our employees through their experience and focus on the key areas mentioned, ensure continuous quality, sustainability, results and competitiveness, thus preserving our position as a technology leader in Croatia and on our export markets.

We continue to focus on potential new, as well as already recognized existing risks. We are mastering the conversion from HRK to EUR without any major difficulties. Coming up next is making the planning, budgeting, and presentation of achieved results for the current year in our new currency a routine.

We feel confident to face all the challenges that the year 2023 may bring us in order to continue creating added value for all our stakeholders.

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 2022, share price decreased by 7.34% to HRK 1,705.00. At the end of 2022, Ericsson Nikola Tesla's market capitalization was MHRK 2,270.5 (end of 2021: MHRK 2,450.2). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked ninth on the Zagreb Stock Exchange, with MHRK 1,139.2, which represents 3.15% of the

total free float market capitalization. At the end of 2022, Ericsson Nikola Tesla's share weight in CROBEX Index was 9.9%. According to regular turnover in 2022, Ericsson Nikola Tesla's share is ranked seventh on the Zagreb Stock Exchange with a turnover of MHRK 82.9 (2021: MHRK 84.1). In block transactions, additional MHRK 6.8 were traded (2021: MHRK 33.5).

The company won the "Building Public Trust Award" for the most transparent reporting, awarded by PwC Croatia in cooperation with the Zagreb Stock Exchange. Furthermore, the company was awarded the recognition for the best compliance with the Code of Corporate Governance among the issuers on the Regular Market of the Zagreb Stock Exchange awarded by the Croatian Financial Services Supervisory Agency.

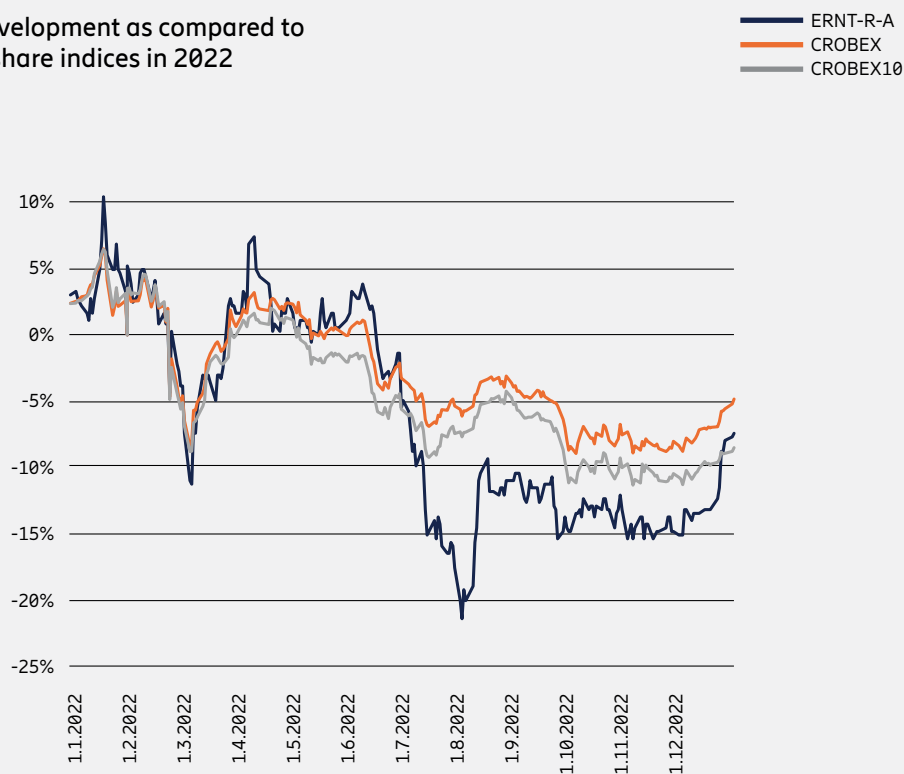
Average ERNT-R-A share price trend 2018 - 2022 (in HRK)



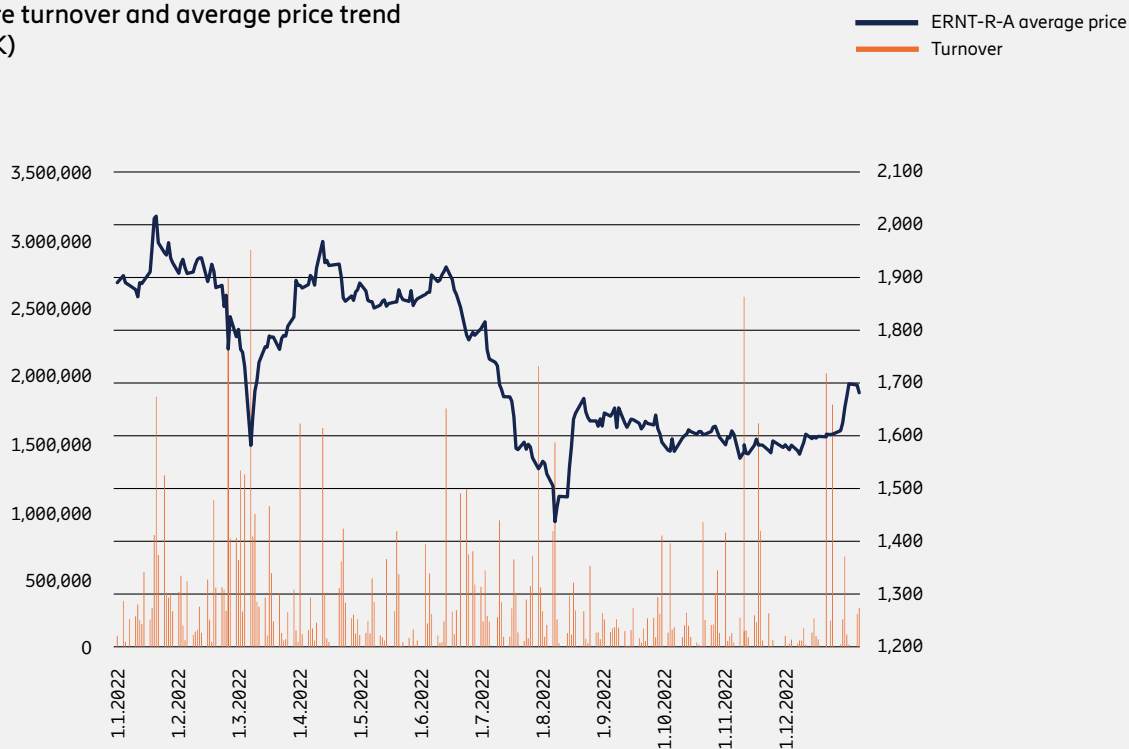
Share price and turnover	2018	2019	2020	2021	2022
Highest (HRK)	1,240	1,415	1,530	1,950	2,040
Lowest (HRK)	976	972	1,020	1,500	1,415
Last - end of year (HRK)	1,010	1,400	1,500	1,840	1,705
Turnover (in MHRK) - within the orderbook	39.3	58.0	121.1	84.1	82.9
Turnover (in MHRK) - block transactions	-	-	5.3	33.5	6.8
Trade volume - within the orderbook	36,116	49,652	93,010	50,525	47,841
Trade volume - block transactions	-	-	3,500	19,638	4,171
Dividend per share	70.6 HRK	49 HRK	82 HRK	64 HRK	6 EUR*

* As proposed by the Management Board and Supervisory Board

ERNT-R-A share price development as compared to
Zagreb Stock Exchange share indices in 2022



ERNT-R-A share turnover and average price trend
in 2022 (in HRK)



Capital market in 2022

2022 was the most turbulent year for the world economy since the 2008 financial crisis. Many risks, such as the energy crisis, record inflation, a noticeable slowdown of the world's leading economies, tightening of monetary policy and geopolitical tensions resulted in the decline of the leading share indices. The value of the American index S&P 500 decreased by 19.4%, while EURO STOXX 50 decreased by 11.7%. In response to rising inflation, the central banks around the world have started an aggressive cycle of increasing reference interest rates. This particularly hit the technology sector, whose valuations are significantly more dependent on the movement of interest rates than an average company. Thus, the technology index Nasdaq recorded a loss of 32.51%.

In the domestic market, the year started with excellent trade statistics and a positive market dynamic, however February and the beginning of conflict in Ukraine brought intense trading, with corrections of indices and market capitalization. The rest of the year brought mainly positive sentiment, and thus the year ended with only -1.5% correction of share turnover within the orderbook, while the total share turnover was as much as +21.7% compared to the previous year. The performances of indices varied: from -8.4% as recorded by CROBEX10 to +52.5% as recorded by CROBEXtransport.

distributed in 1,331,650 ordinary registered Class A shares. Each share carries one vote at the company's General Meeting. The total number of treasury shares at the end of 2022 was 10,011, representing 0.75% of the share capital. The shares were owned by 6,607 shareholders.

Share capital

As at 31 December 2022, Ericsson Nikola Tesla joint-stock company had a share capital amounting to HRK 133,165,000

Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2022

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	27,618	2.07
Raiffeisenbank Austria d.d. / Raiffeisen voluntary pension fund	18,360	1.38
PBZ d.d. / custodian client account	10,449	0.78
Ericsson Nikola Tesla d.d.	10,011	0.75
OTP banka d.d. / OTP Index fund – open-end alternative investment fund with public offering	9,761	0.73
PBZ d.d. / Raiffeisen mandatory pension fund, A category	6,523	0.49
PBZ d.d. / The Bank of New York as Custodian	5,503	0.41
Other shareholders	425,948	32.00

Ericsson Nikola Tesla Group

Almost 3500
Employees in
Zagreb, Split &
Osijek

91% highly
educated
experts

31% Employees
younger than
32

38 yrs
average age of
employees

73% / 27%
Male to Female
ratio

27% of Women
in leading roles

Average 10
years in the
company



Annual report 2022
Ericsson Nikola Tesla Group



Sustainability report



ESG *Environment
Social
Governance*

About the Sustainability Report

This sustainability report describes Ericsson Nikola Tesla Group's CSR activities in 2022. It encompasses information about strategy, approach, goals, policies, management, implementation, risks and opportunities relevant for significant aspects and impacts of the Group's business performance related to the environment, society and corporate governance, presented in a transparent and material manner. The report and additional information are available on the website of the parent company and subsidiaries of Ericsson Nikola Tesla Group.

Report scope and limits

All the information and data mentioned in the report, unless stated otherwise, relate to activities and projects undertaken from 1 January 2022 to 31 December 2022. The report encompasses the activities undertaken by Ericsson Nikola Tesla d.d. as the parent company and all its subsidiaries in Croatia and abroad. The 2022 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 2022, and it comprised data for 2021. This sustainability (non-financial) report has not been subject to an external verification.

Important dates during Ericsson Nikola Tesla business operations



Building in the center of Zagreb, Palmotičeva 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.



Reporting principles and framework

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 has been prepared in line with the recommendations from GRI (Global Reporting Initiative) Standards.

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 principle of stakeholder engagement, sustainability context, materiality and

completeness, as well as response and impact, help the Group to define the content of the sustainability and social responsibility report. In order to ensure the quality of reporting, the Group applies principles of accuracy, balance, clarity and timeliness.

Additional information about the Group and its social responsibility is available at www.ericsson.hr/en/homepage, where you can find the entire Annual Report.

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.

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



First GSM contract signed.



First UMTS call using Ericsson equipment was initiated from Zagreb.



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



40 years of Ericsson Nikola Tesla in Split.



New office in Rijeka.

1998

2001

2003

2007

2012

2017

2018

2020

2021

2022

Integrated information system of primary healthcare was put into operation.



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



First LTE network in Croatia was implemented on Ericsson equipment.



5G network implementation in Croatia started.



5G networks live in Croatia.

5G
networks live in Croatia

The energy efficiency of the campus was finished.



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 functioning and development of all activities which are important to the community, including taking care of the socially most vulnerable groups.



Zero Hunger

The company secured 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 field of e-Health by 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 with the Croatian Ministry of Health; a contract with the Croatian Health Insurance Fund for the procurement of adjustment and migration services of the CEZIH application system and associated data from the old hardware and software base in the SSC and testing and parallel operation of the existing system and the new system, and further informatization of secondary healthcare protection in several hospital systems. When we talk about taking care of employees, we secure regular medical checkups for all our employees. Moreover, we take care about their physical and mental health through our PrevENTION program.



Quality Education

By engaging students in concrete projects in the company, as well as projects in cooperation with the academia (Summer Camp and other activities), we achieve synergy potential for all stakeholders. We participate in defining educational programs and contribute to their improvement. Academic education is also in focus internally: in the parent company, the percentage of highly educated employees accounts for 96.1% of the total number of employees, while at Group level it accounts for 86.3%. There is continuous investment in the development of knowledge and skills of the existing and new employees.



Gender Equality

We carry out activities in all segments of the society with the aim of eliminating prejudice and stereotypes, encouraging interest in STEM professions, while at the same time promoting the importance of equal participation of women in the ICT sector and leadership positions. The representation of women in the company is 60% in the Supervisory Board and 28% among managers, while at Group level, 26% of women hold managerial positions.



Clean Water and Sanitation

The project WaterQ IRI2 which deals with risks and estimation of impacts of drinking water on people's health, entered into its final implementation stage i.e., experimental development. In the project's final stage, an installation of the entire system is performed (WaterQ sensor, platform and mobile app) on pilot locations in the public water supplies (Water Supply Krk, Sinj and Ploče) and small-scale water supplies. It is especially important to highlight the pilot locations in small-scale water supplies Kalinje, Žumberak and Radočaj Brodski. Due to the inaccessibility of the public water supply, these communities are developing their own distribution system, and our system provides the population with an insight in the quality of drinking water and enables them to share data with public health institutions.



Affordable and Clean Energy

In our business operations, we use energy from renewable energy sources. We use waste heat from data center cooling to heat offices. We participate in the EU HORIZON project INSULAE with the aim of developing and implementing innovative solutions for energy self-sufficiency and decarbonization of islands in the European Union. Three islands were selected, and one of them is the Croatian island Unije. This project contributes to the implementation of the initiative "Clean Energy for EU Islands", helping to create action plans for the islands in order to produce cheap and sustainable energy. The plan is to reduce fossil fuel consumption on the islands by 11% through wide implementation of solutions created in the project.



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 ensure fair, regular and competitive salaries. We have continued to work to increase the existing comprehensive program of benefits.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**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 digital society and take over new responsibilities for the improvement of quality of our strategic partners' telecom infrastructure. Furthermore, we have also been working on many research and development projects in Industry 4.0 in the field of transport, environment, etc. In addition to the fact that, as an industry we are not in the category of significant polluters, we help other industries to achieve better quality monitoring of all the environmental parameters and manage their environmental footprint. We are especially dedicated to water quality monitoring, with an additional focus on industrial waste waters in all the stages of the production process (intake, production/processing, output). With our solution "eEnvironment Industry" we monitor all the relevant parameters and enable management of the overall process of collecting, central storage as well as processing and reporting in line with GRI and ESRS standards. With this solution, we help the industry to make a simpler transition to the new ESG concept of non-finance reporting, and we provide it with a tool to make its data relevant, accurate and verifiable at any moment.

10 REDUCED INEQUALITIES**Reduced Inequalities**

By participating in the work of UNICEF's Think Tank on children's rights, we actively contribute to the development of new possibilities for educating children and youth, especially the sensitive groups.

11 SUSTAINABLE CITIES AND COMMUNITIES**Sustainable Cities and Communities**

For the needs of the town Samobor, we have implemented a system for monitoring environmental parameters with the aim of reducing the effect of urban activities on the quality of town life. In its first step, Samobor decided to monitor noise pollution at the playground of Elementary School Bogumil Toni. The aim of this system's implementation is to reconcile all the ways the school playground is used (it is also used by commercial entities). For Hrvatske ceste, a project for establishing a "National access point for multimodal information in transport" was successfully delivered. The project supports a change in the transport paradigm and a transition towards sustainable forms of traffic by encouraging citizens to use public transportation, especially railroads. A part of the solution is also a route guide that enables planning an ecologically acceptable multimodal journey by informing the passengers about available services, prices of service, as well as extraordinary situations, such as traffic delays. The delivery is a part of the establishment of the digital infrastructure of Hrvatske ceste, as the foundation for the creation of other services in the future.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION**Responsible Consumption and Production**

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

13 CLIMATE ACTION**Climate Action**

Owing to a significant share of working from home and the increased use of ICT solutions for remote work, all forms of travel have been reduced, and thus the use of means of transport. 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.

14 LIFE BELOW WATER**Life Below Water**

The system implemented in Elektroprivreda HZHB, which aims to monitor the quality of surface waters close to the hydroelectric power plants, has proved to be an excellent tool by which the potential polluter can monitor and report about its impact on the environment in a transparent way. The system also enables a more quality information exchange among the industry, the academia, NGOs and local population. Additionally, in joint research activities we have also tested the application of monitoring of water ecosystems' health by using a photospectral analysis of satellite images by using Computer Vision technology and deep learning algorithms. The minimization of industry's impact on the environment and technological progress in line with the principles of society's sustainable development is enabled by creating the described ecosystem of stakeholders. Satellite images analysis provides a clearer picture of water surface pollution on a wider area and throughout a longer time period, which also enables approximate determination of the source of potential pollution.

15 LIFE ON LAND**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 ecosystems on land.

16 PEACE AND JUSTICE STRONG INSTITUTIONS**Peace, Justice and Strong Institutions**

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

17 PARTNERSHIPS FOR THE GOALS**Partnerships**

We form partnerships 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 cooperate on various projects with universities and institutes.

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: creating positive impacts and reducing all types of risks. We wish to be a responsible and relevant driver of positive changes in the society.

responsible for implementing compliance in all activities and processes in which they participate. We form partnerships with all our 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 we have been recognized in the society as a long-term relevant and responsible leader of the digital transformation process.

Sustainability as 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 helps the operators we do business with to reduce the costs of their networks, and also supports positive social and ecological effects in the society. The aim of our endeavors is to improve all the characteristics in a business chain, create new value, and make our brand different from our market competitors.

Responsible and sustainable business

Responsible business 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 making the 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, each Group's employee is

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. In our organization, we use UN sustainable development goals 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 set goals, thereby bringing benefits to all the people in the society. By implementing our own Sustainability strategy in all business activities, we work on the realization of ambitious ESG goals.

mobile communications anywhere and anytime. Along with providing connection on a global scale, we apply our technology every day; we play the leading role and are innovative in the field of information and communications technologies, which is the key area of our business activities.

- 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.

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 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: Digital engagement

Key part of our Strategy is to enable every person to use the Internet and

Setting goals

Adjusting our goals to the UN Sustainable Development Goals is more necessary than ever before because it is an integral part of a quality transformation of the society. To set further goals and track progress, we use framework and methodology to estimate and describe a positive effect we bring to society.

Impact and risk assessment

With the aim of providing support to business sustainability 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.

We measure risk mitigation in the following areas:

- responsible sourcing,
- anti-corruption,

Business integration

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

Monitoring performance

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

Sustainability strategy

Our strategy integrates sustainability and corporate responsibility by 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 numerous 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 a circular economy, we wish to ensure solutions and services that will contribute to the creation of a new value in the Group's business and positioning on the market.

3

Digital engagement

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

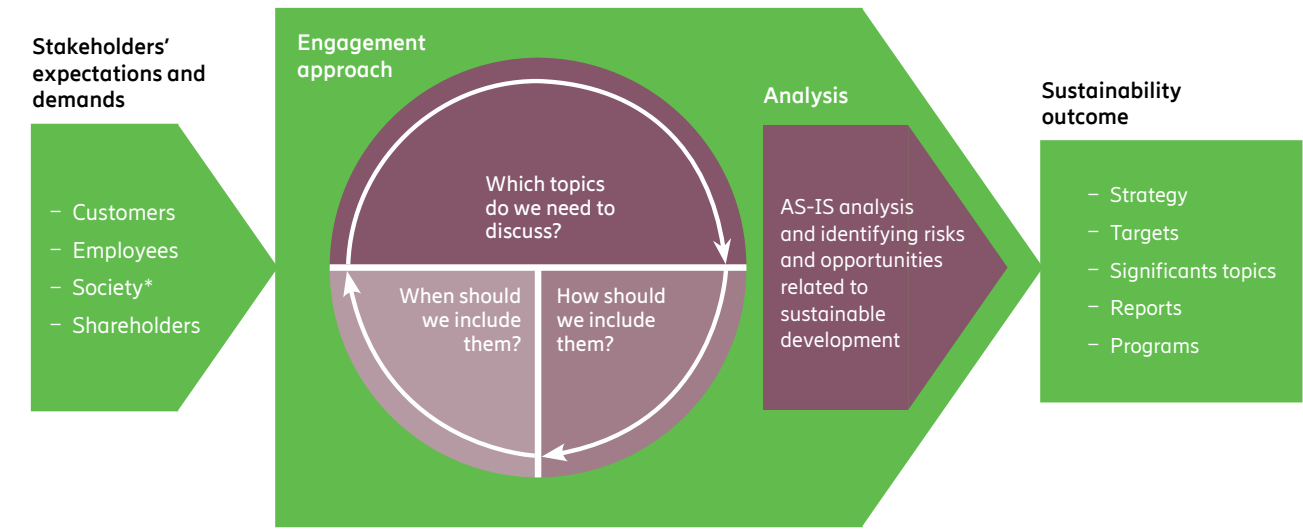
Stakeholder engagement

Our stakeholders are divided into four main categories: customers, shareholders, employees, and society.

The society comprises suppliers, public administration, civil society, non-governmental organizations (NGOs), industry partners, media, the academia, and the public. In addition to having a dialog in the areas defined by material topics, in communication with stakeholders, through various

ways of engagement (table Stakeholder engagement), we have verified their opinions and interests in cooperating with us. Additional interaction was realized through social networks.

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.

Stakeholder engagement

Stakeholders	Our focus	Ways to engage
Customers	<ul style="list-style-type: none"> – Professionalism – Partnership in finding the best solutions – Innovativeness in offering comprehensive ICT solutions that have a positive impact on business, people's lives and the environment, including climate change – Measuring customer satisfaction 	<ul style="list-style-type: none"> – Cooperation on the introduction of technology – Regular meetings – Questionnaires
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 – Caring about employee health 	<ul style="list-style-type: none"> – Development programs – Questionnaires about employee satisfaction – Benefit programs and Bonus Club – All Employee Meeting – Unit meetings
Shareholders and investors	<ul style="list-style-type: none"> – Applying the principles of corporate governance – Objective and timely informing about the most significant activities and achieved business results from the risk management aspect 	<ul style="list-style-type: none"> – Individual and group meetings – ESG Questionnaires
Suppliers and partners	<ul style="list-style-type: none"> – Joint efforts to improve and enhance the supply chain – Knowledge transfer 	<ul style="list-style-type: none"> – Regular inspection (audit) in terms of compliance, quality, environment and occupational health and safety management – Seminars and workshops in anti-corruption, protection of health and environment, etc.
Trade union	<ul style="list-style-type: none"> – Partnership – Consulting and engaging in the decision-making process – Supporting the union's work which includes the care for the interests of its members 	<ul style="list-style-type: none"> – Joint meetings of the Union and the Management Board and Executive Management during the decision-making process
Business and professional associations	<ul style="list-style-type: none"> – Exchanging knowledge, experience and good practice 	<ul style="list-style-type: none"> – Participating in activities of professional associations when defining sector norms, standards, rulebooks, protection of rights, etc.
Government bodies	<ul style="list-style-type: none"> – Participation in the passing of legislation – Exchanging ideas – Encouraging favorable business environment 	<ul style="list-style-type: none"> – Engagement in various boards by representing positions in line with sustainable development demands – Articulated attitudes about the current topics in the public/media
Educational institutions	<ul style="list-style-type: none"> – Support to educational initiatives through joint projects, etc. – Transfer of knowledge about the latest technologies – Awarding the students' best papers 	<ul style="list-style-type: none"> – Research activities – Participating in bodies for improvement of programs for certain professions – Holding laboratory exercises, technical demos, lectures – Students' visits – Participating in students' events
Community	<ul style="list-style-type: none"> – Knowledge exchange – Support and cooperation in local initiatives – Financial aid 	<ul style="list-style-type: none"> – Participating in initiatives for digital inclusion, STEM jobs – Charity actions

Our material topics

In line with future reporting obligations, pursuant to the Corporate Sustainability Reporting Directive (CSRD), in 2022 we have linked material topics with ESG impacts in a more significant manner (environmental, social, and governance) in a way that we made them more traceable and comparable. Moreover, we have placed material topics in a stronger correlation with risks and opportunities.

The current status and estimation of material topics was first performed internally, within the team responsible for the annual report and assigned representatives of various company organizations. Afterwards, we have included various stakeholders in the estimation, through an individual approach and communication during external evaluations of suppliers, meetings, questionnaires, etc., and, in line with the findings, we have changed the material topics matrix. Every material topic as well as its limits, i.e., where in the value chain the impact appears, are described in this report.

Approach and priorities

Our matrix of material aspects that we have detected as relevant for the Group's business performance consists of the following quadrants:

- **we have recognized and actively participate in:** These are the aspects that have been identified as the most

significant for the Group and our stakeholders, so we actively participate in them. We are adapting to and/or are carrying out new management procedures in order to secure business sustainability and responsibility, mitigate potential risks and improve positive socio-economic and ecological impacts of, for, example, ICT solutions, specifically 5G technology as an innovation platform for the improvement of all industries and people's lives, cloud computing, artificial intelligence, etc. In this group special focus is given to topics related to the contribution to the protection of human health, preservation of natural resources and development of circular economy.

- **we have assessed and are engaged in:** These are the aspects of particular interest to our stakeholders. We monitor them, 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 the 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.

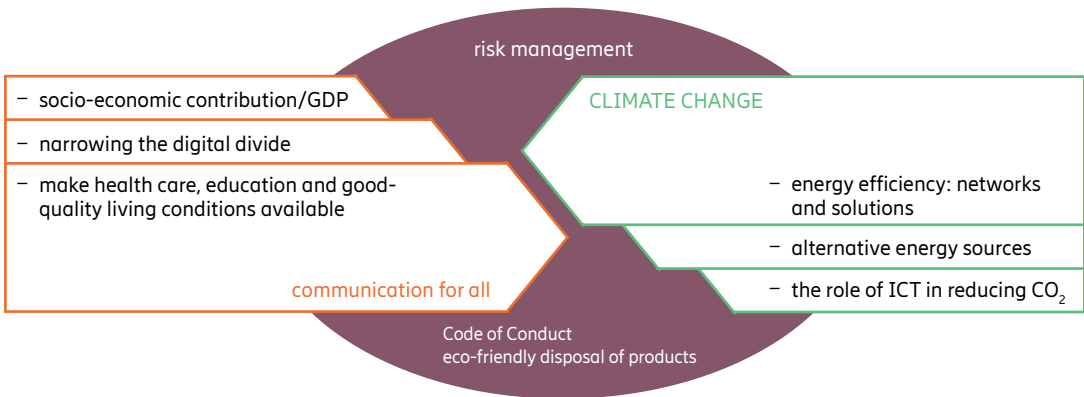
Focus on selected key material topics

Our business decision for 2022 regarding material topics is that a special focus is given to four key material topics of additional impact and relevance for our business and environment for the year mentioned:

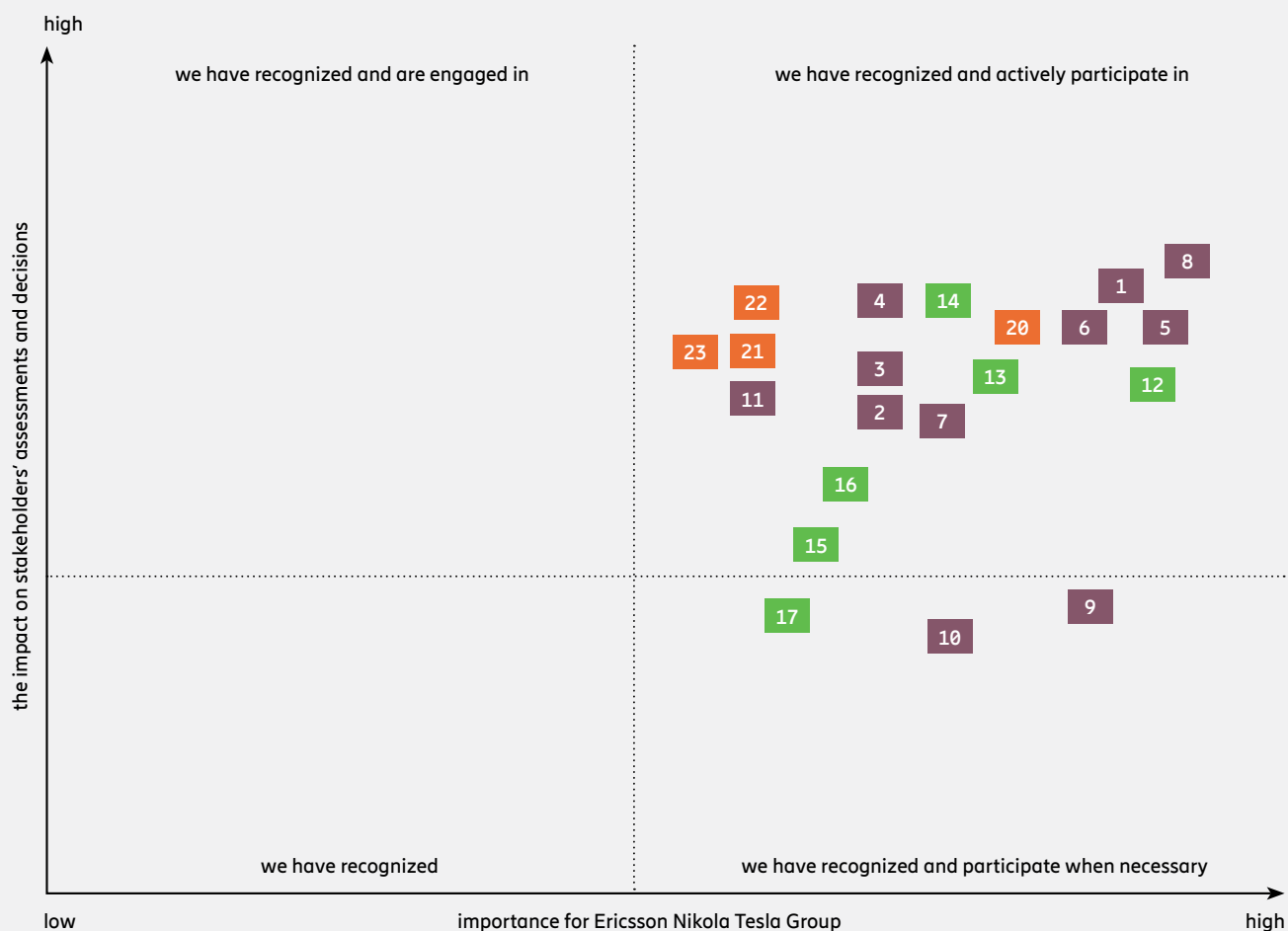
- anti-corruption
- taking care of health and OHS
- energy consumption
- contribution of ICT to low-carbon economy.

We have monitored them according to the new GRI standard and substantiated the required demands.

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 Information security and right to 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





Business responsibility



ESG

*Environment
Social
Governance*

Responsible business

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

It is required from all stakeholders that have a contractual relation with the Group, as well as from all employees, to adhere to the Ericsson Nikola Tesla Group's Code of Conduct for Business Partners and the 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.

External 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 act honestly and truthfully in our business activities and our communication with the market. We expect the company to be managed in line with the principles outlined in this Code. These standards should be met by everyone: members of the Supervisory Board, the Management Board and the Executive Management, as well as every individual working for Ericsson Nikola Tesla Group.

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

- commitments we have as responsible citizens
- respecting human rights in all of our business operations
- occupational health and safety
- promoting sustainable development
- supporting 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 must 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 and Investigation 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 Risk and Compliance Board meetings.

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 website: www.ericsson.hr/en/company-governance.

This website 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, and English. The anonymous reporting system is user-friendly. After the report

is submitted, the third party delivers it to Ericsson Nikola Tesla Group which will not have the information about the sender's IP address or other metadata. 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 2022, there were no confirmed incidents of corruption.

Education for employees and suppliers



We provide various types of training to secure that our employees and business partners respect all the aspects of our Code of Business Ethics and Code of Conduct.

– Anti-corruption

In 2022, all active Ericsson Nikola Tesla Group's employees completed the anti-corruption course via e-learning app. 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. We have continued with the introductory anti-corruption courses for new employees with the purpose of raising awareness of risks, dilemmas, and corresponding actions.

New Bylaws on Internal Reporting of Irregularities were passed, Persons of Confidence and their Deputies were elected for three companies of ENT Group (Ericsson Nikola Tesla d.d., Ericsson Nikola Tesla Servisi d.o.o. and Libratel d.o.o.). In this way, the possibilities and the channels to report irregularities were significantly

improved, with additional protection of the person reporting, in line with the new Whistleblower Act.

– Human rights

Since December 2015, we have been carrying out e-learning courses on human rights and business for all our employees.

– Compliance

Our compliance workshops focus on anti-corruption and trade compliance. 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. Advanced workshops titled "Fair market competition, anti-corruption and public procurement" were held for more than 400 employees who, according to their roles within the Group, could be exposed to risks.

– 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. The suppliers for which a high level of risk is established during verification for entry into a business relationship or during the contractual relationship are obliged to prove that they have passed these courses in order to continue to cooperate with us. At the beginning of 2022, we have continued with the activities of eliminating or mitigating risks that were noticed in 2021 when verifying the ethics and compliance of our company in line with the ABC analysis (Anti-Bribery & Corruption Standards and Framework) that was performed mid-2021 for Ericsson purposes by the audit company KPMG Germany. In March, we have fulfilled all the set improvement goals.

From March to July 2022, an independent internal auditor carried out the internal audit "Efficiency of verifying third-party integrity". Based on the results of this internal audit, we have carried out all the requested improvement activities by the end of 2022.

Managing business risks

Considering the increasingly demanding conditions of doing business in the markets where it operates, Ericsson Nikola Tesla Group recognizes the importance and the need to continuously strengthen its integrated system of managing business risks (Enterprise Risk Management - ERM) which takes into account and manages the overall risks that the Group is exposed to.

Managing business risks is an integral part of the Group's Management system, with the task of a more efficient corporate governance and thereby realizing stakeholders' goals and expectations.

Risk and Compliance Board

This body has the main jurisdiction. The work of the Board includes monitoring risks and compliance as well as ensuring harmonization and risk mitigation. The Management Board, Executive Management, Risk and Compliance Board and line managers of all the Group's organizational units take care to comply 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, reviewing business practice to avoid the risk of employee claims due to discrimination (sex, disability, age, sexual orientation, religion, etc.), compliance with the laws on immigration and posted workers, compliance of obligations related to pensions.
- **Finance**
preparing 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 with the Code of Conduct and the Supply Chain Directive, suppliers' compliance with the Ericsson Nikola Tesla Code of Conduct for Business Partners, environmental and occupational health and safety requirements, suppliers' compliance

with anti-corruption requirements by continuously screening supplier integrity and requesting due diligence reports.

- **Sales & Trade Compliance**
sales compliance with the Group's 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 Intellectual Property Rights.
- **General Services**
compliance with security directives and other legal obligations pursuant to Croatian laws, compliance with ISO 27001 and ISO 9001, compliance with insurance requirements and insurance claims notifications, compliance with lease agreements and local laws applicable to the activities carried out at branch office sites, managing risks related to occupational health and safety and the environment, demonstrating and auditing compliance with the policy, law and best practice of occupational health and safety, environmental management and compliance with ISO 14001 and ISO 45001 standards.
Risk management defines the basic settings to create the Business Continuity Plan that has the aim to secure business continuity by mitigating risk levels and losses related to Ericsson Nikola Tesla

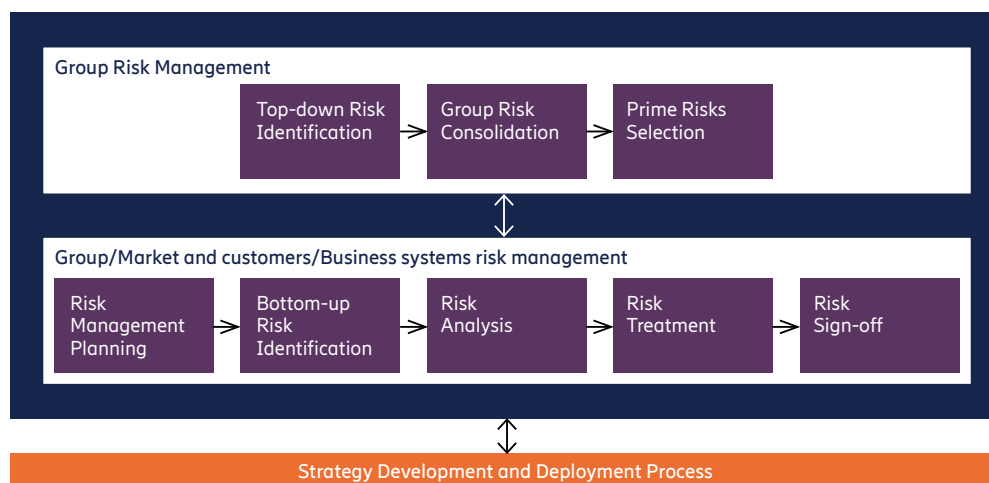
Group's business processes and negative consequences for the employees, Management Board, customers and suppliers.

- **Communications & Corporate Social Responsibility (CSR)**
Compliance with the Ericsson Nikola Tesla Group's policies and directives, directives of the Marketing, Communications and CSR Department, and Croatian laws and regulations (Securities Market Act, ZSE Rules, etc.), corporate communications and investor relations, including transparent and fair reporting, managing risks, i.e. perception in relation to the brand, external/internal and crisis communications, compliance with the donation and sponsorship directive.

Risk management



Enterprise risk management process (ERM)



- **Business Partner Review Board**
Based on the inputs gathered through the screening process performed by Sourcing and Finance, this Board decides on compliance matters related to business partners with which the Group or the branch office does, or intends to do, business with. The head of each unit is responsible for each of the mentioned areas. It is important to highlight that the Board proposes to the Management Board and Executive Management the decisions regarding the approval or rejection of business relations with a business partner and/or a specific deal structure, should it, 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 organizational culture, means and practices with strategic goals and their execution, a framework is created to manage risks in certain scenarios with the aim to create, realize and retain values.

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

- strategic
- business
- operating

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

Three lines of defense

Ericsson Nikola Tesla Group's risk management system has three lines of defense:

- The first line of defense refers to risk owners who are managing risks across certain organizational units. The holders are line managers, and the risk is related to their area of operations.
- The second line of defense refers to functions that monitor risks and functioning of controls on the first line of defense, and 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 support the owners of a certain risk in reaching policies but also help define goals and actions with risks that are multi-functional. These are the risks that appear in several different 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 certain risks with the Risk and Compliance Board which is 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. An independent internal auditor provides management and supervisory structures information based on a high level of independence and objectivity within the organization and reports to the Audit Committee and the Supervisory Board of the Company, as well as to the Risk and Compliance Board.

A significant role in the overall system and process of risk management and internal control system is also played by external financial auditors, certification institutes that perform external audits related to ISO Standard requirements, regulators and other forms of external supervision (tax supervision, customs supervision, etc.) in Ericsson Nikola Tesla Group.

As a confirmation of quality risk management, i.e. corporate governance in the Group, on 02 December 2022, Ericsson Nikola Tesla was awarded the recognition for the best compliance with the Code of Corporate Governance among the issuers on the Regular Market of the Zagreb Stock Exchange, according to indicators in 2021. The recognition was awarded by the Croatian Financial Services Supervisory Agency (HANFA) and Jutarnji list.

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 in the company's competitiveness and long-term sustainability.

Regulation and compliance

Ericsson Nikola Tesla is a joint-stock company with shares listed on the Regular Market of the Zagreb Stock Exchange, and accordingly, is subjected to various regulations that affect its governance.

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

In order to ensure compliance with legal and regulatory requirements and high standards we have set, Ericsson Nikola Tesla has adopted internal rules, which include:

- Articles of Association and work procedures of the Company's bodies
- Corporate Governance Principles of Ericsson Nikola Tesla
- Code of Business Ethics
- Code of Conduct for Business Partners
- the Group's steering documents, including the Group's 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 of a joint-stock company 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 appoints Ericsson Nikola Tesla's external auditors.

An Independent Internal Audit Officer, Compliance and Investigation Officer, Data Protection Officer (DPO) report on their work to the Audit Committee of the Supervisory Board and Risk and Compliance Board of Ericsson Nikola Tesla d.d..

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 or 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, together with the respective agenda, is 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. In general, 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 2022

The Regular General Meeting of the company Ericsson Nikola Tesla d.d. was held on June

27, 2022, at the company's headquarters in Zagreb, Krapinska 45. For the participation in the work of the Annual General Meeting, HRK 88,648,800.00 of the share capital was registered, corresponding to 66.57 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 2021 was adopted.
- It was decided that the Company's net profit for the financial year 2021, amounting to MHRK 115,206,994.95 will be allocated into retained earnings. The amount of HRK 10,000,000.00 from 2020 retained earnings will be allocated to reserves for treasury shares. The Company's shareholders will be paid a dividend of HRK 64 per share from the retained earnings from 2020 and retained earnings from 2021. The dividend payment will be affected on 22 July 2022 (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 01 July 2022 (record date).
- the Company's Management Board was given consent to allocate up to 5,000 treasury shares to the Company's employees.
- Remuneration Report for Supervisory Board members and Management Board in 2021 together with the Independent limited assurance report on the Remuneration Report of Ericsson Nikola Tesla d.d. was approved.
- the Company's Managing Director, Gordana Kovačević, as well as the Chairperson and the members of the Supervisory Board were discharged from liability for exercising their duties in 2021.
- a decision was reached on the re-election of the Supervisory Board member Franck Pierre Roland Bouétard, Ericsson Regional Head for France, Algeria, Tunisia, Belgium and Luxembourg, as well as Head of Orange, Altice and Iliad global accounts.
- it was decided that KPMG Croatia d.o.o. is re-appointed as the auditor for the Company's business performance in 2022.

In 2023, the Regular General Meeting of Ericsson Nikola Tesla d.d. will be held on June 14 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



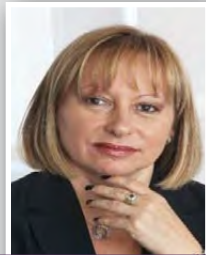
Franck Pierre Roland Bouétard

Chairperson of the Supervisory Board (elected in 2018, re-elected in 2022)

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

MSc of Economy, University of Zagreb - Faculty of Economics, Croatia



Ana Vrsaljko Metelko

Supervisory Board member (independent member, elected on June 29, 2021)

Attorney, Law Office Ana Vrsaljko Metelko, Zagreb

- as of September 2020 – 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 plovidba d.d., In-house Lawyer, Legal and Insurance Sector

Graduated at Law School, University of Zagreb



Petra Vranjes

Member of the Supervisory Board and Audit Committee (elected June 29, 2021, on December 30, 2022, she resigned with effect as of January 01, 2023)

During her term as a member of the Supervisory Board, she held the position of Head of Finance and Business Control Segment Digital Services Ericsson AB

Graduated Finance at the University of Stockholm, Sweden



Vladimir Filipović

Member of the Supervisory Board and employees' representative (elected in 2018, member until November 29, 2022)

Project Manager in R&D Center of Ericsson Nikola Tesla d.d.

Business and Quality Development

Graduated in Electrical Engineering, Department of Telecommunications; Master of Economics; Department of Informatics Management; University of Zagreb



Petar Šimundža

Member of the Supervisory Board and employees' representative (member as of November 29, 2022)

System Software Engineer
Ericsson Nikola Tesla d.d.

Graduated in Electrical Engineering, Telecommunications, Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split

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 elected by the Company's General Meeting, and one is elected 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, gives 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 are available at Company's web page <https://www.ericsson.hr/company-governance>.

Work of the Supervisory Board in 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 the Company's business operations, taking respective decisions and conclusions at four regular and two extraordinary Supervisory Board meetings held during 2022.

In 2022, the members of the Supervisory Board were:

- Franck Pierre Roland Bouétard (Chairperson)
- Olgica Spevec (Deputy Chair)
- Ana Vrsaljko Metelko (Member)
- Petra Vranjes (Member, on December 30, 2022, she resigned with effect as of January 01, 2023)
- Vladimir Filipović (Member and employees' representative until November 29, 2022)
- Petar Šimundža (Member and employees' representative since November 29, 2022)

There was full attendance of the Supervisory Board members at the meetings, except for the meeting held on February 3, 2022, 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 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 regularly informed about the development of business and responsibilities of the Research & Development Center, Customer Services and Solutions Center, Center for ICT solutions for Digital 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 2022, impact of crisis in Belarus on the Group's business activities and results in 2022, approval of annual financial statements for 2021, dividend proposal for 2021, and the Remuneration Report for Supervisory Board members and Management Board in 2022.

Based on a continuous focus on retaining, developing and attracting people to secure business continuity, the Company's Supervisory Board supported the Management Board proposal to allocate MHRK 10 from retained earnings from 2020 for the program of purchase of treasury shares that will be used to pay a part of the bonus as well as an award for the Company's employees. Furthermore, the Management Board was given consent to allocate up to 5,000 treasury shares to the Company's employees. The Company's General Meeting approved the above proposals.

In March 2022, a strategic workshop between the Management Board and the Supervisory Board was held, at which the strategic directions for the next five-year period were analyzed in detail and concrete guidelines for the further development of the company were proposed. During the year, the Supervisory Board has been continuously informed about the progress of each strategic direction.

The Supervisory Board strongly supported the activities on strengthening ethics and compliance business practice in order to secure that the Company meets the highest standards, in line with the Code of Business Ethics of Ericsson Nikola Tesla Group. Ericsson Nikola Tesla's Compliance and Investigation Officer regularly informed the members of the Supervisory Board about the reported compliance concerns, vetted third parties with indicated risks, evaluations of conflicts of interest, compliance trainings for employees and improvements done after risk assessments.

The Supervisory Board also focused on the efficiency of the risk management system and internal control. Based on the recommendation of the Audit Committee, which was based on the independent internal and external audits of the management system, the Supervisory Board concluded that Ericsson Nikola Tesla Group has an efficient and strong integrated system of managing business risks – Enterprise Risk Management, with concrete measures for improvement.

The Supervisory Board conducted a self-assessment of the effectiveness, competences and composition of the Supervisory Board and its Audit Committee, as well as the performance of individual members. Furthermore, the Supervisory Board assessed the efficiency of cooperation with the Management Board and the adequacy of the support and information it receives from the Management Board. The evaluation was performed by the Supervisory Board itself, without the engagement of external advisors. The tools for assessment 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 open communication with the Management Board, continuous support to the Management Board in overcoming various challenges, dedicated and responsible work of each Supervisory Board member, unanimity in decision making process and the diversity of the Supervisory Board members in term of their qualifications and gender representation. Furthermore, the Supervisory Board dedicated a lot of time to quality strategic discussion, risk management and compliance, and monitoring of financial results.

In the forthcoming period, the Supervisory Board will continue to monitor strategic directions and provide support to the Management Board and Executive Management in overcoming business challenges, will maintain focus on profitability and other key financial indicators as well as business risks. Furthermore, it will continue to strengthen the communication of Supervisory Board members with the Company's shareholders to receive feedback about their expectations.

The Management Board assessed its own effectiveness in 2022 and presented its conclusions and future plans at the Supervisory Board meeting. 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 2022.

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. At the end of 2022, the representation of women in the Supervisory Board was 60%. At Group's level, the representation of women in Executive Management was 23.5%, among line managers, program & project managers 26%, and among the total number of employees 25%.

Analyzing the reports of the Management Board and monitoring the development of key financial indicators, the Supervisory Board assessed that Ericsson Nikola Tesla Group had a successful business performance in 2022, despite a challenging geopolitical and economic environment. An increase in sales revenue was achieved owing to sales growth in services to Ericsson and sales in the Digital Society segment in the domestic market. During 2022, the Group was focused on the realization of many projects related to modernization and expansion of telecommunication networks and digital transformation of the public and private sector, quality delivery and new responsibilities from Ericsson corporation, as well as finding new business opportunities in order to partially offset the impacts of sanctions imposed on Belarus on business results. With the aim of continuation of stable business performance, the Group remains focused on its strategic directions, risk management, cost efficiency, as well as further strengthening of the company's

culture based on integrity, ethics and compliance.

Work of the Audit Committee

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

During 2022, the members of the Audit Committee were: Olgica Spevec (Chairperson), Vesna Vašiček (Member) and Petra Vranjes (Member). There was full attendance of Audit Committee members at the meetings.

The Audit Committee held five meetings in 2022, during which it discussed the financial performance during the year and annual financial statements, audit plan for 2022, internal and external audit findings, high-level 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 findings, audit fee as well as the Report on the audit of the financial statements. It evaluated the performance of the external auditors and enquired into their qualifications, independence and objectivity. After negotiations with external auditors, the Committee approved audit fee for 2022. It also pre-approved all non-audit services provided by the external auditors.

The Committee monitored the activities and approved Operational Excellence, Development & Quality team and Independent Internal Audit plan for 2022. The Committee reviewed Ericsson Nikola Tesla integrated system of managing business risks – Enterprise Risk Management (ERM) based on the "Three Lines of Defense" model, in which there is the Independent Internal Audit function as the "3rd Line of Defense". Risk management, internal controls and compliance requirements have been checked during 2022 by independent

internal audits and assessments, as well as by external audits of Ericsson Nikola Tesla Group Management System. Based on the outcome of the mentioned audits and assessments, the Committee concluded that Ericsson Nikola Tesla Group has efficient risk management system at all organizational and functional levels.

With respect to compliance, the Committee decided about the reported compliance concerns. It evaluated and monitored Ericsson Nikola Tesla Group Ethics and compliance program activities with the special focus on tracking improvements after anti-bribery and corruption risk assessments were conducted internally and externally. The Audit Committee opinion is that Ericsson Nikola Tesla Group has well established and efficient compliance procedures.

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 2023.

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

Remuneration policy for the Supervisory Board

When defining a remuneration model for work of the Supervisory Board members, various external and internal 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 reimbursements paid to individual members of the Supervisory Board in 2022

		Gross 1 (HRK)
Olgica Spevec	Member; Deputy Chair	167,415.40
Ana Vrsaljko Metelko	Member	123,391.93
Vladimir Filipović	Member and employees' representative	121,094.36

The Company's Management Board and Executive Management, December 2022

President of Ericsson Nikola Tesla
Gordana Kovačević



Finance, Sourcing and
Commercial Management
Damir Bušić



Human Resources
Željko Antolić



Legal
Branka Vučemilo Elezović



General Services
Goran Ožbolt



Strategy and Business Development & GIR
Milan Živković



Marketing, Communications &
Corporate Social Responsibility
Antonija Lončar



Research
Darko Huljenić



Customer Solutions
and Services
Hrvoje Benčić



Digital Society
Tihomir Fabeta



Sales and Marketing for Hrvatski
Telekom and Crnogorski Telekom
Ivan Barać



Sales and Marketing
for A1 CRO
Miroslav Kantolić



Sales and Marketing for
Digital Society
Vjeran Buća



Sales and Marketing for Export
markets for Operator Segment
Jagoda Barać



R&D Center
Drago Holub



IT & Test Environment
Operations
Branko Dronjić



The member of the Supervisory Board, who is also a member of the Audit Committee, additionally receives a monthly amount 500,00 EUR. 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 2022, a total of gross 1 amount of HRK 42,426.11 was paid to Vesna Vašiček.

The members of the Supervisory Board who are connected to the largest single shareholder, LM Ericsson/are the employees of the company from Ericsson Group, elected at the 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.

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 applicable regulations and financial planning.

- to determine the business organization, to appoint and recall the members of the 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 Management Board 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 Annual 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 Chairperson 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 are 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

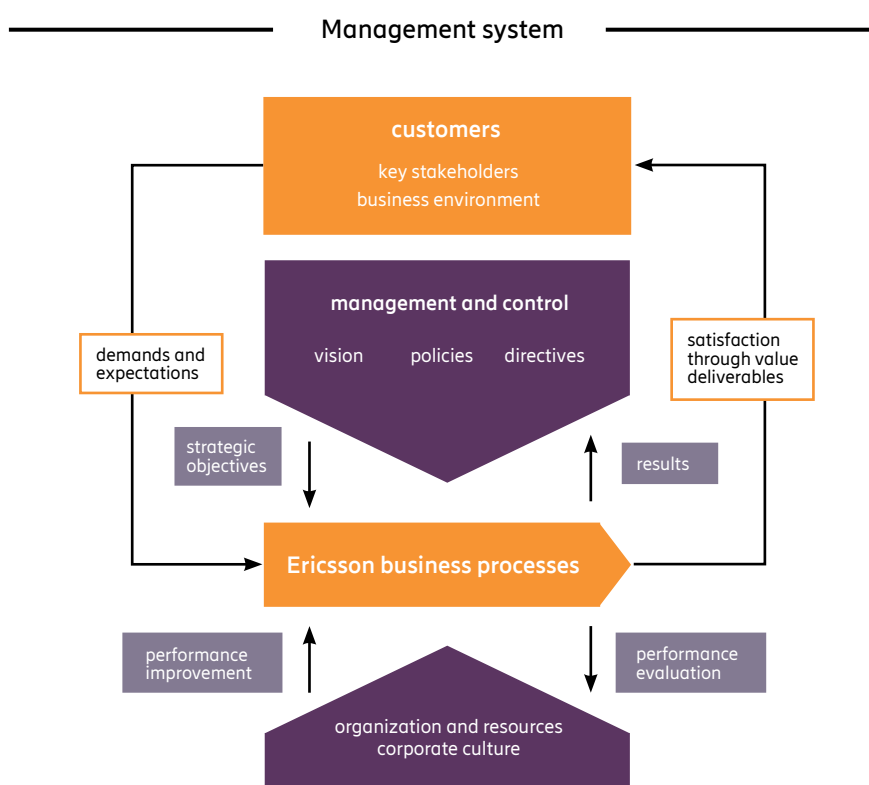
If treasury shares are allocated to the Management Board, such allocation is based on the decision made by the Company's Supervisory Board, usually for a period of 3-4 years, and is conditioned by exceptionally good results in the past period, i.e., high expectations for the coming period.

Additional benefits 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 2022

In 2022, the following gross 1 amounts were paid to Gordana Kovačević, the Management Board: fixed annual basic salary of HRK 2,482,044.00, annual bonus (short-term variable) of HRK 1,014,410.43. Additional benefits of the job (company car, meals in the company, etc.) amounted to HRK 70,761.17.



During 2022, 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 management of the daily business 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 remunerations can be found in the chapter under the title Profile of the parent company and its subsidiaries and Note 29.b. "Key management compensation" 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 an increased customer satisfaction, reduced costs, and an increased competitiveness.

Members of the teams 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.

Target realization is also secured by the competent functions and boards, established pursuant to 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 Persons of Confidence
- Compliance and Investigation Officer
- Independent Internal Audit Officer
- Operational Excellence, Development and Quality Manager
- Occupational Health and Safety (OHS) Board
- 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 for the distribution of Ericsson products, solutions and services
- Postgraduate Management Board of Ericsson Nikola Tesla
- 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.

Independent internal audit

Internal audit as a business function was established in ENT Group in 2021. This function is carried out by an independent internal auditor. The activities of an independent internal auditor are carried out in line with the requirements defined by the Rulebook on the Independent Internal Audit of ENT Group. An independent internal auditor submits regular quarterly reports about these activities to the Company's Audit Committee and Supervisory Board and the Risk and Compliance Board.

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 2022.

We respect human rights

Ericsson Nikola Tesla Group respects and supports human rights, and we do this by conducting business in line with our Code of Business Ethics, and expect equally high standards from our employees, suppliers, and partners.

In its business operations, Ericsson Nikola Tesla Group adheres to the UN Guiding Principles on Business and Human Rights (UNGPs) and has developed concrete quality practices. In everyday 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 aware that violations of human rights impact people's lives, the community, environment or property, and thus 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. Due to this, we have been continuously working to identify potential negative impacts on human rights and undertake preventive measures to eliminate them. We would also like to highlight that by adhering to health and safety measures we are contributing to avoiding negative impacts on the right to life, right to a safe work environment and the right to physical and mental health.

When doing business, we adhere to the following guidelines in terms of human rights:

- When hiring, we are guided by the principles of human rights protection, not discriminating based on work experience, personal life experience along with individual origin, race, sex, ethnicity, sexual orientation. All candidates have to sign adherence to our ethic principles. Furthermore, we also ensure adaptation to working conditions for people with disabilities.
- We encourage mutual respect and an open dialog among employees.

- We undertake measures for employee protection from intimidation, sexual harassment, and other forms of abuse from other employees or external persons, such as customers, sellers and clients. We provide support to employees who claim that they are exposed to intimidation, sexual or other abuse.
- When determining salary and awards, we are guided by objective facts and ensure a fair and transparent promotion and career development options.
- We respect the right to family life by adhering to legislation and providing various forms of support to parents.

Furthermore, we know that diversity encompasses many aspects: cognitive perspectives, education, work experience, personal life experience along with individual origin, race, sex, ethnicity, sexual orientation, etc. We respect and promote diversities and highlight them as advantages in interpersonal relationships, teamwork, doing business and thereby nurture an inclusive company culture. By respecting the opinion of each individual and the freedom of expression, every year we conduct a questionnaire, Voice, and gain valuable feedback in order to continue to build a company culture where individuals feel welcomed and can freely express their opinion. We are proud that year after year, the results of the questionnaire 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.

As a socially responsible company sensitive to complex life situations of certain groups of society, we have often

been taking part in various charity actions over the years. Last year we responded to UNICEF's call to solidarity with children and families of Ukraine in providing financial aid for taking care of them.

Last, but not least, we would also like to highlight our strategic decision to cooperate with business partners and other stakeholders that share our values regarding human rights and our insisting on the responsible use of technology, since we are aware of the potential risks of ICT services and solutions abuse. In this way, we can avoid potential harmful effects that we might cause, to 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, during their application. We achieve this by continuously investing in training and raising awareness of employees and business partners as well as by working in an ethical way and conducting in-depth reviews.

Protection of personal data

In addition to undoubtedly numerous positive changes in terms of better connectivity of systems and people, the technological revolution also brings some new security risks and risks for personal data protection. Apps, connected devices and integrated networks become potential targets for various misuse, cyberattacks and theft of personal data or identity. Therefore, security and protection of personal data are priorities in technologies and services provided by Ericsson Nikola Tesla Group.

Respecting the fact that nowadays websites are one of the most important communication channels, Ericsson Nikola Tesla Group's information on personal data processing is available at the link at the bottom of every page, regardless of its content. Thus, we make available all the necessary information related to the processing and protection of personal data of various data subjects in a transparent, simple and fast way.

The Group has a Data Protection Officer whose task is to monitor compliance with the personal data protection rules. Data Protection Officer is also the point of contact for all questions related to personal data protection. Furthermore, Data Protection Officer is the head of a virtual privacy team that consists of information security experts.

Depending on the category, sensitivity and purpose, limited access to personal data in the Group is available to managers and employees of specific units in the measure necessary to perform their duties. Moreover, it is available to suppliers who are entrusted with personal data processing under a corresponding processing agreement, and third parties who have a valid legal basis for processing personal data.

Controlling the collection and further processing of personal data is a mandatory part of operating practice, carried out through a special monitoring system, which also includes consistent protection of personal data and regular and specific audits of key processes. In 2022, the Group worked on the improvement of controls for personal data protection to make them more integrated, proactive and adjusted to the Group's processes and its portfolio of products and services.

All our employees have been educated on the need and significance of respecting the right to personal data protection, which is included in the Code of Business Ethics, the basic document defining the behavior we expect from all our employees. In 2022, the Group has additionally increased the activities of employee education, specially by carrying out tailor-made education for certain departments and their employees, taking into consideration concrete processing and personal data categories they come across.

Before hiring suppliers, the Group identifies the project's sensitivity and importance, and carries out due diligence of suppliers and solutions they intend to offer to the Group, which also includes checking security and personal data protection. In 2022, the Group invested additional efforts to check suppliers, i.e., third parties in general.

Due to the nature of our business, we have additional responsibility to efficiently address personal data since the analysis of an enormous amount of data generated by today's communication networks may create permanent benefits for the society. The most effective way to realize this potential is to apply innovative technologies with strict adherence to the principles of personal data protection, whereas the results must bring benefits for all stakeholders.

In 2022, there were no confirmed incidents of personal data breach. This means that the Group has efficiently eliminated risks of minor security incidents and prevented them from escalating to a higher severity level, i.e., violation of personal data.

Information security

Information and communications infrastructure has an important role in the society and business activities. Large amounts of various information have been continuously processed, exchanged and stored on various ICT systems. Every day, we are exposed to threats and risks of growing cybercrime, and the awareness on the importance of data is the foundation for the implementation of information security measures. Having regard to this, one of our key priorities is taking care of information security: both personal information and information related to business, customers and business partners. By applying high standards of data protection, we balance strict protection measures and efficiency in our daily operations.

Ericsson Nikola Tesla Group has been continuously and dedicatedly implementing and carrying out security measures by respecting high protection standards of all data, with the aim to develop and deliver our products and services, and secure business continuity, regardless of types of threats.

Management and policies

Managing information security is one of key 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 regular business. Five areas of information security of which we take care separately are: security checks, physical security, data security, business cooperation security, and IT security as its most recognizable part.

Security Management Board and Crisis Management Task Force are the umbrellas

at Group level that deal with safety issues, from planning, implementing and monitoring to correcting. Special attention is given to security incidents and crisis situations. At Group level, a Security Manager was appointed who coordinates operations regarding risk management issues and all areas of security (information, personal, security of persons and property, business continuity and preserving the company's basic values). Considering the importance of information systems in ensuring the basic aspects of

Improvements in 2022

In 2022, several improvements were made in the field of information security, and we would like to highlight the following:

- Improvement of incident management tools and processes
- ISMS training for development engineers and programmers and managers
- Conducting internal audits, supplier audits and training new auditors
- Selection of a new certification company and implementation of an external audit of the group's ISMS system
- New presentation format for regular introductory seminars for new employees and students
- Introducing new technical network and IT security measures (such as Infoblox) while maintaining and upgrading existing ones
- Introduction of Anti-Passback functionality at all locations as the most important requirement for improving physical security resulting from an external audit
- Introduction of the IT license manager function



Ovo je prijevod certifikata br. HR220153

Glasnik izdavača: SGS

ERICSSON NIKOLA TESLA d.d.

Prosjekta 45, 1000 Zagreb, Hrvatska

objektima je i potvrđeno da ispunjava zahtjeve
ISO/IEC 27001:2013

za sferu: informacija, marketing, prodaja i posredništvo informaciono-komunikacijskih
sustava, proizvodnja usluga za sigurnost i zaštitu
Prosjekta 45, 1000 Zagreb, Hrvatska, Ulica Hrvatske Republike 29, 31000 Osijek, Hrvatska
Ulica Demotivacija 10, 11111 Zagreb, Hrvatska
Objektima su dodane i potvrđene i potvrđene su od 27. rujna 2022.

Ovaj certifikat je važeći od 05. rujna 2022. do 05. rujna 2025. Inicijalna izjava potpisana
od strane SGS-a. Prosjekta certifikat br. HR220153.

Certifikat je dodan i potvrđen i potvrđen su od 27. rujna 2022.

Organizacija je certificirana od 05. rujna 2022. i prvi put certificirana od 05. rujna 2022.

Objektima su

SGS United Kingdom Ltd
Barnes Road, London W8 5AH, UK
T: +44 (0)20 8996 9000, www.sgs.com



Ovaj dokument je dodatno potvrđen i potvrđen su od strane SGS-a. Prosjekta certifikat br. HR220153.

30.1/2



information security, there is also an IT Security Manager.

In order to operationally solve security issues, incident reporting is used for all employees and business partners. Reporting security incidents is an important part of the incident management process. Security incidents are then processed in corresponding organizational units, according to incident type. In 2022, there were no critical security incidents. In addition to operational activities for eliminating the causes and the consequences of incidents, incident management process also serves as one of the input data for a continuous improvement of security systems.

Ericsson Nikola Tesla is using an integrated Management System (EGMS), based on business standards (ISO 9001:2015, 14001:2015 and 45001:2018) which also includes the international information security standard ISO/IEC 27001:2013 as the information security management system (ISMS). Ericsson Nikola Tesla has a valid information security certificate ever since 2013 and confirms it each year after regular monitoring performed by an authorized external auditor. In 2022, in line with good practice, the auditors were changed, and the following three-year certification cycle started, while at the same time a three-

year adjustment process to the latest version of 27001:2022 standard also began.

An important and mandatory part of the information security system is regular education in information security for all employees and other participants of the Group's business processes, as well as the campaign for raising awareness. In this regard, a step forward in 2022 was the transformation of the existing ETK IT Security Newsletter to ENT Security Newsletter that encompasses topics regarding information security, corporate security, product security and protection of privacy.

Risk management

The Group is using Enterprise Risk Management as a framework to manage risks. Considering the types of risks and areas where they occur, all departments in the company have the 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 measures of protection, redundancy and increase of resilience for reliable business continuity are carried out, along with the plans for disaster recovery.

As both the areas where the biggest threats have been occurring, as well as the forms in which they have been occurring, have been continuously changing, thus our employees have been additionally educated and informed.

Managing crises

In addition to the continuously present cyber threats, the coronavirus and COVID-19 illness have continued to pose a significant threat to the Group's security in terms of business and employees' health in the beginning of 2022 when, as the main treat to business, they were replaced by the crisis situation in Ukraine, which was especially and directly reflected on the Group's security of employees and business in the neighboring Belarus. Crisis Management Task Force, active ever since February 20, 2020, is still reaching

decisions and forwards information to all the participants of business processes with the aim of maintaining normal functioning of the Group's business.

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 civil protection system in the community. The system enables a fast and efficient response to the occurrence of crisis situations also in a wider community.



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

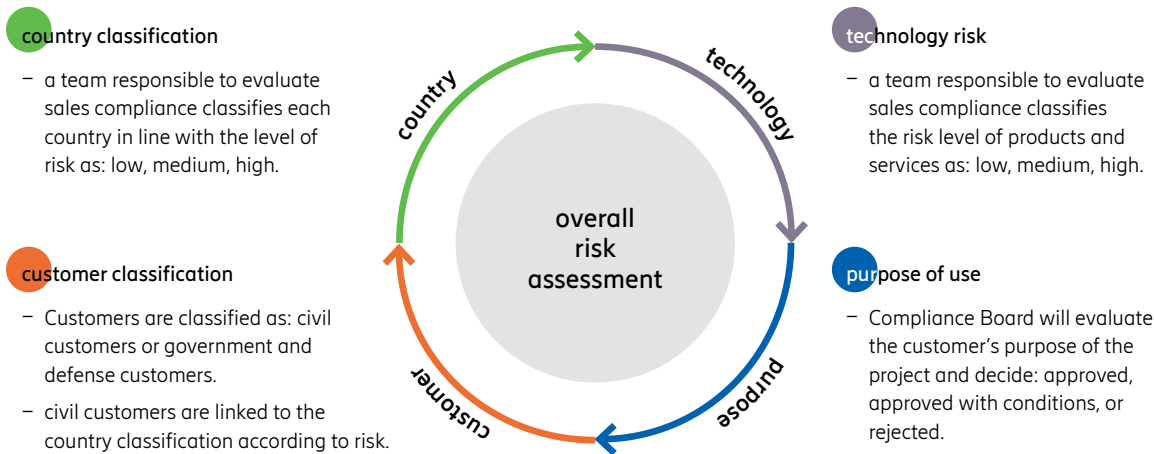
Ericsson Nikola Tesla Group is one of large Croatian exporters and doing business in various markets in addition to business opportunities also brings exposure to various risks. The best protection against potential risks is to be well informed, to apply legislation of each individual market and to monitor the current situation in the country concerned.

In order to protect the brand and stakeholders’ interests, as well as to secure responsible behavior, and especially to protect human rights and ethical business operations in countries where the Group does business, Ericsson Nikola Tesla Group applies the Sales Compliance process. The Group’s employees are also aware of the requirement to respect the laws of their own countries, as well as other countries where the Group does business, and special attention is given to

Trade compliance, i.e., potential sanctions and/or embargo. Considering the geopolitical events and export markets in which Ericsson Nikola Tesla Group operates, the complex activities related to sanctions were especially increased. Sanctions represent international measures of restrictions and are an instrument of diplomatic or economic nature which strives to change the activities or policies such as violation of international law or human rights, or

policies that do not comply with the rule of law or democratic principles. In regard to this, Ericsson Nikola Tesla Group delivers products and services in the market of Belarus solely to fulfill the remaining obligations from the contracts in the civil telecommunications sector that were signed before March 2, 2022, in line with the valid sanction regulations of the Republic of Croatia and the European Union and the necessary time-limited export licenses issued by the relevant authorities.

Sales Compliance risk methodology



Continuous focus on Sales Compliance and Trade Compliance

Sales Compliance process regulates actions in all stages of the sales process, direct or indirect sales and business connections. Sales Compliance enables quality assessment, prevention, and neutralization of potential negative impacts in the field of human rights and brand, thus preventing 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 products, services, or knowledge sensitive), purpose for the use of products; profile and structure of the customers as well as user's country. Defining risks is also 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.

Regulatory framework and sales processes prescribe one more process that additionally protects against the negative impact on business. This is Trade Compliance, a process which consists of specific international and national laws and regulations, 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 are familiar with and obliged to comply with all the rules and regulations that are applicable in their area of work and defined in local directives and instructions. Employees can address all their questions and ask for support from experts in charge of the processes in a certain segment of business and their implementation.

Sales compliance risk methodology and activities in 2022

The basic verification criteria for determining compliance with risks and approving business opportunities in sales are (all the mentioned criteria are taken into consideration):

- 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.

Based on the mentioned criteria, a decision is reached on the further course of a certain business opportunity. The decision can be: business opportunity is approved - with or without precondition, or business opportunity is rejected. Business opportunities that were approved with (a certain) precondition, must include technical and/or contract risk mitigation.

In 2022, Ericsson Nikola Tesla Group initiated 16 requests to verify sales compliance of business opportunities, of which 13 were approved without preconditions and three were approved with certain preconditions.



Digital transformation of sourcing

Ericsson Nikola Tesla Group puts a lot of emphasis on transparency and efficiency of sourcing activities. Therefore, a project for the digital transformation of the sourcing process was initiated and successfully completed. As part of the project, a sourcing tool was introduced through which we have secured a transparent application of the sourcing process for all types of sourcing activities.

Through the digitalization of the sourcing process, we have enabled traceability of sourcing processes and automation of certain steps in the sourcing process (automatic verification of compliance for the existing suppliers and automatic data preparation for issuing purchase orders). Transparency was increased regarding the procurement procedures and reaching decisions about supplier selection. By introducing a digital tool for sourcing, we have enabled the users to have a structured overview of all the sourcing activities in which they have participated, as well as information about the current status of the ongoing sourcing procedures. Furthermore, a process was implemented for approving sourcing contracts, the option of digital signing of sourcing contracts, a notification mechanism about the expiration of sourcing contracts and a new archive of sourcing contracts were implemented.

Digitalization also enables us to collect data based on which we have been carrying out various analyses with the aim of further improving the sourcing process.

Responsible sourcing

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

are increasing the level of transparency and efficiency of the sourcing process.

Responsible sourcing program implies a continuous risk assessment for suppliers, regular supplier audits, evaluations, performance comparison and other activities which ensure compliance with the Code of Conduct and the Code of Business Ethics. The Code of Conduct is based on the United Nations Global Compact Principles.

Activities in 2022

In 2022, we were faced with great challenges in the field of sourcing as a consequence of global disruptions related to availability of certain raw materials and materials, the war in Ukraine, disruptions in transport, and increased costs of material, labor and energy prices.

Nevertheless, many sourcing activities were carried out for the requirements of our customers' projects and various projects for internal needs of the entire Ericsson Nikola Tesla Group.

During 2022, more than 3,000 procurement projects were initiated for the needs of Ericsson Nikola Tesla Group.

Code of Conduct for Business Partners

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
- confirm that both the supplier and their subcontractors comply with the Code of Conduct by providing information to Ericsson Nikola Tesla or its representative upon request and/or enabling access to its premises
- notify Ericsson Nikola Tesla Group if they detect any violation of the Code of Conduct in their business.

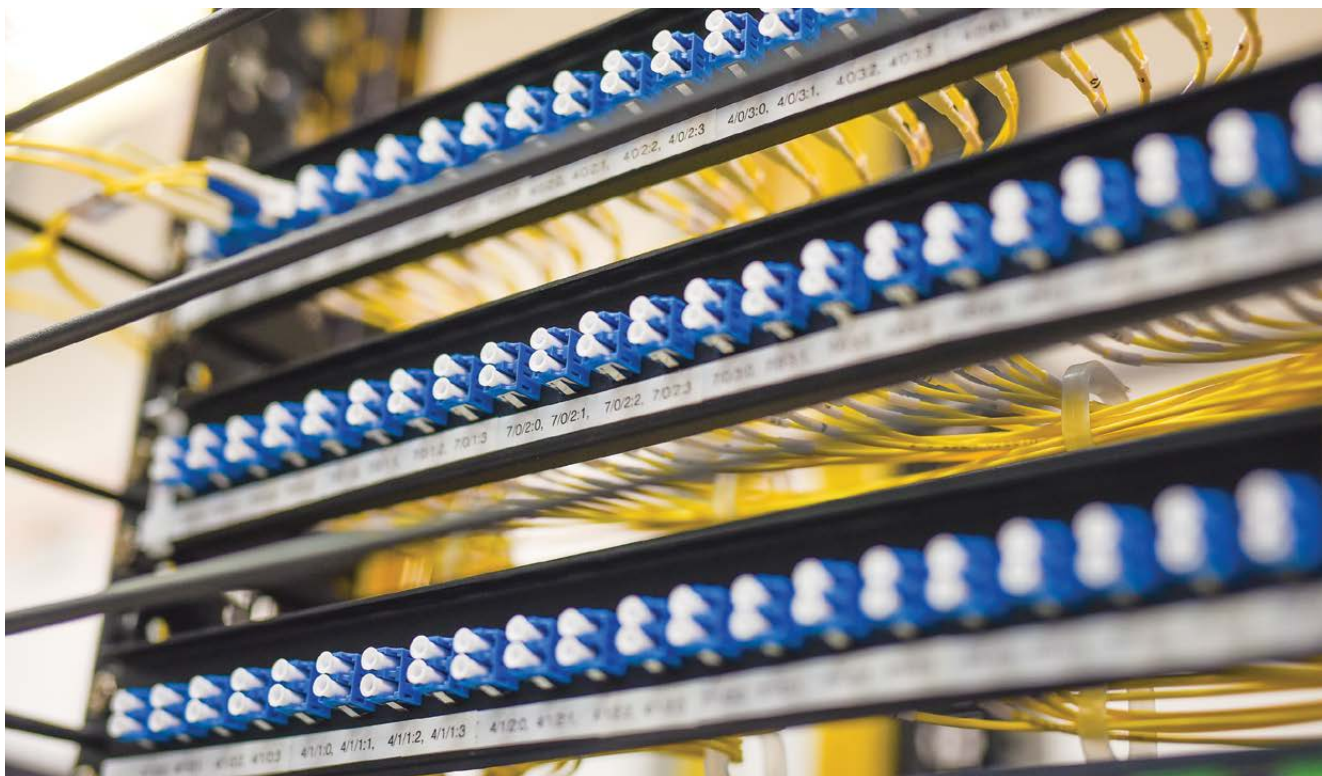
This Code of Conduct encompasses, when necessary, specific requirements for the suppliers related to occupational health and safety, as well as environmental protection, which can be found in the following documents:

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

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 www.ericsson.hr/en/company-governance. The Compliance Line is available 24/7/365, and the report can be submitted via a user-friendly reporting system. Compliance Line is operated by a third party, and after the report is submitted, the third party will deliver it to Ericsson Nikola Tesla Group, which will not have access to the sender's IP address. It is possible to submit a report in Croatian, Bosnian, Serbian, Montenegrin, English, and Russian.

Checking suppliers' compliance

In 2022, we have continued using tools to check suppliers (Suppliers Screening Tool (SST) and Third-Party Management (TPM)) to establish the suppliers' possible connection and involvement in corruption affairs, unethical behavior, operations, etc., and in order to consider the possibility of occurrence of corruptive activities, depending on the type of service that the supplier delivers, the country of service delivery, payment conditions, etc. The

mentioned tools provide local and global data on business entities.

By digitalizing the sourcing process, we have automated compliance verification of the existing suppliers, and in this way accelerated the overall verification procedure.

In 2022, for the requirements of sourcing projects, more than 3,400 supplier screenings were performed. More than 2,400 business entities with which Ericsson Nikola Tesla Group had a business relation were screened on a weekly basis. In addition, all persons connected to these legal entities were screened (owners, directors, and members of management boards). Continuous use of the tools mentioned enables a continuous approach to relevant information and their interpretation, evaluation and understanding, which is necessary for us in order to reach business decisions and optimize potential risks regarding the choice of suppliers and business partners.

Main risks include:

- amended or new regulatory requirements that negatively impact the availability and the prices of materials
- increased prices of materials/ raw materials, and even services, and shortage of certain raw materials
- issues in transport which result in significantly longer times of delivery, delays and, in the end, increased costs
- significant increase of energy prices
- geopolitical uncertainties
- inflation
- increased cost of labor.



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 must adhere to.

Our approach

We continue to strengthen the 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 the 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 Executive Management and employee meetings. During 2022, we have continued to carry out the activities of eliminating or mitigating risks that had been observed in the previous year, in line with the ABC analysis (Anti-Bribery & Corruption Standards and Framework).

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 and compliance knowledge test; after completing education courses and knowledge tests, new employees 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 by expressly stating our commitment to anti-corruption to suppliers and other business partners through our Code of Conduct for Business Partners and anti-corruption e-learning course.

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 key 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.

Through the digitalization program, activities in the systems for contracting and checking business partners were automated, thus enabling greater efficiency and transparency for the

requirements of further activities related to business partners.

Our anti-corruption tools

- Code of Business Ethics
- Code of Conduct for Business Partners
- app which enables anonymous reporting of 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
- organization of compliance
- risk assessment
- training and communication
- awards and sanctions
- third-party management
- allegations and investigations
- monitoring process implementation
- due diligence in mergers and acquisitions.

Key data for 2022

- 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 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 at the most important meetings of the Group's Executive Management
- new members joined the Compliance and Investigation Team

- further improvement measures have been carried out following extensive corruption risks estimations (ABC RA) in the overall Group, and then focusing on the area of efficiency of checking the business partners' integrity
- a procedure was carried out to check the integrity of key positions
- Conflict of Interest Policy was publicly announced
- a survey was carried out among all employees, and excellent results were obtained to questions in the field of Group's ethics, compliance, and management
- new Bylaws on internal reporting of irregularities were passed, Persons of Confidence and their Deputies were elected for three companies of ENT Group (Ericsson Nikola Tesla d.d., Ericsson Nikola Tesla Servisi d.o.o. and Libratel d.o.o.). In this way, the possibilities and the channels to report irregularities were significantly improved, with additional protection of the person reporting, in line with the Whistleblower Act.



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.

Employee Occupational Health and Safety

The company has set high standards of employee occupational health and safety. Accordingly, it carries out the policy and many activities to achieve quality care for our employees and other people we cooperate with, and the existing practices are continuously improved.

Managing the Occupational Health and Safety System

Ericsson Nikola Tesla d.d., as the parent company, is responsible to determine the strategy and processes, recognize risks and opportunities, and launch initiatives focused on occupational health and safety which are then applied in all other companies of the Ericsson Nikola Tesla Group.

Occupational Health and Safety governance system is divided into several levels in the company.

Management Board, together with its appointed OHS authorized persons, employees' commissioners voted by employees and engaged OHS experts take preventive actions in order to eliminate the causes of threats and reduce risks. The purpose of preventive actions is to prevent occupational injuries and other incidents by applying all legislative requirements and requirements under relevant international standards.

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

The consultation with employees is ensured by means of communication through the employees' commissioner and other ways of communicating. Employees are included and encouraged to actively participate in activities of developing and maintaining the occupational health and safety system.

Ericsson Nikola Tesla Group has the ISO 45001 certificate. External audits of ENT

Group carried out by the certification body SGS Adriatica d.o.o., were carried out at the end of November 2022. External audit for Ericsson Nikola Tesla Servisi d.o.o. was carried out by the certification body TÜV Austria in March 2022. The auditors from both audits concluded that the OHS system is fully aligned with the requirements of ISO 45001.

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 all the requirements is carried out by means of many internal audits in the entire ENT Group.

Managing OHS risks

Risk assessment is the most important process in the field of OHS. This contains a record of the current condition, analysis and estimation of recognized risks, as well as the plan of measures to reduce the level of threat and the probability of unwanted scenarios to happen. Risk assessment document is aligned at least once a year with the changes in legislation, environment and processes, demands of all interested parties as well as learned practices that arose from researching the incidents that occurred. Based on the recognized risks and opportunities, KPIs are set and monitored, and measures of improvement of the overall OHS system are implemented at Group level.

In line with circumstances and relevant legislation, members of the Group update their risk assessment and inform their employees and all other stakeholders thereof.

The majority of our colleagues at sites in Zagreb, Split, Osijek and Rijeka, as well as colleagues working at other locations in Croatia and abroad, perform their work tasks in the office. Therefore, it is important that work premises are safe and ergonomically designed and adapted to every employee. Regular testing of workplace parameters and safety of electric installations in offices in all the Group's locations, equipping offices with new standing desks, carrying out fire protection measures, as well as regular evacuation and rescue exercises are just some of the measures that impact the quality of our employees' workspace.

Eyestrain, static efforts 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, such as regular medical checkups and the PrevENTION program, in order to reduce the consequences of these risks to a minimum. Professional lectures about mental and physical health and workplace-related risks were also organized. Exercises and activities that enable us to eliminate the consequences of long hours of sitting in the workplace were shown and promoted. Other aspects of benefits for employees were also recognized, such as financial well-being, and encouraging colleagues to socialize outside of business activities.

Due to the continuation of the COVID-19 pandemic in the beginning of 2022, most employees continued to work from home. The results of the surveys showed that most employees who worked remotely did not experience reduced productivity, however, isolation and remote working have left their mark, primarily in

harmonizing and separating private and business responsibilities. Employees could borrow equipment necessary for work from the company in order to have all the necessary conditions to work at home (chair, monitor, etc.) The company has also introduced a hybrid model of work for the majority of employees, which happened as a result of monitoring trends and risks that occurred, as well as harmonizing with the changes in legal regulations in the field of occupational health and safety.

In addition to working at the office, many employees work on sites. In addition to climbers and according to statistics, approximately 40% of tasks performed by Ericsson Nikola Tesla Servisi 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.

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 most cases, suppliers perform their work in line with the safety rules.

Education of employees and external associates

Last year, we hired a significant number of new employees. All new employees passed an introductory seminar and an OHS test, thus gaining theoretical knowledge and practical experience in training for safety at work. All students and hired agency workers who cooperate 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 of preserving health, working abilities and optimal efficiency, 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 rules.

In addition to taking care of our employees, we also 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 Ericsson Nikola Tesla 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.

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. The rules and instructions apply to all employees, whether they work in the office, on site, or remotely.

People are our strength

Employee innovativeness, knowledge, skills, dedication and integrity are among the main foundations for the Group's business success and growth. Our employee professionalism and expertise, as well as high quality solutions and services they create and deliver have been recognized locally, regionally and globally. The Group's employees have been continuously developing and creating new products, solutions and services of high added value, important for the realization of digital transformation processes of the industry and the society as a whole.

Synergy of knowledge and values

Most employees of Ericsson Nikola Tesla Group are ICT experts and other experts from associated fields who use their knowledge and skills to contribute in the build, modernization and optimization of critical infrastructure to achieve the goals of digital green transition of the economy and society.

The parent company Ericsson Nikola Tesla employs approximately 1,800 software developers, which is the largest concentration of this kind of experts in Croatia. Due to the importance that the ICT industry has in shaping the future of all of us and the related responsibility towards a

wider community, we hire candidates who, along with the expertise in the required field also embody our basic values - respect, professionalism, perseverance and integrity. Our way of mutual interaction, doing business as well as cooperation with customers and partners are based on the synergy of knowledge and values.

We have committed to the highest level of integrity, ethics and transparency in managing business.

We have defined the necessary knowledge, skills and characteristics that candidates must possess, as well as areas of excellence on which we base our competitive advantage.

Considering that we wish to attract the best employees, one of our important strategic goals is for us to be an employer of choice in an extremely competitive market of ICT experts. Therefore, in addition to special attention we dedicate to attracting and retaining experts, we are also focused on planning the development of their potential.

Focus on reaching full potential

Our model of people management is focused on reaching the full potential of individuals and teams. The foundations of this model are:



- a clearly defined role of every individual and its importance for the company's success as well as purposeful work assignments
- motivation to achieve excellent results and for further learning, development and growth
- continuous feedback about the person's impact on the team's and the Group's success
- joint contribution of all individuals in achieving success
- diversity and inclusion as an encouragement for innovations
- encouraging and rewarding innovativeness
- mentoring
- creating an impact on results through effort, work, and commitment
- possibility of reaching decisions individually
- strong leadership that provides clear guidance and support in target realization
- fairness in awarding.

An environment for growth and development of top experts

A dynamic, fast growing ICT industry implies experts who agilely apply obtained knowledge, as well as continuously acquire

new knowledge and find a way to apply them in the realization of complex digital transformation projects of industries and society. In order to additionally motivate employees to achieve targets, Ericsson Nikola Tesla Group has been continuously working on creating and improving the work environment, namely by:

- providing the possibility of lifelong learning and specialization, as well as career development
- ensuring attractive jobs and giving clear roles to each employee, in order to achieve common goals
- providing the possibility to work in global teams
- flexible working hours
- encouraging innovativeness in all work segments
- ensuring equal conditions of work and development to all employees
- recognizing and visualizing individuals and teams who achieve the best results
- a reward system based on the principle of equally awarding equal work results
- a modern equipped workplace with all the tools necessary for work
- a motivating company culture
- taking care of the employees' physical and mental health, and providing a high level of occupational health care
- a high level of occupational safety

- the possibility of saving in Ericsson Nikola Tesla's Closed Voluntary Pension Fund
- numerous benefits for working parents
- the possibility of recreation and socializing in sport and culture associations
- using the benefits of Bonus Club.

The Group retains a very small percentage of employees leaving compared to the labor market that is extremely demanding. In order to retain experts in the company, 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 to further improve the way of working, retain experts and attract new talents.

Mentoring - individual support for new employees

A well developed and well-established process of introducing new employees in the work processes is important for the entire Group, especially due to intensive employment of a large number of young experts without work experience over the past years. Young experts have quality mentors who provide them with expert assistance in their daily work, follow



personal and professional development of new employees, and participate in the process of their career planning. We nurture quality mentor relations in the Group, characterized by quality connections, trust and focus on connecting young experts with the company, development of knowledge and competencies. A well-thought process enables the mentor to perform a quality assessment of the trainee during the trainee period, and helps the trainees in their progress, development, acquiring necessary knowledge and skills, as well as receiving additional recommendations. For employees who have previous experience and knowledge, mentoring secures the best possible integration and connection with the company's culture, teams and ways of working. In 2022, Ericsson Nikola Tesla Group hired 354 new employees, who 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.

An encouraging awarding system

The awarding system in Ericsson Nikola Tesla implies 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 authority, 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 system encompasses the following:

- 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 the corresponding policies.

In line with the general goals of the salary system, the employees are additionally awarded for the results, the volume and importance of which exceeds the expectations of their organizational unit or the company.

Variable pay compensation:

- Company award / all employee award, paid in line with the realization of the previously planned business targets and conditions defined at the beginning of the year
- Variable pay compensation for target realization (Short-term variable pay/ Sales incentive plan - STV/SIP), paid out in line with the realization of previously planned business targets and conditions that were 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 an internal competition for the achievement of previously defined and important goals for the organizational unit / company (awards per competition)
- awards for innovations for innovative solutions that were developed while working or work-related solutions are awarded in line with the Rulebook on awarding innovation solutions.

Additions to salary:

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

Benefits

Care for employees that is visible in concrete activities that contribute to the well-being and quality of work and life is one of our main priorities and can be seen in numerous benefits that employees have. Some of the benefits are: employer's payment and the possibility to have more favorable savings conditions in the Closed Voluntary Pension Fund of Ericsson Nikola Tesla, organized health checkups, shares for employees, modern IT equipment, continuous education, favorable loan terms, using the company's restaurant on campus, the option to join cultural and sport sections, using the benefits of the Bonus Club.



Ericsson Nikola Tesla's Closed Voluntary Pension Fund

At the beginning of 2005, in cooperation with the Raiffeisen pension fund, Ericsson Nikola Tesla founded the Closed Voluntary Pension Fund of Ericsson Nikola Tesla. In that 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 2022 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 2022, approximately 200 employees joined the Fund, and at the end of 2022, the Fund had 2,200 members. Out of the total number of members, 1,850 are currently working in ETK, which accounts for 68% of the total number of ETK employees. At the end of 2022, the Fund's net assets amounted to HRK 49.3 million. Since the Fund was established, the Fund's average annual return has been 6.09%, and in 2022, it was -6.03% due to the impact of the global uncertain conditions in the markets.



Benefits for parents

Work-life balance is an important factor in preserving physical and mental health and is especially challenging for young parents. With more than 40% of our Group's employees younger than 35 and knowing this is a period in life when most people decide to start their family, many measures have been implemented to achieve balance between professional and personal life. New parents in our company are entitled to aid for each newborn baby amounting to EUR 1,327.24. The parents of children with special needs have the right to annual aid amounting to EUR 2,655 gross and two additional days of annual leave. In addition to flexible working hours, days off for prenatal checkups, breastfeeding pauses, equal rights for fathers to go on paternity leave and other benefits, we also allow parents to bring children to work whenever the need for that occurs. Our employees' children up to the age of 15 are entitled to receive a gift in the value of EUR 172.73 per year, and their parents have the right to have two to six additional 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, amounting to EUR 40 per child.

Monitoring employee engagement and satisfaction

We have been continuously monitoring employee engagement and satisfaction, whereas the Voice survey represents an important tool for measuring the organization climate and gaining an insight into the employees' opinions on various areas of operations. We carry out the Voice survey annually, thus contributing to holding a dialog with employees, and gather information about the satisfaction with various changes we have been introducing. Thus we additionally strengthen feedback culture and change management. Employees and their managers participate in proposing changes and improvements in all segments of their work and doing business. In 2022, at Ericsson Nikola Tesla d.d. level, the survey on employee engagement was carried out

with response rate of more than 85 percent of employees. A detailed analysis of the collected feedback shows us the areas for improvement on all levels and all segments of the Group, on which we base relevant changes and adjustments.

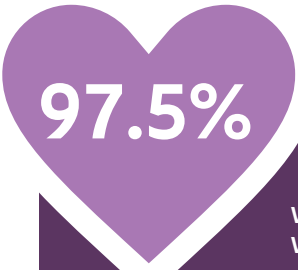
Cooperation with the Union

We have been continuously working on harmonization of our organization with the market demands and needs, with the purpose of ensuring and strengthening competitiveness. In doing so, we exchange information and consult with the Union on all important topics pursuant to the law and the Collective Agreement.



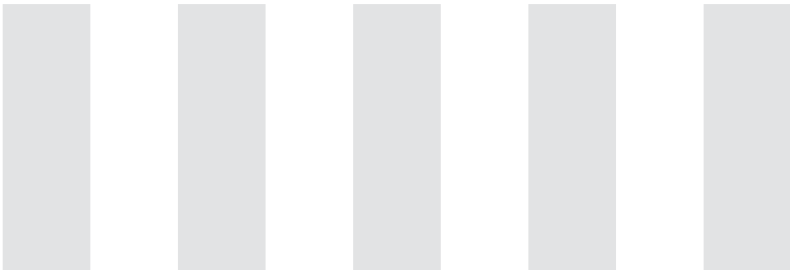
PrevENTION – we care about physical and mental health of employees

We have transformed strategic focus on care about health, safety and well-being of employees and other stakeholders into internal policies and long-term good practice that has been carried out through defined processes and is applied in everyday work. This good practice is complimented by special programs, such as the PrevENTION program. This is a comprehensive program with a range of content with the aim of strengthening physical and mental health that is available to all employees. Within the PrevENTION program, during 2022 employees participated in various activities, such as professional lectures on physical health, mental well-being, financial well-being, guided trainings and yoga, pub quizzes, etc.



would recommend the workshops to their colleagues

- 3** **My Health**
ophthalmology, financial well-being and dermatology
- 2** **Wellbinars**
personal well-being and good habits, changes around me
- 20** **Move Your Body**
yoga and functional trainings
- 1** **Mindfulness** training group
- 4** **Move Your Mind**
support groups (personal strengths, changes around me, stress management)
- 1** **Move Your Body**
A hike to Sljeme
- 4** **Pub quizzes**
Zagreb, Split, Osijek + a Christmas-themed pub quiz in Zagreb





We respect diversity and promote inclusion

Respecting diversity and inclusion of all employees, and all other stakeholders in our business are the main components of the company's culture and represent the adopted values of Ericsson Nikola Tesla Group.

We believe that diversities enrich us and broaden our perspective, due to which we can have a corresponding response to the demands of our customers and markets and create innovative ICT solutions. For us, diversity is wealth that contributes to our competitive advantage.

We act according to the principle of equal opportunities for every individual, 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.

Appreciating mutual differences and accepting values that every individual brings to the work environment can be seen in all the Group's processes and business activities. In our teams, people of various characteristics and talents compliment each other gathered around joint tasks and create and implement comprehensive solutions. Team members have the opportunity to give their unique contribution to the Group's success, by which we create prerequisites for long-

term sustainable development of our business.

We implement our 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 a company culture in which managers act so as to set an example and have an active role in putting together teams and creating a stimulating working environment where every individual feels included, valued 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, customers, partners and all other people they interact with in their everyday work and activities.

Zero tolerance towards discrimination is applied in the entire Group, which means that 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.

Promoting inclusion in the society

Ericsson Nikola Tesla promotes the need to respect diversity and inclusion in its daily business as well as by participating in relevant social initiatives. Among other things, the company is one of the first signatories of the Croatian Diversity Charter, and the company's president is also its ambassador. Furthermore, considering the discrepancy in the representation between men and women in STEM, which is becoming increasingly important for a competitive sustainable development of the economy, in cooperation with the educational community we have been undertaking many activities to motivate girls and young women to choose STEM professions.

We operate in an industry that connects people regardless of their differences, and enables them to exchange opinions, ideas, knowledge, and to be active stakeholders in a society which is going through a digital transformation.

ICT solutions that we create, mainly the ones in the domain of public services such as healthcare, land registry and cadaster or public administration, as well as planning, building, maintenance and modernization of the modern communication infrastructure enable a greater involvement from the citizens by enabling them to access services from their homes.



We encourage growth and development of our employees and the entire ecosystem

Investment in competence in implementing the 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. Through its actions, cooperation with the universities and the development of its experts, the Group contributes to the competitive development of the Croatian economy in line with the EU's Digital Decade targets.

Various opportunities for growth and development

We have been continuously investing in the development of knowledge, skills and competences of our employees in order to retain and additionally strengthen our position as the leading Croatian exporter of knowledge. We advocate and give our contribution to lifelong learning by offering our employees various opportunities for growth and development. In addition to formal forms of learning, such as courses that take place in classrooms, hybrid or online, we also support informal opportunities for

learning by offering employees to select the content, way and pace of adopting new knowledge and skills according to their own preferences and possibilities. In doing so, we combine our own resources, global corporation services and cooperation with partner educational institutions from public and private sector.

The parent company also has a separate unit for education - Ericsson Nikola Tesla's Education Center which operates as a flexible organization focused on providing a wide range of educational services for the needs of employees, customers, and partners.

We educate future leading experts

Since the largest concentration of experts in the field of software development in Croatia is in our company (almost 1,800 of them), we have an excellent position for accepting new future experts and their career development.

Keeping up with and predicting trends in an extremely dynamic development of industry in which we operate, more than two decades ago we have identified the need for a continuous close cooperation with the academia. We have therefore in 2001, in cooperation with the Faculty of Electrical Engineering and Computing of the University





of Zagreb, initiated Ericsson Nikola Tesla Summer Camp, attended by as close to 900 students since. With the support from mentors from the company and institutions that Ericsson Nikola Tesla cooperates with, the participants of this summer camp have successfully realized hundreds of projects. We have been continuously developing the long-term tradition of cooperating with the universities in Croatia and abroad by cooperating on projects and in academic classes. Our goal is to contribute to the development of top ICT experts by offering them, among other things, the opportunities to test their knowledge in practice by applying the leading technologies for creating digital green solutions that contribute to the development of UN Sustainable Development Goals.

We also pay special attention to the development of managers, who attend the program called newLDP. This is a comprehensive one-year program of developing leaders according to the Ericsson leadership framework management competence model. This program also encompasses various teaching methods (modular courses, coaching and mentoring, e-learning, exchange of knowledge and experience, etc.), with a special focus on being mentored by senior managers and the application of acquired knowledge and skills in the work environment.

We share knowledge with the ecosystem stakeholders

In addition to a developed mentoring system which is an integral part of the

company's new employee onboarding program, where the key role is given to the mentor and line manager, the company's business unit teams play a key role in strengthening our leadership position by continuously transferring knowledge to new colleagues and teams from other units.

As part of the onboarding process, new unit members have theoretical and practical content available that helps them to be involved as fast as possible in everyday activities with the support of colleagues. The content and the process itself have been continuously optimized in line with the requirements of employees and business.

The company's teams from various domains also organize internal programs of education in cooperation with the Education Center, thus directly contributing to the synergy between teams at company and Group level.

The excellence of our experts has been recognized at a global level, and by using their knowledge they have been contributing to global projects of development and implementation of modern technology solutions. Ericsson Nikola Tesla's experts also have a long-term experience in creating innovative ICT solutions for the digital society in the segments of eHealth, eBusiness, IoT solutions, solutions for transport management, and, most recently, eEnvironment. Due to this, they are regular guests at relevant conferences for professionals and transfer valuable knowledge and experience to other stakeholders in the ecosystem.



Individual approach to employee development

Every employee and their line manager agree on the plan for developing business and technical knowledge as well as social skills through a process which is aligned with the business strategy directives and set goals that are a part of annual planning (Individual Performance Management (IPM)). Development goals are also clearly defined, and their realization is continuously being monitored throughout the entire year, in addition to regular managers' feedback.

Facts and figures

Number of employees at Ericsson Nikola Tesla Group

* as at December 31, 2022

Group members	2018	2019	2020	2021	2022
Ericsson Nikola Tesla d.d. – ETK	2,402	2,515	2,571	2,669	2,733
Libratel d.o.o.	33	29	27	61	29
Ericsson Nikola Tesla BH (as of 1 February 2012) – TBA	18	19	19	31	34
Ericsson Nikola Tesla Servisi d.o.o. (as of 1 September 2014) – EHR	711	651	610	701	731
Ericsson Nikola Tesla - Branch office Kosovo – TXK (as of 1 September 2015)	1	1	1	1	2
Ericsson Nikola Tesla – Belarus – TBY (as of 1 January 2017)	9	9	8	8	9
Total Ericsson Nikola Tesla Group	3,174	3,224	3,236	3,471	3,538

Number of new hires in Ericsson Nikola Tesla Group

Group members	2018	2019	2020	2021	2022
Ericsson Nikola Tesla d.d. – ETK	310	240	183	273	254
Libratel d.o.o.	10	14	3	40	13
Ericsson Nikola Tesla BH (as of 1 February 2012) – TBA	4	1	1	12	6
Ericsson Nikola Tesla Servisi d.o.o. (as of 1 September 2014) – EHR	12	18	17	114	79
Ericsson Nikola Tesla - Branch office Kosovo – TXK (as of 1 September 2015)	0	0	0	0	1
Ericsson Nikola Tesla – Belarus – TBY (as of 1 January 2017)	2	0	0	1	1
Total Ericsson Nikola Tesla Group	338	273	204	440	354

Employee turnover at Ericsson Nikola Tesla Group

	2018	2019	2020	2021	2022
Total number of employees	3,173	3,224	3,236	3,471	3,538
The number of new employees per year	338	273	204	440	354
Total % of increase in the number of employees	3.7%	1.6%	0.4%	7.3%	1.9%

Employee turnover at Ericsson Nikola Tesla d.d.

	2018	2019	2020	2021	2022
Total number of employees	2,402	2,515	2,571	2,669	2,733
The number of new employees per year	310	240	183	273	254
Total % of increase in the number of employees	5.9%	4.7%	2.2%	3.8%	2.4%

* as at December 31, 2022

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	131	5%	2	4	12	-	0	18	2%	149	4%
26-35 years old	1,081	40%	15	16	159	1	1	192	24%	1,273	36%
36-45 years old	797	29%	8	7	114	1	2	132	16%	929	26%
46-55 years old	574	21%	1	5	269	-	5	280	35%	854	24%
older than 55	150	5%	3	2	177	-	1	183	23%	333	10%
total	2,733	100%	29	34	731	2	9	805	100%	3,538	100%
- male	1,941	71%	25	24	641	2	5	697	87%	2,638	75%
- female	792	29%	4	10	90	0	4	108	13%	900	25%
average age	39	-	37	30	46	32	49	39	-	39	-
32 years old or younger than 32	944	35%	12	15	102	0	0	129	16%	1,073	30%
average employment duration	10	-	6	13	18	4	15	11	-	11	-
up to two years of work experience	622	23%	5	17	152	1	1	176	22%	798	23%

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	2,348	85.9%	3	28	225	2	9	267	33.2%	2,615	73.9%
College degree and univ. bacc.	277	10.1%	4	4	155	0	0	163	20.2%	440	12.4%
Secondary education	107	3.9%	22	2	305	0	0	329	40.9%	436	12.3%
Highly-skilled workers	0	0.0%	0	0	39	0	0	39	4.8%	39	1.1%
Skilled workers	0	0.0%	0	0	4	0	0	4	0.5%	4	0.1%
other	1	0.0%	0	0	3	0	0	3	0.4%	4	0.1%
total	2,733	100.0%	29	34	731	2	9	805	100.0%	3,538	100.0%

University degree	2,625	96%	7	32	380	2	9	430	53%	3,055	86%
a) PhD	47	-	0	0	1	0	0	1	-	48	-
b) MSc	121	-	0	4	11	0	1	16	-	137	-
Total a) and b)	168	6.1%	0	4	12	0	1	17	2.1%	185	5.2%

Line managers and Program and Project managers of Ericsson Nikola Tesla Group

	Parent company		subsidiaries							Ericsson Nikola Tesla Group	
	ETK	share (in %)	Libratel	TBA	EHR	TXK	TBY	total	share (in %)	total	share (in %)
number of managers	316	-	3	1	43	1	1	49	-	365	-
managers - male	229	-	2	1	37	1	1	42	-	271	-
managers - female	87	28%	1	0	6	0	0	7	14%	94	26%
average manager age	45	-	52	58	43	37	49	49	-	46	-

Occupational injuries and worktime lost

	Ericsson Nikola Tesla d.d.														Ericsson Nikola Tesla Servisi			
	2021						2022								2021		2022	
	Zagreb		Split		Osijek		Zagreb		Split		Osijek		Rijeka					
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Total number of injuries	1	0	0	0	0	0	1	0	0	0	0	0	0	0	4	1	8	0
Work-related injuries	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	1	8	0
Injuries during commuting to/ from work	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0
Major injuries	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	1	4	0
Minor injuries	1	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	4	0
Total worktime lost	0	0	0	0	0	0	189	0	0	0	0	0	0	0	1,184	184	4,120	0

note: M – male; F – female

Explanation of injuries for Ericsson Nikola Tesla Servisi d.o.o.:

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

2022: 8 work-related injuries on site (7 while working on site and 1 injury in traffic during work)

The ratio between the average total annual remuneration for an individual with the highest salary in the company and the total annual remuneration of all employees (without the individual with the highest salary)*

CEO / average everyone else	10
Total annual remuneration (gross 1)** in 2022 CEO / average everyone else	12

* contracted salaries as at 31 December 2022

** including employees who have been employed for the whole year 2022. Includes all payments within a year: salary, overtime, standby, transport, hot-meal, kindergarten fee, a gift for the child, Christmas voucher, Closed Voluntary Pension Fund payments, vacation allowance, advance payment of annual award for all employees (All Employees Award - AEA) 12/2022, variable amount of salary for meeting the set targets (Short-term variable pay – STV) paid in 3/2022, onetime payment in 12/2022





Environmental responsibility



ESG

*Environment
Social
Governance*

Environmental responsibility

Climate change is one of the most important global challenges. Ericsson Nikola Tesla Group continues being focused on rational energy consumption and having a positive impact of technology on the environment, as well as on the operations in the entire value chain.

Environmental Management Policy is an integral part of our Quality, Environmental and Occupational Health and Safety Policy, which is an umbrella document of our integrated system described in the Handbook of the integrated management system of ENT Group. The processes and activities within the environmental management system, together with procedures and other documents of the system define a clearly established scope and sequence of activities, the corresponding responsibilities, authorities and verification methods.

The Group will continue to solve growing demands and expectations of stakeholders related to the company, particularly regarding transparency around the impact of business operations related to climate. In line with the mentioned, this report brings an overview of the Group's activities in the field of sustainability and a presentation and evaluation of work in line with the EU Taxonomy environmental goals where we have recognized our impact. Since ICT industry is not among the sectors with a high risk for the environment, this impact is dominantly present in the area of contribution to climate change mitigation, with the application of the do no significant harm criteria and according to minimum social safeguards and human rights and labor rights.

The company's work on ecological sustainability is divided in the following areas:

- reduction of emissions from the supply chain and own activities;
- improvement of energy efficiency of products and services;
- implementation of circular economy approach when designing products and using materials;
- how can the Group's products and services enable the society and other industries to reduce emissions.

Reduction of emissions from supply chain and own activities

The company's long-term goal to reduce emissions by 50% until 2030 encompasses emissions from the fleet vehicles, the use of business premises, business trips and transport. The Group's goal encompasses emissions from Scope1 and 2, as well as Scope 3, business trips and employee transport (including remote work). By using renewable energy sources, carrying out the energy renewal of office premises and implementing remote work, the Group has already now achieved its target; however, it does not stop there, but wants to get as close as possible to zero emissions by further optimization.

Improving energy efficiency of products and services, with the circular economy principle

The Group's approach in regard to environmental sustainability includes the reduction of the negative impact on the environment in the entire value chain which encompasses everything through circular economy, from design, production and use phase to re-use, return of products and processes at the end of the life cycle. Additionally, solutions and products based on using 5G technology, and in conditions of increased data traffic, achieve significant savings in energy consumption and the volume of the used equipment (proven by breaking the energy curve).

The Group's products and services that enable the society and other industries to reduce emissions

Solutions that Ericsson Nikola Tesla provides in the area of environmental protection and sustainable economic growth enable various industries to monitor, manage and reduce their own environmental footprint and potential negative impacts that the industry can have on the local community,

natural ecosystems and biodiversity in a systematic way. They can also be used by local communities and others.

In 2022, Ericsson Nikola Tesla focused its business and portfolio in the field of environmental protection in three key directions:

a) Developing solutions for monitoring the quality of drinking water in public water supply systems and small private water supplies

As part of the IRI2 WaterQ project, we have entered into the final implementation stage in which our solution is used in real conditions. The platform for monitoring the quality of drinking water has been implemented in three public water supplies (Krk, Sinj and Ploče) and three small private water supplies (Kalinje, Žumberak and Radočaj Brodski). From WaterQ project, ENT will create an IT solution/ product WaterQCity that will allow users to monitor the quality of drinking water in real time, and the company plans to actively promote this product on the market.

Monitoring the quality of drinking water is especially important in the case of small-scale water supplies that are not under continuous monitoring of the county institutes for public health, and where the research showed that almost 30% of water samples are inadequate for drinking. By implementing Ericsson Nikola Tesla's system, both parties will benefit; the local population will receive an overview of certain drinking water parameters in real time (which has not been the case so far), and the county institutes will be able to follow the trend of the selected indicators which enable them a simpler planning of irregular controls and an insight into the quality of drinking water. This solution will significantly impact the quality of life of inhabitants in rural communities by bringing them closer to the quality of utilities available to inhabitants of urban areas.



b) Smart City solutions for a greater quality of city life

For the needs of the town Samobor, Ericsson Nikola Tesla has implemented a noise pollution monitoring system at the Bogumil Toni Elementary School. The monitoring was realized by using the eENVCity software platform. The aim of implementing this system is to ensure a quality environment for the pupils of elementary school and to protect the children from excessive noise. In addition, the system also aims to enable a multimodal use of the school's playground in a way that will not be detrimental to the nearby houses and population.

The mentioned ENT eENVCity platform for monitoring the environment in smart cities enables the monitoring of any environmental parameter, regardless of the sensor type, management of collected data and access to data, and report drafting.

With the implementation of this system on a wider market, the green transition of cities towards sustainable development will be achieved and the citizens' quality of life will increase. With a focus on predictive analytics and advanced technologies, it enables the users to gain an insight into the environmental data that they haven't had so far, and data correlation with other related indicators at local or regional level (for example, the impact of industry, transport or

construction works on the quality of living in a city).

c) Industry footprint in the environment - ESG

Changing the rules and paying more attention to the companies' non-financial reporting with the aim to minimize negative impacts on the environment and the society have proven to be a strong market catalyst that demands customized IT solutions.

Complex demands are greatly simplified by ENT's eENVIndustry platform for monitoring, managing and reporting related to the industry's impact on the environment and the society. In addition to the fact that this software platform enables tracking environmental parameters in real time and structuring data in line with GRI/ESRS regulation, Ericsson Nikola Tesla's platform also enables to cascade reporting goals, as well as central collection and management of these data for all locations where the industry activity takes place. It enables environmental protection managers to perform their activities in a structured way, and to have a firm control over their environmental footprint.

Bearing in mind that production plants and industry plants in general are under great pressure and in the public eye regarding their footprint, and some are fully or partially

in protected areas, the companies must make an additional effort in managing their climate footprint. Owing to the eEnvironment solution, Ericsson Nikola Tesla has positioned itself as a partner in implementing a better management of business processes related to ecosystem preservation and creation, and implementation of operating plans of intervention measures in case of extraordinary and sudden pollution.

Moreover, in line with a greater focus on non-financial reporting and the upcoming regulatory obligations, we believe that our solution can also contribute to the consolidation of relevant data and serve as one of the key inputs for the preparation of the non-financial report (ESG), mainly in water resources management. Collected data can also serve as the foundation to additionally strengthen the cooperation with the local community, consumers and other relevant stakeholders via gamification methods, creation of educational materials and campaigns related to ecosystem health and additionally raise awareness and initiate engagement in the area of natural resources protection.



Climate change mitigation and adaptation



Energy

Energy consumption in 2022 was selected as key material topic due to its clear double materiality. It represents the leading cost and a dominant climate impact in our business activities, and in the conditions of uncontrolled increase of prices and

threatening difficulties in supply, it gained special importance.

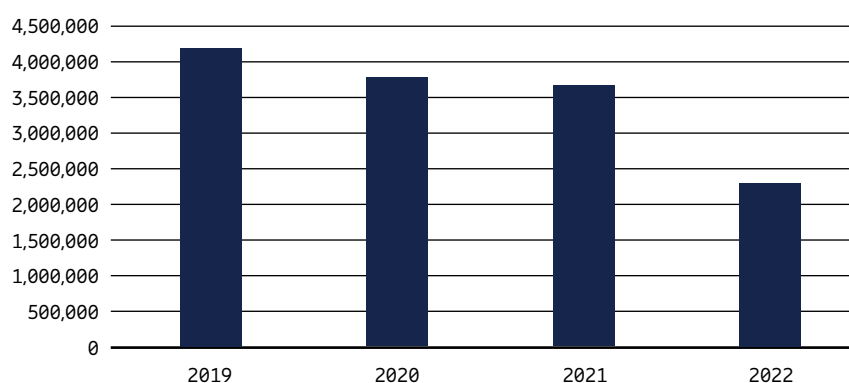
Despite the increase in the number of employees compared to 2021 (this contributed to a slight increase in water consumption, which is, however, still quite low compared to the previous years), by

introducing additional monitoring over significant consumers and by applying technology solutions (for example, using waste heat from server cooling) we have significantly reduced the consumption of steam (37%) and electricity (33%).

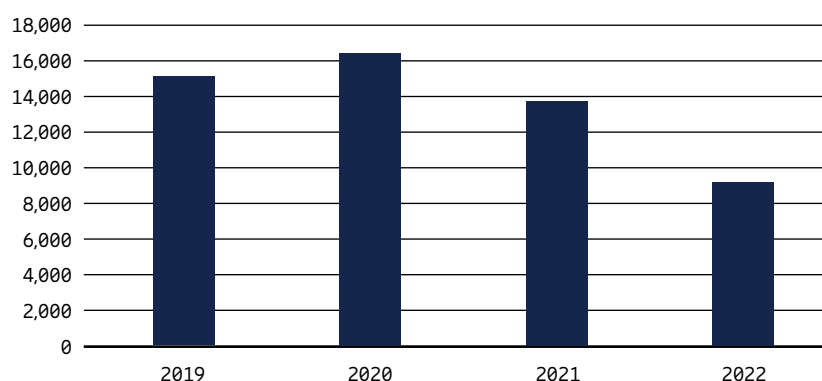
Quantitative indicators of water and energy consumption for the past four years for the Group's location at Krapinska 45 are presented in the following table.

year	water (m ³)	steam (tonnes)	electricity (MWh) including the consumption from lessees	Electricity ENT Group
2019	21,195	6,921	22,467	22,467
2020	17,848	6,214	23,701	23,701
2021	13,990	6,018	22,556	22,556
2022	15,802	3,768	19,466	9,162

Plant steam consumption (kWh)



Electricity consumption (MWh)



Business trips and employees' daily commute

In 2022, many of the Group's employees continued to work remotely due to pandemics, which contributed to a reduction in related emissions from traveling by 2.7 kilotons, and it is estimated that daily commuting accounts for approximately 12% due to working remotely. Although the indicators of emission reduction from traveling compared to 2019 (49%) are more than encouraging, in the upcoming period the Group will focus even more on the reduction of global emissions from remote work and commuting.

Energy performance

Through energy efficiency project, significant funds have been invested in the infrastructure in order to, among other things, manage resources in a more efficient way. The project enabled that the waste heat from server cooling be used for heating the premises and sanitary water and, in addition to the fact that this reduced the consumption of steam for heating the premises, the consumption of water, as our priceless resource, was also reduced.

Main achievements in 2022

(compared to 2019)

- Waste reduced by 40.08%
- Water consumption reduced by 25%
- 21% less consumption of electricity for the office part of business operations
- 48% less consumption of electricity for the production part of business operations (servers and server cooling)
- Realized CO₂ reduction compared to 2021 by more than 1600 t



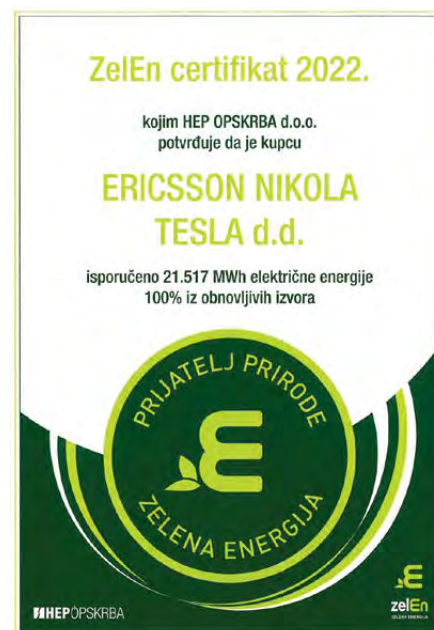
Transition to circular economy



An efficient circular economy for ENT Group is not a compromise, but a prerequisite for a cleaner planet that also justifies financial investments in the long term. An efficient and sustainable use of materials is part of our approach to circular economy. Processes that imply the selection of ecologically acceptable materials, product design, efficient and re-use and efficient recycling are becoming more important for ENT Group's stakeholders.

In line with the applicable laws and the new Ordinance on Waste Management in force as of September 2022, we approach business processes responsibly and continuously improve them with the aim to optimize the amount of created waste, from the process of ordering and selecting ecologically acceptable products, through revision of suppliers in the sense of checking their processes,

to selecting responsible collectors and waste managers. In the last few years we have, therefore, reduced the amount of packaging or replaced it with one that is ecologically more acceptable. In addition to a responsible approach of separating waste, we have additionally, by selecting responsible waste managers (for example, paper and paper and cardboard packaging), selected partners that can fully apply the circular business model in the location where they operate, from collecting packaging waste, production of raw material from the collected waste to production of new packaging and packaging solutions.



Facts and figures

Waste generated at Ericsson Nikola Tesla's location in Zagreb, Krapinska 45, in 2022

Key waste code	Waste name	Amount (in kg)
15 01 01	Paper and cardboard packaging	42,430
20 01 01	Archive	10,450
20 01 02	Flat glass	880
15 01 02	Plastic packaging	14,740
15 01 03	Wooden packaging	14,680
17 04 05	Iron and steel	10,000
20 01 21*	Fluorescent tubes	260
16 02 13*	Electric and electronic waste	11,225
20 03 06	Sewage sludge	5,110
15 01 07	Packaging glass	470
20 01 33	Small batteries	230
16 06 01*	Batteries and accumulators	11,456
Total (kg)		121,931

Pollution prevention and control

In 2022, not a single incident was recorded related to environmental pollution.

In terms of pollution, the greatest risks for the company have been recognized through the identification of environmental aspects. They were then transferred to targets that are monitored through various processes with the aim to reduce the impact on the environment.

As one of the aspects, waste is in continuous company's focus with the primary aim to reduce its creation. Depending on the number of employees on site and the scope of work, the amount of waste per category has been decreasing year after year. Additionally, owing to a consistent approach of separating waste, we have also brought the amount of municipal solid waste to a minimum.

In line with the detected risks in relation to the environment, a new plan of measures due to extraordinary pollutions has been introduced (fuels from generators and vehicles, leakage due to battery rupture, etc.). In line with the plan, training has been carried out to reduce the risks of an unwanted outcome.

Biodiversity

The Group's business activities take place in the premises in urban areas, which means that the impact on biodiversity is limited. Last year no direct negative impact on biodiversity was recorded. Additionally, we control the level of noise when performing daily activities, which we have established as an additional protection measure.

We are included in the project of revitalization of swamp ecosystem of

Hutovo blato, which aims to minimize the impact of the hydro power plant Čapljina on this nature park. According to the 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 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. The implementation of Ericsson Nikola Tesla's eEnvironment platform enabled advanced monitoring and the control of use of hydrological resources thus achieving an indirect impact on the biodiversity protection.

Key responsibilities that help us in achieving our sustainability goals

The development of products, solutions and services while taking into account the life cycle and the perspectives of circular economy - aiming at a high energy efficiency and sustainable materials and design choice

Optimization of processes and application of new technologies to reduce energy consumption in the production cycle

Introducing remote work with the aim to reduce daily commuting

We have been following all the demands of products, guidelines and recommendations that refer to the environment, and we oblige our suppliers to do the same

We have been actively monitoring and reporting about all the risks or incidents with a potentially negative impact on the environment

Key Performance Indicators in line with the EU Taxonomy

Context

Environmental and climate ambitions of the European Green Deal include a proactive contribution of all economic activities and subjects. In this context, the European Union observes information and communications technologies in two aspects: unstoppable growth of this sector (specially in data traffic segment) and its share related to greenhouse gas emissions, as well as the support of this sector to other sectors in achieving sustainable business. As the directive states, these technologies can, as an integral part of other economic activities, enable other sectors to achieve their goals of climate change mitigation, for example with solutions that would be useful to reach decisions on reduction of greenhouse gas emissions. Furthermore, to improve technological and economic sustainability of all sectors, the contribution of research, development and innovations has been recognized.

Determining taxonomy eligible and non-eligible activities of the Ericsson Nikola Tesla Group

When determining taxonomy eligible and non-eligible activities, the National Classification of Activities which is aligned with the statistic classification of economic activities in the EU (NACE) in Annex I and II of the Delegated Regulation 2021/2139:

- ANNEX I

Criteria of technical screening based on which it is determined under which conditions it is considered that an economic activity significantly contributes to climate change mitigation and whether this economic activity causes significant harm to any other environmental objective

- ANNEX II

Criteria of technical screening based on which it is determined under which conditions it is considered that an economic activity

significantly contributes to climate change adaptation and whether this economic activity causes significant harm to any other environmental objective.

We had analyzed our activities according to both annexes and have determined that the majority of our business activities is not covered by the technical screening criteria. Technical criteria for information and communications technology as a sector have not been fully developed yet, which significantly limits the mentioned reporting for our Group.

Furthermore, since the mentioned delegated regulations that contain technical screening criteria for the remaining environmental goals have not yet been adopted, we are publishing only key performance indicators in line with Article 8 of the Taxonomy Regulation for the financial year 2022 in relation to the objectives of mitigation and/or adaptation to climate change, in addition to meeting do no significant harm criteria for other environmental objectives (including also the remaining four objectives), and meeting the minimum safety criteria, as required by the Commission Delegated Regulation (EU) 2021/2139.

Being guided by the principle of concrete, material reporting, we would precisely like to highlight the activities related to climate objectives on the one hand, while on the other hand they meet our own criteria in a way that: they generate or will generate revenue, they correspond to descriptions from Annex I and Annex II and meet technical screening criteria. We submit the report for the following activities, bearing in mind the mentioned approach.

Key Performance Indicators according to Article 8 of the Taxonomy Regulation

In accordance with the Delegated Regulation 2021/2178, we report on shares of revenue,



capital expenditure and operating expenses which are eligible /non-eligible, i.e., aligned/not aligned activities in total consolidated income, capital expenditure and operating expenses.

Accounting policies:

- Revenue = sales revenue
- Capital expenditure (CAPEX): items of property, plant and equipment, costs of replacement of parts of certain items at the moment when they take place, from which economic benefits are expected in the future
- Operating expenses (OPEX): direct expenses of projects and expenses that refer to research and development, measures of operating maintenance of buildings, short-term lease, maintenance and repair and all other direct expenses that refer to everyday maintenance of property, plant and equipment that are presented in consolidated Financial Statements of profit and loss as other business expenses

The description of accounting categories for projects encompassed by taxonomy

- Revenue: For registered projects, revenue includes sales revenue from products and revenue from services.
- Capital expenditure (CAPEX): For registered projects, we have not established related capital expenses for 2022.
- Operating expenses (OPEX): For registered projects, operating expenses include work time on projects, related traveling expenses, expenses of assets depreciation that is used for observed projects and services of external suppliers needed for project execution.

Division of business activities as taxonomy eligible and non-eligible activities

Taxonomy eligible activities	Taxonomy non-eligible
Development of data-driven solutions for GHG emission reductions	Other ICT products and services
Computer programming	

Evaluation of taxonomy eligible activities in line with compliance criteria

	Name of activity in line with Annex I and II of the Delegated Regulation 2021/2139	Description of activity in line with Annex I and II of the Delegated Regulation 2021/2139	Evaluation of compliance
8.2 Annex I	Data-driven solutions for GHG emission reductions	Developing or using ICT solutions that aim to collect, transfer and store data, as well as their modeling and application if these activities mainly refer to data provisioning and analysis that enable the reduction of GHG emissions. These ICT solutions may, among other things, include the application of decentralized technologies (i.e., distributed ledger technologies), Internet of Things, 5G technology and artificial intelligence. The economic activities in this category can be categorized in several NACE codes, especially J61, J62 and J63.11 in line with the statistical classification of economic activities that was established by Regulation (EC) No 1893/2006.	Not aligned – These are solutions for collecting data of various environmental parameters and their more efficient management in the context of protection and consumption of resources, i.e., indirect reduction of harmful emissions.
8.2 Annex II	Computer programming, consultancy and related activities	Expert knowledge in information technology, programming, changing and testing programs and program support; planning and designing computer systems with integrated computer hardware, software and communications technologies; managing on site and operation of client's computer systems, facilities and equipment for data processing; and other expert and technical computer activities. The economic activities in this category can be categorized in NACE code J62 in line with the statistical classification of economic activities that was established by Regulation (EC) No 1893/2006.	Not aligned – Revenue is not included because software development belongs to enabling activities – Current expenses related to this software development do not enable greater resilience to climate change effects

Turnover	Meeting substantial contribution criteria								Meeting do no significant harm criteria																				
	Activity code	2022	%	MHRK	Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Minimum social safeguards	Biodiversity and ecosystems	Taxonomy aligned (%)		Enabling (E) or transitional (T) activity									
2021																		2022											
Yes / No																													
A. Taxonomy eligible activities		5	0																										
Aligned activities																													
-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-									
Total aligned activities		0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	-									
Not aligned activities																													
Data-driven solutions for GHG emission reductions		8.2	5	0																									
Total not aligned activities		5	0																										
Total eligible activities		5	0																										
B. Taxonomy non-eligible activities																													
Non-eligible activities		2,237	100																										
Total turnover (A+B)		2,242	100																										

Note: The percentage is shown as zero, because the values are small.

Capex		Meeting substantial contribution criteria							Meeting do no significant harm criteria											
	Activity code	2022		Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum social safeguards	Taxonomy aligned (%)		Enabling (E) or transitional (T) activity	
		MHRK	%	%						Yes / No							2022	2021		
A. Taxonomy eligible activities		0	0																	
Aligned activities																				
-		0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0	-	
Total aligned activities		0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Not aligned activities		0	0																	
Data-driven solutions for GHG emission reductions		8.2	0	0																
Total not aligned activities		0	0																	
Total eligible activities		0	0																	
B. Taxonomy non-eligible activities																				
Non-eligible activities		16.4	100																	
Total Capex (A+B)		16.4	100																	

Opex	Meeting substantial contribution criteria								Meeting do no significant harm criteria											
	Activity code	2022		Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate Change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum social safeguards	Taxonomy aligned (%)		Enabling (E) or transitional (T) activity	
		MHRK	%														%	2022		2021
A. Taxonomy eligible activities		4.4	0									0					0			
Aligned activities												0					0			
-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total aligned activities		0	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Not aligned activities		4.4	0																	
Data-driven solutions for GHG emission reductions		8.2	4.4	0																
Total not aligned activities		4.4	0																	
Total eligible activities		4.4	0																	
B. Taxonomy non-eligible activities																				
Non-eligible activities		2,148.7	100																	
Total Opex (A+B)		2,153.1	100																	

Note: The percentage is shown as zero, because the values are small.





Social
responsibility



ESG

*Environment
Social
Governance*

A woman with dark hair tied back, wearing a black t-shirt with a Mickey Mouse graphic, is in the foreground. She is wearing a black headset with a microphone and is looking slightly to the left. In the background, another person is visible, also wearing a headset, working at a computer. The setting appears to be a call center or a customer service office.

Social responsibility

In the area of social responsibility, we have remained focused on three main areas that are closely correlated both with the current needs of the society as well as the Company's long-term goals and our comparative advantages. These are education, partnerships for socio-economic development and helping the community. This business decision is in line with our approach of a relevant partner for positive changes in the society, which is how we wish to be perceived and recognized through our actions towards various stakeholders.

Digital inclusion: young people in focus

In 2021, the European Commission adopted a plan for digital transformation of the society and the economy until 2030 titled "Path to the Digital Decade". It states the Union's ambitions in the field of digital skills, digital infrastructure and digitalization of business and public services which have been recognized as a stimulus to the overall development. It contains a frame for management which is based on a yearly mechanism of cooperation with member states in order to achieve the targets of the digital decade by 2030 at the level for the entire Union.

Digital skills are especially important to successfully achieve these targets. Two targets have been defined in this area:

- to increase the share of adults with basic digital skills from current 56% to 80%;
- to raise the number of ICT experts from the current 8.4 million to 20 million.

With a desire to make a concrete contribution to this important socio-economic agenda, Ericsson Nikola Tesla Group has been carrying out concrete programs to increase digital inclusion and ensure a greater representation of STEM professions among young people.

Programs for young people

Despite the fact that IT sector is one of the sectors most in demand in the labor market, adequate interest for the professions that include the skills and knowledge for work in this industry is missing, as do sufficient enrollment quotas in educational programs. Despite the predictions that the accelerated progress of AI will probably erase some of these professions in the fairly near future, it is clear that filling in this deficit will continue to be a challenge due to an overall turn towards the digital sphere.

Learning about the opportunities

For many years we have insisted on a stronger bond between the economy and the academic community. Through synergy between educational institutions and business sector, it is possible to achieve a quality step towards developing knowledge and skills in line with the needs of today's market, and we are therefore present at most STEM faculties and polytechnics.

These events were a mix of providing information to students about a range of jobs our company offers them and educations through various workshops where students, with the assistance of the company's experts, had the opportunity to create concrete solutions.

The already traditional Ericsson Nikola Tesla Summer Camp was held too. In its 21st edition, it connected young people craving technology knowledge with our experts who helped them to convert their ideas from concepts into reality.

Main events

JobFair (FER, Zagreb)

In a competition of more than 130 companies, approximately 20 experts from Ericsson Nikola Tesla from all key business areas presented the company's fields of operations and held workshops.

Dump Days (FESB, Split)

Over the past six years, Dump Days at the Faculty of Electrical Engineering, Mechanical Engineering and Naval

Architecture have grown into one of the most influential and visited IT events. The company participated in Campfire Talks, Fly Talks, and held a demo in the exhibition area.

Career Days at the Polytechnic of Rijeka (VELERI, Rijeka)

Shortly before opening our office in Rijeka, we presented our company at the Polytechnic in Rijeka. As stated by the career center manager, Sandra Debeljak, PhD, Ericsson Nikola Tesla has many positions for which the students of Polytechnic in Rijeka can compete.

Meet The Mathematicians at the Faculty of Science (PMF) in Zagreb

Meet The Mathematicians is a classic speed dating event that has profiled over the years as a recognizable brand.

Visit from students from Zagreb University of Applied Sciences (TVZ)

As part of Mc2 student competition at TVZ, the interested students visited Ericsson Nikola Tesla's Zagreb office where they learned about solutions, products

20+

events for
students

1:1

conversation with
more than 2,000
students

and services which are developed at the company's R&D through a series of lectures.

A Walk Through Careers at the Faculty of Organization and Informatics (FOI) in Varaždin

The Faculty of Organization and Informatics is interesting as their students enter the labor market with a specific knowledge set which brings most benefits to professions that require a mix of development and business.

Career Day at the Faculty of Transport and Traffic Sciences (FPZ)

We participated at FPZ's Career Day for the second time, with a renewed model for our popular Lego Smart City. Various IoT models are demonstrated on the model, with small latency and high speeds of 5G network, and it is especially interesting to students of the Faculty of Transport and Traffic Sciences.

Career Day at the Faculty of Maritime Studies in Rijeka (PFR, Rijeka)

This faculty has, in addition to other courses, quality courses for learning skills of future software developers. Similarly, as at the Polytechnic in Rijeka, the opening of the company's office in Rijeka was also welcomed at the Faculty of Maritime Studies, especially after learning about the range of jobs the company offers and fields in which it operates.

Let's Talk Reboot (FER, Zagreb)

This program is characterized by a special concept: through targeted stories of seniors and juniors, the students learn about everything the company develops and what they can do. The entire concept is based on the classic show & tell approach, due to which the sessions also include a demo on the hardware we work with, and everything happens live.

Open Doors Day and Career Day (FERIT, Osijek)

In terms of STEM faculties, Open Doors Day and Career Day (DOVIK) at the Faculty of Electrical Engineering, Computer Science and Information Technology Osijek is one of the important student jobs fairs. Ericsson

Nikola Tesla has had an office in Osijek since 2018 and has almost a hundred employees and students, mostly from FERIT.

Career Week at the University of Rijeka (UNIRI, Rijeka)

The first UNIRI Career Days at the university campus in Trsat attracted many students as well as companies offering jobs in the Rijeka area.

Workin' in Science (PMF, Zagreb)

At Career Day at PMF, the activities of Digital Society, Customer Solutions and Services and Research and Development Center units were presented.

Career Week at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FSB, Zagreb)

A few colleagues who graduated from Zagreb's FSB work at Ericsson Nikola Tesla Group. Interdisciplinary teams consisting of experts of various profiles enable the desired effect of synergy and thinking outside the box. The experiences of mechanical engineers who work on software development have served to present new possibilities for students from this faculty.

Career Speed Dating (FER, Zagreb)

The popular FER's CSD nurtures the form of targeted eight-minute conversations with students and connects students with employers in a concrete way.

For better representation of girls in STEM

Although there are positive trends, there is still a great need to promote gender equality in IT sector. This can be accomplished through various activities, such as promoting STEM education for girls, supporting women in IT through mentoring and a network of professional contacts by creating a more positive environment for all IT employees. Only through joint efforts of all stakeholders in the industry can we create a more inclusive and fairer workplace for everyone.

In 2022, Ericsson Nikola Tesla joined several initiatives whose direct or indirect goal was gender equality. We would like to highlight the panel titled "Why gender equality is important for STEM", held as part of the Girls own STEM project by the Bioteka association, which won the first place in a global competition of projects at the international STEM competition of the Global Giving foundation in the field of education in 2022.

Hiring students



In addition to all these programs, the company offers students a cooperation through student jobs, support in writing various papers, etc. In the last few years we have, on average, cooperated with approximately 250 students per year, and in 2022 we cooperated with almost 300 students.



Helping the community and partnerships for development

Mutual solidarity, assistance and empathy, as well as helping the community where we live and do business, are an integral part of Ericsson Nikola Tesla Group value system that has a very developed segment of social responsibility. Caring for people is at our focus, therefore in 2022 we carefully monitored what happens in our close environment.

We have invested significant funds to realize various humanitarian actions and initiatives with a valuable aim of helping people affected by war as well as health, social and other challenges. We have also improved solutions for a better inclusion of all citizens in the digital environment.

New speech therapy equipment for quality correction of speech and language therapy

As a leader in innovative ICT solutions through which we impact lives of many people worldwide on a daily basis, we are very much aware of our role and responsibility on the one hand, as well as the importance of quality way of communicating on the other hand. Precisely due to this reason, and on the occasion of 40 years of successful business operations of our office in Split, we donated electroacoustic verbotonal devices to the Center for upbringing and

education "Slava Raškaj" in Split. These devices are used for individual speech therapy and speech development exercises for children with speech and language disorders. These modern technological devices contribute to a faster and more successful rehabilitation of the Center's users aiming to train them to actively participate in community life, as well as their inclusion in further education. The realization of the donation was realized within the corporate partnership of our company with the "RTL helps children" association.

Solidarity with the people of Ukraine

While the first months of 2022 were still marked by the global fight against coronavirus, one event pushed the pandemic into the background. The war in Ukraine, along with great human and material damage, has also created a new humanitarian crisis. In addition to refugee

wave, almost every aspect of normal life of the entire population has been interrupted or hindered. The Group and the employees have participated in providing concrete help since the conflict started. We have responded to UNICEF's call for solidarity with children and families of Ukraine in terms of financial aid for taking care of them, which was also accompanied by a significant financial donation to Croatian Red Cross for the same purpose.

For Zero Hunger societies

Aware of the fact that not everyone has the same opportunities, possibilities and conditions to live a decent life, the Group has once again donated money to buy food for the needs of the users of the Saint Joseph's Church in Zagreb, Center for the Homeless of the association Most in Split, Caritas soup kitchen in Osijek, and Duga charity association in Vukovar. This action is also regularly accompanied by individual help from the employees themselves to various institutions and associations.

Together for mental health of children and young people

Wearing the same T-shirts, on thousands of trails, our employees took part in Milky Way for a single common goal – improving the care for mental health of children and young people in Croatia and have achieved an excellent result as one of the three best teams of this year's race. This is UNICEF's humanitarian race that became an important platform for raising awareness and gathering resources for key investments for children's welfare through UNICEF programs in Croatia, and in which Ericsson Nikola Tesla's employees participated for the fourth consecutive year. The achievement of our





Milky Way

team members contributed to implementing mental health support programs for children and pupils at schools "Help us to", carried out by the Croatian Institute of Public Health, with the support of Education and Teacher Training Agency.

Drops that mean life

Organized by Ericsson Nikola Tesla, Red Cross, and Institute for Transfusion

Medicine, at the company's location in Zagreb, in 2022 the voluntary blood donation events were successfully organized twice. By voluntarily donating blood, for many years our employees have been showing solidarity and the desire to help by giving complete strangers a new opportunity to get treatment and a quality life.

Better engagement of citizens in the modern digital environment

Ericsson Nikola Tesla Virtual Assistant (EVA) is an app developed with the aim to make life easier for persons who are visually impaired or have difficulties using modern technologies. This is an app that was fully developed at Ericsson Nikola Tesla and that makes it much easier for persons who are visually impaired, have additional motor activity impairment or difficulties in using modern technologies to use smart phones. This is the only app in our market that "understands" Croatian, is free, and is available for Android and iOS. In addition to making life easier, EVA also enables a better inclusion of all citizens in the modern digital environment. The first version of EVA was put into production at the end of 2018, and with the desire to offer better solutions and the best user experience to users, throughout the years the app was updated with various options. A new, improved

version of this app was put into operation in 2022.

By developing EVA, experts from Ericsson Nikola Tesla have once again showed the way in which they positively impact people's lives and transform them. With their solution they made people's lives easier and improved the everyday life of persons who until now did not have the option to individually use the advantages offered by the modern technology.

Smart school

In cooperation with the Rikard Katalinić Jeretov elementary school, Ericsson Nikola Tesla has been carrying out a "Smart School" program. The program aims to educate pupils and raise their awareness about the application of new technologies in smart homes and schools, as well as to promote energy efficiency. As part of the project, Insulae platform was installed in the school with the aim to optimize energy consumption, understand and use the monitoring system and manage electrical devices at the school and apply the analysis of collected data, their interpretation and visualization.



Donating blood

ANALIZA

DESIGN

D C

TEST

PACK

WSMD-21935
MOEDB

WSMD-21935
SIPHOT
AMC
DC1

WSMD-21935
SIPHOT
AMC
DC2

WSMD-21935
SIPCO
design

WSMD-21935
SIPCO
DC1

WSMD-21935
SIPHOT
PC
design

WSMD-21935
SIPHOT
PC
DC1

AMC1
IVLRP
Des

AMC2
MAUTH
Des

AKS
MABE
Des
UK
MTA

EVENT
GTRP

HY24535
GTPH
MSCABM
SCATS-2487

LAHS



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

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Statement on the application of the Code of Corporate Governance

Ericsson Nikola Tesla d.d. was among the first companies in Croatia to adopt its own Code of Corporate Governance (in April 2005), based on the legislation of the Republic of Croatia and the recommendations published in OECD Corporate Governance Working Papers.

These principles clearly describe and define the rights and obligations of the Management Board, Supervisory Board and shareholders (<https://www.ericsson.hr/en/corporate-governance>).

The company also applies the Corporate Governance Code, 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, whose application is currently not practical for the company, are listed in the Annual Questionnaire on Compliance with the Corporate Governance Code, which was approved by the company's Supervisory Board. The Questionnaire is available on the ZSE and the company's website.

Deviations from the Corporate Governance Code are as follows:

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

The role of the nomination committee

The Supervisory Board does not have an established nomination committee; the implementation of these activities is ensured by the Chairman of the Supervisory Board 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 Supervisory Board of the Company has five members, of which two members were elected on the proposal of the largest shareholder, one member is an employee representative, and the remaining two members are independent.

Committees of the Supervisory Board

The Supervisory Board has an established Audit Committee; however, it does not have nomination committee and remuneration committee. Due to more efficient work and the fact that the Management Board has one member, the tasks of the nomination committee and remuneration committee are carried out by the Chairperson 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. Furthermore, in order to secure additional transparency when reaching certain important decisions, the following committees have been established: Risk and Compliance Board, Investment Board, Innovation Steering Committee, Technology Management Board, Group's Digital Transformation Program Board, Steering Committee for Real Estate.

Management Board duties

Since the Management Board consists of one member, the responsibilities and the way of working of the Company's Managing Director are prescribed by the Company's Articles of Association, Code of Corporate Governance of Ericsson Nikola Tesla, and the Governance Model of Ericsson Nikola Tesla Group.

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 may not dispose of the shares it was attributed as part of the remuneration policy for at least a year since the date on which the shares were awarded. Share options are not part of the package of the Management Board remuneration, therefore, there is no defined period during which the Management Board should not exercise these options from the date of grant. The Remuneration Policy does not include the provisions that will specify in more detail the circumstances in which part of the Management Board member remuneration would be withheld or recovered.

Awards and recognitions

2022



Ericsson Nikola Tesla wins "Hrvoje Požar" award

At the annual "Hrvoje Požar" award ceremony of the Croatian Energy Association and "Hrvoje Požar" Foundation, Ericsson Nikola Tesla received the annual award in the category for the Realized Project of Rational Energy Management for the project "Increasing energy efficiency and using renewable energy sources at Ericsson Nikola Tesla d.d.". Due to this project realization, it is expected that Ericsson Nikola Tesla campus will annually enjoy energy savings of 4.6 million kWh, with CO2 emissions reduced by 1400 t.

Ericsson Nikola Tesla wins Croatian Index of Sustainability award

At the 14th Sustainable Development Conference, the most successful Croatian companies in this area were awarded with the Croatian Index of Sustainability (HRIO) Awards, and Ericsson Nikola Tesla was awarded in the category Sustainable Corporate Governance.



ECO Lider Invest recognition for the investment in the new Data Center

In 2016, business weekly Lider launched the Lider Invest project within which the best production investments in Croatia are awarded. Ericsson Nikola Tesla received the ECO Lider Invest recognition for the investment in the new Data Center.

Gloria Business Talks award for the most successful company in the category IT&Tech led by a woman

In cooperation with the Financial Agency (FINA), Gloria magazine has awarded the most successful women of Croatian business across various industries and most successful companies from different industries managed by women. Ericsson Nikola Tesla received the award in the IT&Tech category, based on its 2021 business results.



Recognition for the best compliance with the Code of Corporate Governance

At the conference "Corporate Governance in Croatia – Sustainability and Trust in Challenging Times", Ericsson Nikola Tesla received the award for the best compliance with the Code of Corporate Governance among the issuers on the Regular Market of the Zagreb Stock Exchange, according to 2021 indicators.

Ericsson Nikola Tesla receives award for building public trust

At the Zagreb Stock Exchange award ceremony, Ericsson Nikola Tesla received the "Building Public Trust Award" for the most transparent reporting, which is awarded by PwC Croatia in cooperation with the Zagreb Stock Exchange.



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	2022 achievement
Realize projects and solutions for customers related to achieving Sustainable Development Goals (SDGs)	<p>Three cases were implemented in the Industry & Society segment:</p> <p>Small-scale water supplies</p> <p>The project WaterQ IRI2 which deals with risks and estimation of impacts of drinking water on people's health, has entered into its final implementation stage, i.e. experimental development. In the project's final stage, the entire system is installed (WaterQ sensor, platform and mobile app) on pilot locations in public water supplies (Water Supply Krk, Sinj and Ploče) and small-scale water supplies. It is especially important to highlight the pilot locations in small-scale water supplies Kalinje, Žumberak and Radočaj Brodski. These are rural communities that, due to inaccessibility of the public water supply infrastructure, have developed their own system of drinking water distribution. The problem of this type of infrastructure is that this is a private infrastructure that is not under the jurisdiction of the Croatian Institute for Public Health and adequate regular tests are not performed, while at the same time the analyses show that as many as 37% of all the samples show microbiological contamination. It is estimated that in the Republic of Croatia, approximately 54,000 people drink this kind of water, while at the EU level, this figure increases up to as many as 65 million. By implementing our system in such rural communities, Ericsson Nikola Tesla ensures the population an insight into the quality of drinking water and enables them to share data with the public health institutions, whereby the local community gains an equal access to drinking water as the rest of Croatia's population living in more developed parts of the country. Primarily, the risks related to outdated infrastructure, inadequate sanitation protection and vulnerability to meteorological conditions (heavy rainfall) are solved.</p> <p>National access point for multimodal information in transport</p> <p>In cooperation with our partner Realis, we implemented a project for Hrvatske ceste that establishes a National access point for multimodal information in transport as well as develops a route guide as part of the provision of multimodal information services in transport. EU Member States are establishing their national access points in order to make it easier to access, enable a simple exchange and reuse of traffic-related data. The application of such information and communication technologies in traffic significantly changes the overall traffic system, offers many benefits for the society and economy, and has a potential to reduce traffic's negative impact on the environment.</p> <p>ENT Smart Energy app</p> <p>It was recognized as an optimal system for collecting, processing and visualization of sensor data for monitoring environmental, energy and climate conditions on school premises, as well as an educational tool with the purpose of raising ecological awareness and energy literacy of elementary school children. In 2022, ten schools from Gorski Kotar area participated in the project. In addition, several educational workshops were held for teachers and pupils with the aim of introducing the solution's functionalities to the users and raising awareness about the benefits of applying smart solutions with the purpose of systemic energy management.</p>
Climate actions: Until 2030, cut our own emission of CO ₂ in half (absolute amount) as compared to 2019.	Despite a larger number of employees on locations and more business travels compared to 2021, by optimizing business processes and introducing new technologies and measuring in 2022, we have reduced the electrical energy consumption by 33%, and technological vapors by 37%, which contributed to the reduction of CO ₂ emissions by more than 1600 t.



Risk mitigation objectives

Long-term objective	2022 achievement
<p>Responsible sourcing:</p> <ul style="list-style-type: none"> – 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). Audits without findings will be treated as one closed finding 	<p>100% achievement</p>
<p>Compliance program</p>	<p>100% of active employees completed the courses regarding anti-corruption, data protection, security and health protection.</p> <p>For more than 400 employees who could be exposed to risks due to their roles in the Group, an advanced education titled "Fair market competition, anti-corruption and public procurement" was held.</p> <p>New Bylaws on Internal Reporting of Irregularities were passed, Persons of Confidence and their Deputies were elected for three companies of ENT Group (Ericsson Nikola Tesla d.d., Ericsson Nikola Tesla Servisi d.o.o. and Libratel d.o.o.). In this way, the possibilities and the channels to report irregularities were significantly improved, with additional protection of the person reporting, in line with the new Whistleblower Act.</p>
<p>Occupational Health and Safety (OHS)</p> <ol style="list-style-type: none"> 1. OHS-related audits: internal audits, supplier audits, field worker audits / 20 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 / All employees 3. OHS Newsletter / twice a year 4. OHS team meetings / four times a year 5. Workshops and lectures for employees regarding OHS (working in an ergonomic manner, working from home, health care topics, etc.) / 4 workshops and/or lectures 6. Education of persons for providing first aid at locations in Zagreb, Split, Osijek and Rijeka / 15 employees 7. Improving the OHS system by introducing new tools 	<p>20 occupational health and safety audits were carried out at various locations in the company and at the suppliers' locations.</p> <p>Instructions and forms were updated and published on the intranet, the information was presented in the OHS newsletter, and in this way the OHS incident reporting process was explained to all employees in detail.</p> <p>OHS Newsletter was started, and the employees also received information about novelties and current topics regarding OHS via Infobox.</p> <p>Three OHS team meetings were held, as well as three meetings of the Occupational Health and Safety Committee.</p> <p>Three My Health lectures were held within the PrevENTION program, as well as two online training cycles (functional training and yoga) where employees could exercise with trainers. Furthermore, a group excursion to Sljeme was organized as part of the Move Your Body module.</p> <p>Due to organizational changes, the goal was transferred to the next year.</p> <p>New OHS tool to manage the occupational health and safety system has been developed and implemented within the Digital transformation program.</p>

The Ten Principles of the UN Global Compact

UN Global Compact is a United Nations 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	48, 52, 60, 61, 64, 70, 78
2.	make sure that they are not complicit in human rights abuses.	48, 52, 60, 61, 64, 70, 72, 78
Labor		
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	60, 72
4.	the elimination of all forms of forced and compulsory labor;	60, 64
5.	the effective abolition of child labor; and	60
6.	the elimination of discrimination in respect to employment and occupation.	60, 78
Environment		
7.	Businesses should support a precautionary approach to environmental challenges;	86, 87, 88, 89, 90
8.	undertake initiatives to promote greater environmental responsibility; and	88, 89
9.	encourage the development and diffusion of environmentally friendly technologies.	86, 87, 88, 89, 90
Anti-Corruption		
10.	Businesses should work against corruption in all its forms, including extortion and bribery.	64, 68

GRI index

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

GRI	Topic-specific disclosures	reference
General Disclosures (GRI 102)		
102-1	Name of the organization	6
102-2	Activities, brands, products, and services	16
102-3	Location of headquarters	6
102-4	Location of operations	6
102-5	Ownership and legal form	6, 31
102-6	Markets served	16
102-7	Scale of the organization	6
102-8	Information on employees and other workers	72, 81
102-9	Supply chain	64
102-10	Significant changes to the organization and its supply chain	64
102-11	Precautionary Principle of approach	48
102-12	External initiatives	26
102-13	Membership of associations	26
Strategy		
102-14	Statement from senior decision-maker	9
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	12
102-17	Mechanisms for advice and concerns about ethics	48
Governance		
102-18	Governance structure	52
Stakeholder engagement		
102-40	List of stakeholder groups	42
102-41	Collective bargaining agreements	72
102-42	Identifying and selecting stakeholders	42
102-43	Approach to stakeholder engagement	40
102-44	Key topics and concerns raised	40
Reporting practice		
102-45	Entities included in the consolidated financial statements	6
102-46	Defining report content and topic boundaries	36
102-47	List of material topics	45
102-48	Restatements of information	37
102-49	Changes in reporting	36
102-50	Reporting period	36
102-51	Date of most recent report	36
102-52	Reporting cycle	36
102-53	Contact point for questions regarding the report	104
102-54	Claims of reporting in accordance with the GRI Standards	37
102-55	GRI content index	111
102-56	External assurance	36
Economic		
Economic performance (GRI 201)		
201-1	Direct economic value generated and distributed	online
201-2	Financial implications and other risks and opportunities due to climate change	online
201-3	Defined benefit plan obligations and other retirement plans	online
201-4	Financial assistance received from government	online

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

GRI	Topic-specific disclosures	reference
Market Presence (GRI 202)		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	82
202-2	Proportion of senior management hired from the local community	82
Indirect Economic Impacts (GRI 203)		
203-1	Infrastructure investment and services supported	100
203-2	Significant indirect economic impacts	100-101
Procurement Practices (GRI 204)		
204-1	Proportion on spending on local suppliers	67
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
Anti-competitive Behavior (GRI 206)		
206	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	N/A
Environment		
Materials (GRI 301)		
301-1	Materials used by weight or volume	N/A
301-2	Recycled input materials used	89
301-3	Reclaimed products and their packaging materials	89
Energy (GRI 302)		
302-1	Energy consumption within the organization	88
302-2	Energy consumption outside the organization	N/A
302-3	Energy intensity	N/A
302-4	Reduction of energy consumption	88
302-5	Reductions in energy requirements of products and services	88
Water (GRI 303)		
303-1	Water withdrawal by source	N/A
303-2	Water sources significantly affected by withdrawal of water	N/A
303-3	Water recycled and reused	N/A
Biodiversity (GRI 304)		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A
304-2	Significant impacts of activities, products, and services on biodiversity	88
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	86, online
305-2	Energy indirect (Scope 2) GHG emissions	86, online
305-3	Other indirect (Scope 3) GHG emissions	online
305-4	GHG emissions intensity	86
305-5	Reduction of GHG emissions	86
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	88

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

GRI	Topic-specific disclosures	reference
306-2	Waste by type and disposal method	89
306-3	Significant spills	89
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	86
Supplier Environmental Assessment		
308-1	New suppliers that were screened using environmental criteria	89
308-2	Negative environmental impacts in the supply chain and actions taken	89
Social		
Employment (GRI 401)		
401-1	New employee hires and employee turnover	72
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	73 (and 74)
401-3	Parental leave	75
Labor/Management Relations (GRI 402)		
402-1	Minimum notice periods regarding operational changes	70
Occupational Health and Safety		
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	83
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	80, N/A, 81
404-2	Programs for upgrading employee skills and transition assistance programs	73
404-3	Percentage of employees receiving regular performance and career development reviews	73
Diversity and Equal Opportunity		
405-1	Diversity of governance bodies and employees	72, 78
405-2	Ratio of basic salary and remuneration of women to men	72
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	64
Child Labor		
408-1	Operations and suppliers at significant risk for incidents of child labor	60
Forced or Compulsory Labor		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	60
Security Practices		
410-1	Security personnel trained in human rights policies or procedures	68
Rights of Indigenous Peoples		
411-1	Incidents of violations involving rights of indigenous peoples	N/A
Human Rights Assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	60

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

GRI	Topic-specific disclosures	reference
412-2	Employee training on human rights policies or procedures	49
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	48, 60
Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	97-101
Supplier Social Assessment		
414-1	New suppliers that were screened using social criteria	64
414-2	Negative social impacts in the supply chain and actions taken	64
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	88
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	88
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	63
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	N/A



Annual report 2022
Ericsson Nikola Tesla Group



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 four 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 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 2022 and up to the release of these consolidated statements were:

Franck Pierre Roland Bouétard	Chairman	Reappointed on 27 June 2022
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, member until 1 January 2023
Ana Vrsaljko Metelko	Member	Appointed on 29 June 2021
Petar Šimundža	Member and employees' representative	Appointed on 29 November 2022
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018, member until 29 November 2022

Ericsson Nikola Tesla Grupa

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

Audit Committee

The Audit Committee members during 2022 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, member until 1 January 2023
Vesna Vašiček	Member	Appointed on 21 February 2017

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 2022, the executive management comprised:

Gordana Kovačević	Company President
Antonija Lončar	Director, Marketing, Communications & Corporate Social Responsibility
Branka Vučemilo Elezović	Director, Legal
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Finance, Sourcing and Commercial Management
Darko Huljenić	Director, Research
Drago Holub	Director, R&D Center
Goran Ožbolt	Director, General Services
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 Operators segment
Milan Živković	Director, Strategy and Business Development & GIR
Miroslav Kantolić	Director, Sales and Marketing for A1 Croatia
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

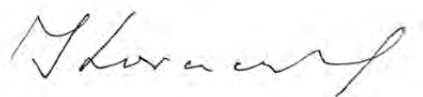
Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual consolidated financial statements

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 21 April 2023 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 2022, 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 2022 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 2022: HRK 2,242,084 thousand (2021: HRK 2,203,897 thousand). As at 31 December 2022: trade accounts receivable: HRK 228,220 thousand; contract liabilities: HRK 192,240 thousand (31 December 2021: trade accounts receivable: HRK 201,473 thousand; contract liabilities: HRK 289,976 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

In the year ended 31 December 2022, 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.

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:

- 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;

How our audit addressed the matter

Our audit procedures in this area included, among others:

- 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:
 - 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 27 June 2022 to audit the consolidated financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2022. Our total uninterrupted period of engagement is four years, covering the year ended 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 21 April 2023;
- 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 a conclusion on compliance of the consolidated financial statements of the Group as at and for the year ended 31 December 2022, as included in the attached electronic file *FI-ERNT-2022-1Y-Revidirano-Konsolidirano-EN*, 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 conclusion, based on evidence obtained, as to whether the consolidated financial statements comply, in all material respects, with the RTS on ESEF. 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.

Work performed

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. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

In respect of the subject matter, we have performed the following procedures:

- 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)

Work performed (continued)

- evaluating the appropriateness of the 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 conclusion.

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the consolidated financial statements of the Group as at and for the year ended 31 December 2022 presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Our conclusion does not represent an opinion on the true and fair view of the financial statements as this is included in our Report on the Audit of the Financial Statements.

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
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Ivana Lučića 2a, 10000 Zagreb

24 April 2023

Ericsson Nikola Tesla Group

Consolidated statement of comprehensive income

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Sales revenue	5, 6	2,242,084	2,203,897
Cost of sales	7	(2,058,312)	(1,949,570)
Gross profit		183,772	254,327
Selling expenses	7	(43,195)	(42,455)
Administrative expenses	7	(51,861)	(50,290)
Other operating income	7	40,104	26,000
Impairment loss on financial assets		(333)	(1,158)
Operating profit		128,487	186,424
Finance income	9	7,275	9,566
Finance expense	9	(3,505)	(1,802)
Finance income/(expense), net	9	3,770	7,764
Profit before tax		132,257	194,188
Income tax	10	(13,087)	(16,840)
Profit for the year		119,170	177,348
Other comprehensive income			
Currency translation differences		375	(115)
Total comprehensive income for the year		119,545	177,233
Earnings per share (HRK)	11	90	133

Ericsson Nikola Tesla Group

Consolidated statement of financial position

as at 31 December 2022

Assets	Notes	2022	2021
		HRK '000	HRK '000
Non-current assets			
Property, plant and equipment	12	121,256	134,198
Right of use assets	28	44,644	52,087
Intangible assets	13	4,854	5,257
Loans and receivables	14	15,768	21,928
Deferred tax assets	10	24,013	15,606
Total non-current assets		210,535	229,076
Current assets			
Inventories	15	99,648	142,852
Trade receivables	16	228,220	201,473
Receivables from related parties	29 (c)	134,748	76,808
Other receivables	17	15,650	35,994
Income tax receivables		50	181
Prepayments		8,811	6,787
Financial assets at fair value through profit or loss	18	31,074	32,997
Cash and cash equivalents	19	526,448	477,487
Total current assets		1,044,649	974,579
Total assets		1,255,184	1,203,655

Ericsson Nikola Tesla Group

Consolidated statement of financial position (continued)

as at 31 December 2022

		2022	2021
Equity and liabilities	Notes	HRK '000	HRK '000
Equity			
Share capital	20 (a)	133,165	133,165
Treasury shares	20 (b)	(17,090)	(12,421)
Legal reserves	20 (c)	6,658	6,658
Reserve for treasury shares	20 (d)	40,331	36,512
Reserve of currency conversion		(21)	(396)
Retained earnings		272,556	240,524
Total equity		435,599	404,042
Non-current liabilities			
Borrowings	21	1,621	17,031
Lease liabilities	28	27,901	33,674
Other non-current liabilities	22	4	446
Employee benefits	23 (a)	8,311	8,597
Total non-current liabilities		37,837	59,748
Current liabilities			
Payables to related parties	29 (c)	52,739	12,628
Borrowings	21	14,134	14,134
Trade and other payables	24	319,353	253,501
Income tax payable		4,224	16,806
Provisions	25	15,949	13,601
Accrued charges and deferred revenue	26	166,203	120,483
Contract liabilities	27	192,240	289,976
Lease liabilities	28	16,906	18,736
Total current liabilities		781,748	739,865
Total liabilities		819,585	799,613
Total equity and liabilities		1,255,184	1,203,655

Ericsson Nikola Tesla Group

Consolidated statement of changes in equity

for the year ended 31 December 2022

	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 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
As at 1 January 2022	133,165	(12,421)	6,658	36,512	(396)	240,524	404,042
Changes in equity for 2022							
Total comprehensive income	-	-	-	-	375	119,170	119,545
Dividend distribution for 2021, Note 20 (e)	-	-	-	-	-	(84,649)	(84,649)
Purchase of treasury shares, Note 20 (b)	-	(10,850)	-	-	-	-	(10,850)
Shares granted, Note 23 (b)	-	6,181	-	(6,181)	-	-	-
Transfer	-	-	-	10,000	-	(10,000)	-
Share-based payments, Note 23 (b)	-	-	-	-	-	7,511	7,511
Total contributions by and distributions to owners of the parent recognized directly in equity	-	(4,669)	-	3,819	-	(87,138)	(87,988)
As at 31 December 2022	133,165	(17,090)	6,658	40,331	(21)	272,556	435,599

Ericsson Nikola Tesla Group

Consolidated statement of cash flows

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Cash flows from operating activities			
Profit before tax		132,257	194,188
Adjustments for:			
Depreciation and amortization	7, 12, 13, 28	49,183	57,096
Effects of lease derecognition		-	(19)
Impairment losses and reversals		(1,761)	760
Gain on sale of property, plant and equipment		(638)	(68)
Net loss/(gain) on remeasurement of financial assets		1,923	(121)
Amortization of discount		1	52
Interest income		(3,141)	(3,739)
Interest expense		1,870	1,728
Foreign exchange (gain)/losses, net		(649)	(4,806)
Share-based payments	23 (b)	7,511	4,404
Changes in working capital:			
In receivables		(49,108)	9,841
In inventories		44,534	(58,162)
In provisions		2,061	(1,903)
In payables		36,901	177,205
Cash generated from operations		220,944	376,456
Interest paid		(1,667)	(1,991)
Income taxes paid		(32,319)	(4,518)
Net cash from operating activities		186,958	369,947
Cash flows from investing activities			
Interest received		3,430	2,835
Dividends received		-	59
Proceeds from sale of property, plant and equipment		884	108
Purchases of property, plant and equipment, and intangible assets		(14,805)	(17,544)
Deposits given to financial institutions, net		12,901	(1,236)
Receipt of government grant		-	1,324
Net cash from/(used in) investing activities		2,410	(14,454)

Ericsson Nikola Tesla Group

Consolidated statement of cash flows (continued)

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Cash flows from financing activities			
Repayment of borrowings	21	(26,189)	(14,831)
Purchase of treasury shares	20 (b)	(10,850)	(14,307)
Dividends paid	20 (e)	(84,751)	(109,166)
Payment of lease liabilities	28	(19,387)	(22,807)
Net cash used in financing activities		<u>(141,177)</u>	<u>(161,111)</u>
Effects of exchange rate changes on cash and cash equivalents		770	2,049
Net increase/(decrease) in cash and cash equivalents		<u>48,961</u>	<u>196,431</u>
Cash and cash equivalents at the beginning of the year		477,487	281,056
Cash and cash equivalents at the end of the year	19	<u>526,448</u>	<u>477,487</u>



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 2022 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 are recognised as other income in profit or loss when the right to receive payment 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 2022 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

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group is currently evaluating the effects of these amendments, but does not expect that the amendment will have an effect on the Group's retained earnings.

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.



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)

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

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

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

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

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

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:

	2022			2021		
	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	368,210	345,054	23,156	376,017	318,982	57,035
Sales revenue from services	1,873,874	1,686,025	187,849	1,827,880	1,519,241	308,639
	<u>2,242,084</u>	<u>2,031,079</u>	<u>211,005</u>	<u>2,203,897</u>	<u>1,838,223</u>	<u>365,674</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.

	2022			2021		
	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	970,679	833,440	137,239	1,051,212	748,133	303,079
Sales revenue in CIS countries	104,282	73,645	30,637	121,100	97,831	23,269
Sales revenue to Ericsson	1,024,142	1,024,142	-	899,522	899,522	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	130,645	92,214	38,431	108,968	72,785	36,183
Other export sales revenue	12,336	7,638	4,698	23,095	19,952	3,143
	<u>2,242,084</u>	<u>2,031,079</u>	<u>211,005</u>	<u>2,203,897</u>	<u>1,838,223</u>	<u>365,674</u>

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Sales revenue	1,036,961	957,335	646,038	582,007	555,783	658,841	3,302	5,714	-	-	2,282,084	2,203,897
Timing of revenue recognition:												
At a point in time	943,879	837,724	564,239	518,112	519,659	476,673	3,302	5,714	-	-	2,031,079	1,838,223
Over time	93,082	119,611	81,640	63,895	36,283	182,168	-	-	-	-	211,005	365,674
Operating profit	<u>122,901</u>	<u>99,615</u>	<u>10,343</u>	<u>61,774</u>	<u>46,942</u>	<u>74,872</u>	<u>162</u>	<u>453</u>	<u>(51,861)</u>	<u>(50,290)</u>	<u>128,487</u>	<u>186,424</u>
Finance income/ (expense), net											<u>3,770</u>	<u>7,764</u>
Profit before tax											<u>132,257</u>	<u>194,188</u>
Income tax											<u>(13,087)</u>	<u>(16,840)</u>
Profit for the year											<u>119,170</u>	<u>177,348</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:

	2022	2021
	HRK '000	HRK '000
Changes in contract work in progress (Note 15)	57,571	(39,371)
Material and external services ⁽¹⁾	946,309	1,008,483
Personnel expenses (Note 8)	1,100,305	1,014,203
Depreciation and amortization (Notes 12, 13, 28)	49,183	57,096
Value adjustments	-	1,904
	<u>2,153,368</u>	<u>2,042,315</u>

⁽¹⁾ Including fees to auditors of HRK 689 thousand (2021: HRK 602 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 30,596 thousand (2021: HRK 15,336 thousand) and other in total amount of HRK 9,508 thousand (2021: HRK 10,664 thousand).

8 Personnel expenses

	2022	2021
	HRK '000	HRK '000
Net salaries	624,605	580,745
Taxes and contributions	386,383	366,779
Other payroll-related costs	81,806	62,275
Equity-settled transactions (Note 23 (b))	7,511	4,404
	<u>1,100,305</u>	<u>1,014,203</u>

Personnel expenses include HRK 167,923 thousand (2021: HRK 158,659 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 1,695 thousand (2021: HRK 5,471 thousand), and to transportation expenses and vacation accrual cost.

As at 31 December 2022, the total number of employees was 3,541 (2021: 3,471).



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

9 Finance income/(expense), net

	2022	2021
	HRK '000	HRK '000
Interest income	3,141	3,739
Net foreign exchange gain	4,134	5,706
Net change in fair value of financial assets at fair value through profit and loss	-	121
Finance income	7,275	9,566
Interest expense	(1,581)	(1,751)
Net change in fair value of financial assets at fair value through profit and loss	(1,923)	-
Amortisation of discount	(1)	(51)
Finance expense	(3,505)	(1,802)
Finance income/(expense), net	3,770	7,764

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:

	2022	2021
	HRK '000	HRK '000
Current income tax expense	(21.494)	(22.905)
Total deferred tax income/(expense)	8.407	6.065
Total income tax expense	(13.087)	(16.840)

Deferred tax from tax losses

As at 31 December the Group did not recognize deferred income tax assets of HRK 313 thousand (2021: HRK 100 thousand) in respect of cumulative tax losses amounting to HRK 1.757 thousand (2021: HRK 553 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:

	2022	2021
	HRK '000	HRK '000
Tax loss for 2021 – expires 31 December 2026	553	553
Tax loss for 2022 – expires 31 December 2027	1,204	-
	<u>1,757</u>	<u>553</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:

	2022	2021
	HRK '000	HRK '000
Profit before tax	132,257	194,188
Tax calculated at domestic tax rates applicable to profits in the respective countries	34,055	34,609
Tax effects of:		
Permanent non-deductible expenses	(5,565)	128
Effects of temporary differences	31	(227)
Tax incentives	(15,434)	(17,670)
Tax charge	<u>13,087</u>	<u>16,840</u>
Effective tax rate	<u>9,9%</u>	<u>8,7 %</u>

Tax incentives totaling HRK 15,434 thousand (2021: HRK 17,670 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 24,013 thousand (2021: HRK 15,606 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 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
As at 1 January 2022	15,606
Tax credited to the Income statement	11,230
Tax charged to the Income statement	(2,823)
As at 31 December 2022	24,013

11 Earnings per share

	2022	2021
Profit for the year (HRK '000)	119,170	177,348
Weighted Average Number of Shares Outstanding at the year-end	1,323,376	1,330,723
Earnings per share (HRK)	90	133

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



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

12 Property, plant and equipment

	Land and buildings	Plant and equipment	Asset under construction	Other	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2021					
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
Year ended 31 December 2022					
Opening net book amount	75,208	58,357	588	45	134,198
Transfer of asset under construction	25	185	(210)	-	-
Additions	280	14,350	1,687	-	16,317
Disposals	-	(101)	-	(13)	(114)
Depreciation charge	(4,488)	(24,650)	-	(7)	(29,145)
Closing net book amount	71,025	48,141	2,065	25	121,256
As at 31 December 2022					
Cost or valuation	209,031	235,536	2,065	135	446,767
Accumulated depreciation	(138,006)	(187,395)	-	(110)	(325,511)
Net book amount	71,025	48,141	2,065	25	121,256

As at 31 December 2022, the Group had contracts totaling HRK 360 thousand (2021: HRK 698 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 3,980 thousand (2021: HRK 4,752 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 2021			
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
Year ended 31 December 2022			
Opening net book amount	1,084	4,173	5,257
Additions	6	-	6
Amortization charge	(409)	-	(409)
Closing net book amount	681	4,173	4,854
As at 31 December 2022			
Cost or valuation	6,185	4,173	10,358
Accumulated amortization	(5,504)	-	(5,504)
Net book amount	681	4,173	4,854

(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 10.38%, 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

	2022	2021
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	6,594	7,295
Deposits with financial institutions, denominated in HRK	5,200	9,200
Non-current receivables from foreign customers, denominated in foreign currency	-	77
Loans given, Note 4 (b)	3,719	5,004
Receivables for sold apartments	359	369
Total loans and receivables	15,872	21,945
Impairment allowance on loans and receivables	(104)	(17)
	15,768	21,928

Deposits with financial institutions in the amount of HRK 10,714 thousand (2021: 14,701 thousand) are used as a collateral for Supplier credit arrangement and performance guarantees disclosed in Note 4 (b), with interest rate from 0% to 0.45% and maturing in year 2026. The rest of the deposits with financial institutions of HRK 1,080 thousand (2021: HRK 1,794 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

	2022	2021
Due	HRK '000	HRK '000
2023	-	4,459
2024	2,572	622
2025	967	-
	3,719	5,081



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

15 Inventories

	2022	2021
	HRK '000	HRK '000
Raw materials	53,496	39,151
Contract work in progress	46,152	103,701
	<u>99,648</u>	<u>142,852</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 1,329 thousand (2021: HRK 1,927 thousand).

16 Trade receivables

	2022	2021
	HRK '000	HRK '000
Foreign trade receivables	42,761	80,509
Current portion of non-current foreign receivables	-	20,367
Total current foreign receivables	<u>42,761</u>	<u>100,876</u>
Domestic trade receivables	186,487	106,906
Total current domestic receivables	<u>186,487</u>	<u>106,906</u>
Impairment allowance on receivables	<u>(1,028)</u>	<u>(6,309)</u>
	<u>228,220</u>	<u>201,473</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:

	2022	2021
	HRK '000	HRK '000
As at 1 January	7,677	9,914
Impact of discounting non-current receivables	101	(269)
Receivables written off during the year as uncollectible	(1,347)	(1,304)
Impairment on receivables	(3,791)	(664)
As at 31 December ⁽¹⁾	2,640	7,677

¹⁾ Including impairment provision for receivables from related parties of 1,508 thousand (2021: HRK 1,328 thousand).

17 Other receivables

	2022	2021
	HRK '000	HRK '000
Advances given	2,014	18,785
Deposits	5,800	13,328
Net VAT receivables	1,210	2,564
Receivables for existing customer financing agreements (note 4b)	4,885	-
Other receivables	1,741	1,317
	15,650	35,994



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

18 Financial assets at fair value through profit or loss

	2022	2021
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	312	1,544
- Investment in open-ended investment funds	30,762	31,453
	<u>31,074</u>	<u>32,997</u>

19 Cash and cash equivalents

	2022	2021
	HRK '000	HRK '000
Cash and demand deposits	528,029	479,650
Impairment loss (Note 30(d))	(1,581)	(2,163)
	<u>526,448</u>	<u>477,487</u>

20 Equity

(a) Share capital

As at 31 December 2022, the share capital is represented by 1,331,650 (2021: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2021: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2021: 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
	2022		2021	
Telefonaktiebolaget LM Ericsson	653,473	49,07	653,473	49,07
Other shareholders	668,166	50,18	671,226	50,41
Treasury shares	10,011	0,75	6,951	0,52
	<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 2022	Number of shares 2021
As at 1 January (Note 20 (a))	6,951	406
Purchased during the year	6,585	8,115
Distributed during the year	(3,525)	(1,570)
As at 31 December (Note 20 (a))	10,011	6,951

(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 27 June 2022, the Annual General Meeting approved a dividend in respect of 2021 of HRK 64.00 per share, totaling HRK 84,649 thousand.

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

	2022 HRK '000	2021 HRK '000
HRK 64.00 per share for 2021	84,649	-
HRK 82.00 per share for 2020	-	109,162
Prior year dividend payout	102	4
	84,751	109,166



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

21 Borrowings

	2022	2021
	HRK '000	HRK '000
Loans	14,134	28,271
Borrowings, Note 4 (b)	1,621	2,894
Total liabilities for borrowings	15,755	31,165
Short term portion	14,134	14,134
Long term portion	1,621	17,031

	Borrowings HRK '000
Changes in liabilities from financing activities	
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
Year ended 31 December 2022	
Opening net book amount	31.165
Cash transactions	
Proceeds from loans	-
Repayment of loans and borrowings	(26.190)
Non-cash transactions	
Overtake of liability towards bank	12.691
Foreign exchange differences	1
Release of obligations (Note 4(b))	(1.912)
Closing net book amount	15.755

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

	2022	2021
	HRK '000	HRK '000
Liabilities for issued guarantee, Note 4 (b)	4	297
Other non-current liabilities, Note 4 (b)	-	149
	<u>4</u>	<u>446</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 2022 were a 1.92% discount rate (2021: 1.92%) and a 6.66% (2021: 6.89%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
	2022			2021		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	7,132	1,465	8,597	9,360	1,028	10,388
Obligation created during the year	1,646	64	1,710	-	461	461
Obligation fulfilled during the year	(1,925)	(64)	(1,989)	(875)	(24)	(899)
Obligation reversed during the year	-	(7)	(7)	(1,353)	-	(1,353)
As at 31 December	<u>6,853</u>	<u>1,458</u>	<u>8,311</u>	<u>7,132</u>	<u>1,465</u>	<u>8,597</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 2022 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:

	2022	2021
	Number of shares	Number of shares
As at 1 January	14,455	6,915
Granted	50	9,335
Exercised	(3,525)	(1,570)
Expired	(330)	(225)
As at 31 December	10,650	14,455

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 2022, the Group had HRK 7,511 thousand expenses (2021: HRK 4,404 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

	2022	2021
	HRK '000	HRK '000
Trade payables	116,602	94,629
Liabilities to employees	159,223	132,550
VAT liabilities	15,233	-
Other current liabilities	28,295	26,322
	<u>319,353</u>	<u>253,501</u>

25 Provisions

Movements in provisions were as follows:

	Warranty reserve	Termination benefits	Other reserve	Total
	'000 kn	'000 kn	'000 kn	'000 kn
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>
As at 1 January 2022	2,129	5,711	5,761	13,601
Additional provisions	21	6,409	3,533	9,963
Unused provisions reversed	(164)	-	-	(164)
Provisions used during the year	(162)	(7,229)	(60)	(7,451)
As at 31 December 2022	<u>1,824</u>	<u>4,891</u>	<u>9,234</u>	<u>15,949</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

	2022	2021
	HRK '000	HRK '000
Deferred revenue	5,968	5,928
Accrued charges for unused holidays	36,310	31,728
Accrued charges in respect of service contracts	91,098	45,128
Other accrued charges	32,827	37,699
	<u>166,203</u>	<u>120,483</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 2022	31 December 2021
	HRK '000	HRK '000
Contract liabilities – advances from customers	17,090	52,528
Contract liabilities – deferred revenue	175,150	237,448
Total current contract liabilities	192,240	289,976

As at 31 December 2022 the Group recognized HRK 192,240 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 2021: HRK 289,976 thousand).

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

	31 December 2022	31 December 2021
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied	101,601	107,350
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied	88,316	363,166
	189,917	470,516

The Group expects to recognize approximately 60% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2023, 37% as revenue in financial year 2024, 2% as revenues in financial year 2025 and 1% 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.

	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	52,087	53,955
Depreciation charge for the year	(19,626)	(20,642)
Increase of right-of-use assets	12,742	20,810
Modifications	-	382
Derecognition of RoU assets	(556)	(2,418)
Balance as at 31 December	44,644	52,087

Amounts recognized in Statement of comprehensive income

	2022	2021
	HRK '000	HRK '000
Leases under IFRS 16		
Interest on lease liabilities	1,190	1,205
Income from sub-leasing	92	180
Expenses relating to short-term leases	86	1,929

 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:

	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	52,410	54,960
Repaid lease liability	(19,387)	(22,807)
Additions to lease liability	12,742	20,810
Modifications	-	382
Derecognition of lease	(556)	(2,436)
Interest expense	1,190	1,205
Interest paid	(1,190)	(1,205)
FX rate	(402)	1,501
Balance as at 31 December	44,807	52,410

(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 2022 was HRK 30,596 thousand (2021: HRK 15,092 thousand).

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

	2022	2021
	HRK '000	HRK '000
Operating leases under IFRS 16		
Less than one year	10,370	7,611
Between one and three years	19,169	12,063
Between three and five years	9,549	7,607
More than five years	4,091	7,775
Total	43,179	35,056



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% (2021: 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	
	2022.	2021.	2022.	2021.	2022.	2021.
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	-	1,024,142	899,522	1,024,142	899,522
Other income	-	-	22	496	22	496
	<u>-</u>	<u>-</u>	<u>1,024,164</u>	<u>900,018</u>	<u>1,024,164</u>	<u>900,018</u>
Purchases of goods and services						
Licenses	6,010	6,400	17,668	18,559	23,678	24,959
Cost of sales	-	-	253,530	272,240	253,530	272,240
	<u>6,010</u>	<u>6,400</u>	<u>271,198</u>	<u>290,799</u>	<u>277,208</u>	<u>297,199</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 includes the executive management listed under the Parent Company profile, comprising the Management Board member and the directors of the main organizational units, which on the Group level also includes the directors of key operating companies.

	2022	2021
	HRK '000	HRK '000
Salaries and other short-term employee benefits	31,481	31,279
	<u>31,481</u>	<u>31,279</u>

The members of the executive management and the Supervisory Board held 3,669 ordinary shares at the year-end (2021: 4,429 shares). In addition, the Group paid remuneration totaling HRK 488 thousand (2021: HRK 423 thousand) to the Supervisory Board and Audit Committee members during 2022.

(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	
	2022	2021	2022	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	46	55
Other Ericsson Group companies	134,748	76,808	52,693	12,573
	<u>134,748</u>	<u>76,808</u>	<u>52,739</u>	<u>12,628</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 2022, if the euro and US dollar had weakened/strengthened by 1% (2021: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 1,329 thousand higher/lower (2021: HRK 1,334 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.

2022	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	10,220	-	-	10,220	5,548	15,768
Trade and other receivables	173,774	3,546	22,805	200,125	172,743	372,868
Financial assets at fair value through profit or loss	-	-	-	-	31,074	31,074
Cash and cash equivalents	77,751	10,198	7,603	95,552	436,694	532,246
	261,745	13,744	30,408	305,897	646,059	951,956
Borrowings and lease liabilities	(46,107)	-	-	(46,107)	(14,454)	(60,561)
Trade and other payables	(65,090)	(2,158)	(1,588)	(68,836)	(324,460)	(393,296)
	(111,197)	(2,158)	(1,588)	(114,943)	(338,914)	(453,857)
Currency gap	150,548	11,586	28,820	190,954	307,145	498,099

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



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 2022:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2021: 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 (2021: HRK 0 thousand);
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2021: 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 (2021: HRK 0 thousand);
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2021: 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 (2021: HRK 0 thousand).

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

	Average interest rates	Average interest rates
	2022	2021
	%	%
Loans and receivables	0,09	0,14
Cash and cash equivalents	0,01	0,07



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 2022, the five largest customers represent 64% of total net trade receivables (2021: 57%). 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 532,246 thousand as at 31 December 2022 (31 December 2021: HRK 479,288 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 1,581 thousand as at 31 December 2022 (31 December 2021: HRK 2,163 thousand). The Group's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 362,968 thousand as at 31 December 2022 (31 December 2021: HRK 278,281 thousand). Provisions for expected credit losses on trade receivables and receivables from related party amounted to HRK 2,560 thousand as at 31 December 2022 (31 December 2021: HRK 7,654 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 2022.

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
2022						
Foreign receivables	6,763	32,056	3,782	3,719	-	46,320
Domestic receivables	5,085	156,445	25,117	-	-	186,647
Receivables from related parties	4,425	131,851	-	-	-	136,276
	<u>16,273</u>	<u>320,352</u>	<u>28,899</u>	<u>3,719</u>	<u>-</u>	<u>369,243</u>

* excluding impairment allowance

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>

* 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
2022					
Foreign receivables	4,027	2,736	-	-	6,763
Domestic receivables	2,851	1,480	645	109	5,085
Receivables from related parties	3,369	668	215	173	4,425
	<u>10,247</u>	<u>4,884</u>	<u>860</u>	<u>282</u>	<u>16,273</u>
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>



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 2022, the facility remained untapped.

2022	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	-	-	-	14,688	1,080	15,768
Trade and other receivables	231,003	113,211	28,654	-	-	372,868
Current financial assets	31,074	-	-	-	-	31,074
Cash and cash equivalents	528,246	-	4,000	-	-	532,246
	<u>790,323</u>	<u>113,211</u>	<u>32,654</u>	<u>14,688</u>	<u>1,080</u>	<u>951,956</u>
Borrowings	-	-	(14,088)	(1,903)	-	(15,991)
Lease liabilities	-	-	(16,905)	(27,665)	-	(44,570)
Trade and other payables	(248,805)	(144,186)	(305)	-	-	(393,296)
	<u>(248,805)</u>	<u>(144,186)</u>	<u>(31,298)</u>	<u>(29,568)</u>	<u>-</u>	<u>(453,857)</u>
Maturity gap	<u>541,518</u>	<u>(30,975)</u>	<u>1,356</u>	<u>(14,880)</u>	<u>1,080</u>	<u>498,099</u>

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>



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 2022 1.33% (2021: 0.75%) 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

The Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in "Official Gazette" No. 85/22). With the aforementioned decision, the euro becomes the official monetary unit and legal currency in the Republic of Croatia on 1 January 2023. The fixed conversion rate is set at HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an adjusting subsequent event.



Annual report 2022
Ericsson Nikola Tesla Group



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 2022, Telefonaktiebolaget LM Ericsson (Ericsson) holds 49.07% of the Company's shares. Other shareholders own the remaining 50.18% of the Company's shares and 0.75% 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 2022 and up to the release of these statements were:

Franck Pierre Roland Bouétard	Chairman	Reappointed on 27 June 2022
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, member until 1 January 2023
Ana Vrsaljko Metelko	Member	Appointed on 29 June 2021
Petar Šimundža	Member and employees' representative	Appointed on 29 November 2022
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018, member until 29 November 2022

Ericsson Nikola Tesla d.d.

Company profile (continued)

Audit Committee

The Audit Committee members during 2022 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, member until 1 January 2023
Vesna Vašiček	Member	Appointed on 21 February 2017

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 2022, the executive management comprised:

Gordana Kovačević	Company President
Antonija Lončar	Director, Marketing, Communications & Corporate Social Responsibility
Branka Vučemilo Elezović	Director, Legal
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Finance, Sourcing and Commercial Management
Darko Huljenić	Director, Research
Drago Holub	Director, R&D Center
Goran Ožbolt	Director, General Services
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
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.

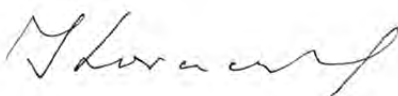
Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements

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 21 April 2023 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 2022, 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 2022 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 2022: HRK 1,661,347 thousand (2021: HRK 1,522,626 thousand). As at 31 December 2022: trade receivables: HRK 118,686 thousand; contract liabilities: HRK 184,214 thousand (31 December 2021: trade receivables: HRK 108,484 thousand; contract liabilities: HRK 247,309 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 2022, 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 27 June 2022 to audit the separate financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2022. Our total uninterrupted period of engagement is four years, covering the year ended 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 21 April 2023;
- 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 a conclusion on compliance of the separate financial statements of the Company as at and for the year ended 31 December 2022, as included in the attached electronic file *FI-ERNT-2022-1Y-Revidirano-Nekonsolidirano-EN*, 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 conclusion, based on evidence obtained, as to whether the separate financial statements comply, in all material respects, with the RTS on ESEF. 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.

Work performed

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. Reasonable assurance is a high degree of assurance. However, it does not guarantee that the scope of procedures will identify all significant (material) non-compliance with the RTS on ESEF.

In respect of the subject matter, we have performed the following procedures:

- 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)*

Work performed *(continued)*

- evaluating the appropriateness of the 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 separate financial statements.

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

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the separate financial statements of the Company as at and for the year ended 31 December 2022 presented in ESEF format and contained in the aforementioned attached electronic file, have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Our conclusion does not represent an opinion on the true and fair view of the financial statements as this is included in our Report on the Audit of the Financial Statements.

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

24 April 2023

Ericsson Nikola Tesla d.d.

Statement of comprehensive income

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Sales revenue	5, 6	1,661,347	1,522,626
Cost of sales	7	(1,530,606)	(1,351,875)
Gross profit		130,741	170,751
Selling expenses	7	(42,568)	(42,775)
Administrative expenses	7	(41,819)	(39,965)
Other operating income	7	98,766	22,918
Impairment loss on financial assets		(216)	(385)
Operating profit		144,904	110,544
Finance income	9	7,151	9,630
Finance expense	9	(3,046)	(1,142)
Finance income/(expense), net	9	4,105	8,488
Profit before tax		149,009	119,032
Income tax	10	(1,490)	(3,825)
Profit for the year		147,519	115,207
Other comprehensive income		-	-
Total comprehensive income for the year		147,519	115,207
Earnings per share (HRK)	11	111	87

Ericsson Nikola Tesla d.d.

Statement of financial position

as at 31 December 2022

Assets	Notes	2022	2021
		HRK '000	HRK '000
Non-current assets			
Property, plant and equipment	12	117,111	129,380
Right of use assets	29	30,928	29,231
Intangible assets	13	677	1,080
Investments in subsidiaries	15	1,052	1,053
Loans and receivables	14	15,817	21,976
Deferred tax assets	10	19,763	12,555
Total non-current assets		185,348	195,275
Current assets			
Inventories	16	56,145	89,048
Trade receivables	17	118,686	108,484
Receivables from related parties	30 (c)	144,466	80,178
Other receivables	18	20,649	36,236
Prepayments		8,359	6,335
Financial assets at fair value through profit or loss	19	31,074	32,997
Cash and cash equivalents	20	457,185	332,301
Total current assets		836,564	685,579
Total assets		1,021,912	880,854

Ericsson Nikola Tesla d.d.

Statement of financial position (continued)

as at 31 December 2022

		2022	2021
Equity and liabilities	Notes	HRK '000	HRK '000
Equity			
Share capital	21 (a)	133,165	133,165
Treasury shares	21 (b)	(17,090)	(12,421)
Legal reserves	21 (c)	6,658	6,658
Reserve for treasury shares	21 (d)	40,331	36,512
Retained earnings		207,478	139,322
Total equity		370,542	303,236
Non-current liabilities			
Borrowings	22	1,619	16,982
Lease liabilities	29	24,269	21,314
Other non-current liabilities	23	-	442
Employee benefits	24 (a)	5,782	6,102
Total non-current liabilities		31,670	44,840
Current liabilities			
Payables to related parties	30 (c)	44,977	5,797
Borrowings	22	14,088	14,088
Trade and other payables	25	221,823	148,676
Income tax payable		2,089	4,103
Provisions	26	15,771	13,307
Accrued expense and deferred revenue	27	129,883	91,365
Contract liabilities	28	184,214	247,309
Lease liabilities	29	6,855	8,133
Total current liabilities		619,700	532,778
Total liabilities		651,370	577,618
Total equity and liabilities		1,021,912	880,854

Ericsson Nikola Tesla d.d.

Statement of changes in equity

for the year ended 31 December 2022

	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 2021	<u>133,165</u>	<u>(506)</u>	<u>6,658</u>	<u>13,904</u>	<u>153,872</u>	<u>307,093</u>
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	<u>133,165</u>	<u>(12,421)</u>	<u>6,658</u>	<u>36,512</u>	<u>139,322</u>	<u>303,236</u>
As at 1 January 2022	<u>133,165</u>	<u>(12,421)</u>	<u>6,658</u>	<u>36,512</u>	<u>139,322</u>	<u>303,236</u>
Changes in equity for 2022						
Profit for the year	-	-	-	-	147,519	147,519
Transactions with owners						
Dividend distribution for 2021, Note 21 (e)	-	-	-	-	(84,649)	(84,649)
Purchase of treasury shares, Note 21 (b)	-	(10,850)	-	-	-	(10,850)
Shares granted, Note 24 (b)	-	6,181	-	(6,181)	-	-
Transfer	-	-	-	10,000	(10,000)	-
Share-based payments, Note 24 (b)	-	-	-	-	7,511	7,511
Parent-subsidiary merger, Note 15	-	-	-	-	7,775	7,775
Total contributions by and distributions to owners recognized directly in equity	-	(4,669)	-	3,819	(79,363)	(80,213)
As at 31 December 2022	<u>133,165</u>	<u>(17,090)</u>	<u>6,658</u>	<u>40,331</u>	<u>207,478</u>	<u>370,542</u>

Ericsson Nikola Tesla d.d.

Statement of cash flows

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Cash flows from operating activities			
Profit before tax		149,009	119,032
Adjustments for:			
Depreciation and amortization	7,12,13,29	36,613	45,171
Effects of lease derecognition		-	(3)
Impairment losses and reversals		(310)	(400)
Gain on sale of property, plant and equipment		(584)	(43)
Net loss/(gain) on remeasurement of financial assets		1,923	(121)
Amortization of discount		1	52
Interest income		(3,154)	(3,741)
Dividend income		(57,493)	-
Interest expense		1,438	1,058
Foreign exchange (gain)/losses, net		(1,034)	(4,651)
Share-based payments	24 (b)	7,511	4,405
Changes in working capital:			
In receivables		(39,902)	4,580
In inventories		32,903	(44,869)
In provisions		2,144	(1,524)
In payables		82,487	128,943
Cash generated from operations		211,552	247,889
Interest paid		(1,113)	(1,238)
Income taxes paid		(9,188)	(78)
Net cash from operating activities		201,251	246,573
Cash flows from investing activities			
Loans given		(7,535)	-
Interest received		3,429	2,834
Dividends received		57,493	59
Proceeds from sale of property, plant and equipment		621	108
Purchases of property, plant and equipment, and intangible assets		(12,838)	(15,262)
Deposits given to financial institutions, net		12,901	(1,208)
Receipt of government grant		-	1,325
Net cash from/(used in) investing activities		54,071	(12,144)

Ericsson Nikola Tesla d.d.

Statement of cash flows (continued)

for the year ended 31 December 2022

		2022	2021
	Notes	HRK '000	HRK '000
Cash flows from financing activities			
Repayment of borrowings	22	(26,189)	(14,831)
Purchase of treasury shares	21 (b)	(10,850)	(14,307)
Dividends paid	21 (e)	(84,751)	(109,166)
Payment of lease liabilities	29	(9,409)	(11,697)
Net cash used in financing activities		(131,199)	(150,001)
Effects of exchange rate changes on cash and cash equivalents		761	2,040
Net increase/(decrease) in cash and cash equivalents		124,884	86,468
Cash and cash equivalents at the beginning of the year		332,301	245,833
Cash and cash equivalents at the end of the year	20	457,185	332,301

 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 2022 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 21 April 2023. 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 2022 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 2022 was HRK 7.064035 per USD 1 (2021: HRK 6.643548) and HRK 7.53450 per EUR 1 (2021: HRK 7.517174).



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

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" is a principle-based model of recognizing revenue from customer contracts.

It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.

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

Standard solution

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

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

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

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

Contractual terms may vary; therefore, judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement.

Costs incurred relating to performance obligations not yet fully delivered are recognized as inventories.

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

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

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

Customized solution

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



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

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution (continued)

Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method determines revenue milestones over the duration of the contract, and it is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects.

If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer. Costs incurred in delivering customized solutions are recognized as costs of sales when the related revenue milestone is recognized in the Income Statement. Costs incurred relating to future revenue milestones are recognized as Inventories and assessed for recoverability on a regular basis.

Transaction price under these contracts is usually a fixed fee, split into a number of progress payments or billing milestones as defined in the contract. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts.

Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days. Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

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

Customer contract related balances

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

Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 31 (d) for further information on credit risk management of trade receivables and customer finance credits.

In accordance with IFRS 15, where significant financing is provided to the customer, revenue is adjusted to reflect the impact of the financing transaction. These transactions could arise from the customer finance credits above if the contracted interest rate is below the market rate or through implied financing transactions due to payment terms of more than one year from the date of transfer of control. The Company has elected to use the practical expedient not to adjust revenue for transactions with payment terms, measured from the date of transfer of control, of one year or less.

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

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



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

1 Significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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



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

1 Significant accounting policies (continued)

Financial assets at amortized cost

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

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

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term. Derivatives are classified as held for trading, unless they are designated as hedging instruments for the purpose of hedge accounting. Assets held for trading are classified as current assets. Debt instruments classified as FVTPL, but not held for trading, are classified on the balance sheet based on their maturity date (i.e. those with a maturity longer than one year are classified as non-current). Investments in shares and participations are classified as FVTPL and classified as non-current financial assets. Gains or losses arising from changes in the fair values of the FVTPL category (excluding derivatives and customer financing) are presented in the income statement within financial income in the period in which they arise. Gains and losses on derivatives are presented in the income statement as follows.

Gains and losses on derivatives that hedge 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 are recognised as other income in profit or loss when the right to receive payment 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

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.



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

1 Significant accounting policies (continued)

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.

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 2022 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

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted, however, the Company has not early adopted the new or amended standards in preparing these financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Company is currently evaluating the effects of these amendments, but does not expect that the amendment will have an effect on the Company's retained earnings.

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.



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)

The credit risk is shifted from international customer to the risk from domestic insurance company default which is considered as significant transfer in credit risk. The Company issued guarantees to the financing bank for risk of non-performance by the insurance company which is disclosed in Note 23. The issued guarantee for non-performance of the insurance company is recognized initially at fair value and subsequently at the higher of the unamortized balance of the initial fair value and the best estimate of expenditure required to settle the obligation under the guarantee.

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

Having transferred the right to cash flows and substantially all the risk and rewards relating to 90% of receivables, management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 22).

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:

	2022			2021		
	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	332,892	315,612	17,280	350,490	296,739	53,751
Sales revenue from services	1,328,455	1,181,496	146,959	1,172,136	1,051,720	120,416
	<u>1,661,347</u>	<u>1,497,108</u>	<u>164,239</u>	<u>1,522,626</u>	<u>1,348,459</u>	<u>174,167</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.

	2022			2021		
	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	441,218	340,254	100,964	412,192	291,186	121,006
Sales revenue in former CIS countries	102,382	73,645	28,737	118,585	97,831	20,754
Sales revenue to Ericsson	1,018,096	1,018,096	-	895,268	895,268	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	87,314	57,475	29,839	73,486	44,222	29,264
Other export sales revenue	12,337	7,638	4,699	23,095	19,952	3,143
	<u>1,661,347</u>	<u>1,497,108</u>	<u>164,239</u>	<u>1,522,626</u>	<u>1,348,459</u>	<u>174,167</u>

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	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	993,657	576,430	637,594	576,430	26,794	19,715	3,302	5,714	-	-	1,661,347	1,522,626
Timing of revenue recognition												
At a point in time	906,064	513,820	560,948	513,820	26,794	19,651	3,302	5,714	-	-	1,497,108	1,348,459
Over time	87,593	62,610	76,646	62,610	-	64	-	-	-	-	164,239	174,167
Operating profit	<u>152,401</u>	<u>57,937</u>	<u>30,799</u>	<u>57,937</u>	<u>3,246</u>	<u>1,238</u>	<u>277</u>	<u>435</u>	<u>(41,819)</u>	<u>(39,965)</u>	<u>144,904</u>	<u>110,544</u>
Finance income/(expense), net											4,105	2,748
Profit before tax											149,009	85,240
Income tax											(1,490)	(8,749)
Profit for the year											<u>147,519</u>	<u>115,207</u>



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

7 Expenses by nature

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

	2022	2021
	HRK '000	HRK '000
Changes in contract work in progress (Note 16)	54,968	(44,869)
Material and external services ⁽¹⁾	591,957	573,720
Personnel expenses (Note 8)	931,454	860,593
Depreciation and amortization (Notes 12, 13, 29)	36,613	45,171
	<u>1,614,993</u>	<u>1,434,615</u>

⁽¹⁾ Including fees to auditors of HRK 472 thousand (2021: HRK 417 thousand). Fees to auditors mainly relate to statutory audit services.

Other operating income

Other operating income consists of income from profit of daughter companies in total amount of HRK 57,493 thousand, rent income in total amount of HRK 33,038 thousand (2021: HRK 16,961 thousand), and other in total amount of HRK 8,235 thousand (2021: HRK 5,957 thousand).

8 Personnel expenses

	2022	2021
	HRK '000	HRK '000
Net salaries	525,920	490,300
Taxes and contributions	330,513	315,363
Other payroll-related costs	67,510	50,526
Equity-settled transactions (Note 24 (b))	7,511	4,405
	<u>931,454</u>	<u>860,593</u>

Personnel expenses include HRK 142,065 thousand (2021: HRK 134,990 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 1,695 thousand (2021: HRK 5,471 thousand).

As at 31 December 2022, total number of employees was 2,733 (2021: 2,669).



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

9 Finance income/(expense), net

	2022	2021
	HRK '000	HRK '000
Interest income	3,154	3,741
Net foreign exchange gain	3,997	5,768
Net change in fair value of financial assets at fair value through profit and loss	-	121
Finance income	7,151	9,630
Interest expense	(1,121)	(1,091)
Net change in fair value of financial assets at fair value through profit and loss	(1,923)	-
Amortisation of discount	(1)	(51)
Finance expense	(3,046)	(1,142)
Finance income/(expense), net	4,105	8,488

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rate of 18% (2021: 18%). Income tax expense recognized in the statement of comprehensive income comprises:

	2022	2021
	HRK '000	HRK '000
Current income tax expense	(8,699)	(7,983)
Total deferred tax income/(expense)	7,209	4,158
Total income tax expense	(1,490)	(3,825)



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:

	2022	2021
	HRK '000	HRK '000
Profit before tax	149,009	119,032
Tax calculated at domestic tax rates applicable to profits in the respective countries	26,822	21,426
Tax effects of:		
Permanent non-deductible expenses	(10,197)	53
Effects of temporary differences	36	-
Tax incentives	(15,171)	(17,654)
Tax charge	1,490	3,825
Effective tax rate	1,0%	3,2 %

Tax incentives totaling HRK 15,171 thousand (2021: HRK 17,654 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 19,763 thousand (2021: HRK 12,555 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 2021	8,397
Tax credited to the Income statement	5,424
Tax charged to the Income statement	(1,266)
As at 31 December 2021	<u>12,555</u>
As at 1 January 2022	12,555
Tax credited to the Income statement	9,528
Tax charged to the Income statement	(2,320)
As at 31 December 2022	<u>19,763</u>

11 Earnings per share

	2022	2021
Profit for the year (HRK '000)	147,519	115,207
Weighted Average Number of Shares	<u>1,323,376</u>	<u>1,330,723</u>
Earnings per share (HRK)	<u>111</u>	<u>87</u>

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 2021					
Cost	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	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
Year ended 31 December 2022					
Opening net book amount	75,208	53,909	218	45	129,380
Transfer of asset under construction	25	185	(210)	-	-
Additions	280	12,324	1,772	-	14,376
Disposals	-	(6)	-	(13)	(19)
Depreciation charge	(4,488)	(22,131)	-	(7)	(26,626)
Closing net book amount	71,025	44,281	1,780	25	117,111
As at 31 December 2022					
Cost	209,031	209,902	1,780	135	420,839
Accumulated depreciation	(138,006)	(165,621)	-	(110)	(303,737)
Net book amount	71,025	44,281	1,780	25	117,111

As at 31 December 2022, the Company had contracts totaling HRK 314 thousand (2021: HRK 698 thousand) related to future equipment purchases.

The Company acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 6,443 thousand (2021: HRK 7,366 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 2021	
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
Year ended 31 December 2022	
Opening net book amount	1,080
Additions	-
Amortization charge	(403)
Closing net book amount	677
As at 31 December 2022	
Cost or valuation	4,144
Accumulated amortization	(3,467)
Net book amount	677



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

14 Loans and receivables

	2022	2021
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	6,594	7,295
Deposits with financial institutions, denominated in HRK	5,200	9,200
Non-current receivables from foreign customers, denominated in foreign currency	-	77
Loans given, Note 4 (b)	3,768	5,052
Receivables for sold apartments	359	369
Total loans and receivables	15,921	21,993
Impairment allowance on loans and receivables	(104)	(17)
	15,817	21,976

Deposits with financial institutions in the amount of HRK 10,714 thousand (2021: 14,701 thousand) are used as a collateral for Supplier credit arrangement and performance guarantees disclosed in Note 4 (b), with interest rate from 0% to 0.45% and maturing in year 2026.

The remainder of the deposits with financial institutions in the amount of HRK 1,080 thousand (2021: HRK 1,794 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

	2022	2021
Due	HRK '000	HRK '000
2023	-	4,458
2024	2,801	671
2025	967	-
	3,768	5,129



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

15 Investments in subsidiaries

		2022	2021
	Ownership	HRK '000	HRK '000
Ericsson Nikola Tesla BY d.o.o.	100 %	1,020	1,020
Ericsson Nikola Tesla Servi 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 (1)	100 %	-	1
		<u>1,052</u>	<u>1,053</u>

⁽¹⁾ As of 1 January 2022, the Parent company Ericsson Nikola Tesla d.d. has merged Ericsson Nikola Tesla Branch Office Kosovo, and the financial statements and the results of the branch are included in the Parent company's financial statements.

16 Inventories

	2022	2021
	HRK '000	HRK '000
Raw materials	22,061	-
Contract work in progress	<u>34,084</u>	<u>89,048</u>
	<u>56,145</u>	<u>89,048</u>



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

17 Trade receivables

	2022	2021
	HRK '000	HRK '000
Foreign trade receivables	42,761	80,395
Current portion of non-current foreign receivables	-	20,367
Total current foreign receivables	42,761	100,762
Domestic trade receivables	76,570	13,926
Impairment allowance on receivables	(645)	(6,204)
	118,686	108,484

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

	2022	2021
	HRK '000	HRK '000
As at 1 January	7,560	9,914
Impact of discounting non-current receivables	117	(269)
Receivables written off during the year as uncollectible	(1,347)	(1,304)
Impairment on receivables	(4,064)	(781)
As at 31 December ⁽¹⁾	2,266	7,560

¹⁾ Including impairment provision for receivables from related parties of HRK 1,517 thousand (2021: HRK 1,326 thousand).

18 Other receivables

	2022	2021
	HRK '000	HRK '000
Advances given	1,072	17,983
Deposits	5,800	13,317
Net VAT receivables	-	4,049
Loans given	7,534	-
Receivables for existing customer financing agreements (note 4b)	4,885	-
Other receivables	1,358	887
	20,649	36,236



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

19 Financial assets at fair value through profit or loss

	2022	2021
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	312	1,544
- Investment in open-ended investment funds	30,762	31,453
	<u>31,074</u>	<u>32,997</u>

20 Cash and cash equivalents

	2022	2021
	HRK '000	HRK '000
Cash and demand deposits	458,279	333,819
Impairment loss (Note 31(d))	(1,094)	(1,518)
	<u>457,185</u>	<u>332,301</u>

21 Equity

(a) Share capital

As at 31 December 2022, the share capital of the Company is represented by 1,331,650 (2021: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2021: HRK 133,165 thousand).

The nominal value of one share is HRK 100 (2021: 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
	2022		2021	
Telefonaktiebolaget LM Ericsson	653,473	49,07	653,473	49,07
Other shareholders	668,166	50,18	671,226	50,41
Treasury shares	10,011	0,75	6,951	0,52
	<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 2022	Number of shares 2021
As at 1 January	6,951	406
Purchased during the year	6,585	8,115
Distributed during the year	(3,525)	(1,570)
As at 31 December	10,011	6,951

(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 27 June 2022, the Annual General Meeting approved a regular dividend in respect of 2021 of HRK 64.00 per share, totaling HRK 84,649 thousand.

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

	2022 HRK '000	2021 HRK '000
HRK 64.00 per share for 2021	84,649	-
HRK 82.00 per share for 2020	-	109,162
Prior year dividend payout	102	4
	84,751	109,166



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

22 Borrowings

	2022	2021
	HRK '000	HRK '000
Loans	14,088	28,176
Borrowings, Note 4 (b)	1,621	2,894
Total liabilities for borrowings	15,709	31,070
Short term portion	14,088	14,088
Long term portion	1,621	16,982
		Borrowings
Changes in liabilities from financing activities		HRK '000
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
Year ended 31 December 2021		
Opening net book amount		31,070
Cash transactions		
Proceeds from loans		-
Repayment of loans and borrowings		(26,190)
Non-cash transactions		
Overtake of liability towards bank		12,691
Foreign exchange differences		1
Release of obligations (Note 4(b))		(1,863)
Closing net book amount		15,709

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

	2022	2021
	HRK '000	HRK '000
Liabilities for issued guarantee, Note 4 (b)	-	296
Other non-current liabilities, Note 4 (b)	-	146
	-	442

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 2022 were a 1.92% discount rate (2021: 1.92%) and a 7.41% (2021: a 6.26%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
	2022.			2021.		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	5,216	886	6,102	6,647	688	7,335
Obligation created during the year	212	-	212	-	222	222
Obligation fulfilled during the year	(462)	(48)	(510)	(635)	(24)	(659)
Obligation reversed during the year	-	(22)	(22)	(796)	-	(796)
As at 31 December	4,966	816	5,782	5,216	886	6,102



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 2022 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:

	2022	2021
	Number of shares	Number of shares
As at 1 January	14,455	6,915
Granted	50	9,335
Exercised	(3,525)	(1,570)
Expired	(330)	(225)
As at 31 December	10,650	14,455

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 2022, the Company had HRK 7,511 thousand expenses (2021: HRK 4,405 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

	2022	2021
	HRK '000	HRK '000
Trade payables	47,241	14,406
Liabilities to employees	137,158	111,901
VAT liabilities	13,217	-
Other current liabilities	24,207	22,369
	<u>221,823</u>	<u>148,676</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 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>
As at 1 January 2022	1,836	5,710	5,761	13,307
Additional provisions	157	6,410	3,513	10,080
Unused provisions reversed	(165)	-	-	(165)
Provisions used during the year	(162)	(7,229)	(60)	(7,451)
As at 31 December 2022	<u>1,666</u>	<u>4,891</u>	<u>9,214</u>	<u>15,771</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

	2022	2021
	HRK '000	HRK '000
Deferred revenue	5,968	5,928
Accrued charges for unused holidays	31,389	27,301
Accrued charges in respect of service contracts	74,864	39,196
Other accrued charges	17,662	18,940
	<u>129,883</u>	<u>91,365</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 2022	31 December 2022
	HRK '000	HRK '000
Contract liabilities – advances from customers	17,090	52,528
Contract liabilities – deferred revenue	167,124	194,781
Total current contract liabilities	184,214	247,309

As at 31 December 2022 the Company recognized HRK 184,214 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 2021: HRK 247,309 thousand).

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

	31 December 2022	31 December 2022
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied	101,601	107,350
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied	55,442	363,166
	157,043	470,516

The Company expects to recognize approximately 59% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2023, 40% as revenues in the financial year 2024 and 1% as revenues in the financial year 2025.

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



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

29 Leases

(a) Leases as lessee

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

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

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

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


Right-of-use assets

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

	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	29,231	3,780
Depreciation charge for the year	(9,584)	(11,492)
Increase of right-of-use assets	11,894	5,785
Modifications	-	382
Derecognition of RoU assets	(613)	(3,224)
Balance as at 31 December	30,928	29,231

Amounts recognized in Statement of comprehensive income

	2022	2021
	HRK '000	HRK '000
Interest on lease liabilities	794	573
Income from sub-leasing	721	796
Expenses relating to short-term leases	252	325

 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:

	2022	2021
	HRK '000	HRK '000
Balance as at 1 January	29,447	38,246
Repaid lease liability	(9,409)	(11,697)
Additions to lease liability	11,894	5,785
Modifications	-	382
Derecognition of lease	(613)	(3,225)
Interest expense	794	573
Interest paid	(794)	(573)
FX rate	(195)	(44)
Balance as at 31 December	31,124	29,447

(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 2022 was HRK 33,038 thousand (2021: HRK 16,961 thousand).

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

	2022	2021
	HRK '000	HRK '000
Operating leases under IFRS 16		
Less than one year	12,496	9,163
Between one and three years	19,169	12,680
Between three and five years	9,549	7,607
More than five years	4,091	7,775
Total	45,305	37,225



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% (2021: 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	
	2022	2021	2022	2021	2022	2021	2022	2021
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services								
Sales revenue	-	-	1,018,095	895,268	8,227	7,119	1,026,322	902,387
Other income	-	-	35,843	21,242	2,450	147	38,293	21,389
	-	-	1,053,938	916,510	10,677	7,266	1,064,615	923,776
Purchases of goods and services								
Licenses	3,136	3,074	16,526	17,647	-	-	19,662	20,721
Cost of sales	-	-	229,752	256,109	39,125	20,838	268,877	276,947
	3,136	3,074	246,278	273,756	39,125	20,838	288,539	297,668

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 includes the executive management listed under the Parent Company profile, comprising the Management Board member and the directors of the main organizational units.

	2022	2021
	HRK '000	HRK '000
Salaries and other short-term employee benefits	26,584	26,455
	<u>26,584</u>	<u>26,455</u>

The members of the executive management and the Supervisory Board held 3,669 ordinary shares at the year-end (2021: 4,429 shares). In addition, the Group paid remuneration totaling HRK 488 thousand (2021: HRK 423 thousand) to the Supervisory Board and Audit Committee members during 2022.

(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	
	2022	2021	2022	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	-	-
Other Ericsson Group companies	133,846	74,383	41,845	3,977
Subsidiaries:				
Ericsson Nikola Tesla BH d.o.o	3,623	2,626	1,092	812
Ericsson Nikola Tesla Servi d.o.o.	6,877	3,050	1,983	718
Ericsson Nikola Tesla d.d. – Branch office Kosovo, Note 15	73	72	-	-
Libratel d.o.o.	-	-	-	-
Ericsson Nikola Tesla BY	47	47	57	290
	<u>144,466</u>	<u>80,178</u>	<u>44,977</u>	<u>5,797</u>

(d) Loans given

The Company gave loan to subsidiary Ericsson Nikola tesla BH d.o.o. and at the reporting date has receivable in the amount od HRK 7,534 thousand (2021: there were no loans given).



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% (2021: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 1,573 thousand higher/lower for the Company (2021: HRK 1,545 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.

2022.	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	10,269	-	-	10,269	5,548	15,817
Trade and other receivables	184,071	3,572	139	187,782	90,223	278,005
Financial assets at fair value through profit or loss	-	-	2	2	31,072	31,074
Cash and cash equivalents	62,707	10,198	8,007	80,912	382,073	462,985
	257,047	13,770	8,148	278,965	508,916	787,881
Borrowings and lease liabilities	(32,662)	-	-	(32,662)	(14,172)	(46,834)
Trade and other payables	(44,856)	(1,484)	(17)	(46,358)	(239,616)	(285,974)
	(77,518)	(1,484)	(17)	(79,020)	(253,788)	(332,808)
Currency gap	179,529	12,286	8,131	199,945	255,128	455,073

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



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% (2021: 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 (2021: HRK 0 thousand).
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2021: 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 (2021: HRK 0 thousand).
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2021: 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 (2021: HRK 0 thousand);

The following table presents the annual average interest rates exposure of financial assets and liabilities:

	Average interest rates	Average interest rates
	2022	2021
	%	%
Loans and receivables	0.09	0.14
Cash and cash equivalents	0.01	0.08



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 2022, the five largest customers represent 62% of total net trade receivables (2021: 67%).

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 462,985 thousand as at 31 December 2022 (31 December 2021: HRK 334,101 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 1,094 thousand as at 31 December 2022 (31 December 2021: HRK 1,518 thousand). The Company's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 263,152 thousand as at 31 December 2022 (HRK 188,662 as at 31 December 2021). Provisions for expected credit losses on trade receivables and receivables from related party amounted to HRK 2,184 thousand as at 31 December 2022 (HRK 7,547 as at 31 December 2021). 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 2022 and 2021.

Table 1	Payment due date for total customer loans and receivables *					
	Due balance	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2022						
Foreign receivables	6,763	32,056	3,782	3,719	-	46,320
Domestic receivables	614	51,882	24,234	-	-	76,730
Receivables from related parties	4,361	141,624	-	-	-	145,985
	<u>11,738</u>	<u>225,562</u>	<u>28,016</u>	<u>3,719</u>	<u>-</u>	<u>269,035</u>
* excluding impairment allowance						
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>
* excluding impairment allowance						

Table 2	Ageing of total due customer loans and receivables				
	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2022					
Foreign receivables	4,027	2,736	-	-	6,763
Domestic receivables	221	125	159	109	614
Receivables from related parties	3,369	604	215	173	4,361
	<u>7,617</u>	<u>3,465</u>	<u>374</u>	<u>282</u>	<u>11,738</u>
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>



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 2022, the facility remained untapped.

2022	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	-	-	-	14,737	1,080	15,817
Trade and other receivables	128,273	113,528	36,204	-	-	278,005
Current financial assets	31,074	-	-	-	-	31,074
Cash and cash equivalents	458,985	-	4,000	-	-	462,985
	<u>618,332</u>	<u>113,528</u>	<u>40,204</u>	<u>14,737</u>	<u>1,080</u>	<u>787,881</u>
Borrowings	(84)	-	(14,088)	(1,621)	-	(15,793)
Lease liabilities	-	-	(6,855)	(24,186)	-	(31,041)
Trade and other payables	<u>(167,944)</u>	<u>(117,725)</u>	<u>(305)</u>	<u>-</u>	<u>-</u>	<u>(285,974)</u>
	<u>(168,028)</u>	<u>(117,725)</u>	<u>(21,248)</u>	<u>(25,807)</u>	<u>-</u>	<u>(332,808)</u>
Maturity gap	<u>450,304</u>	<u>(4,197)</u>	<u>18,956</u>	<u>(11,070)</u>	<u>1,080</u>	<u>455,073</u>

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	<u>(121,677)</u>	<u>(86,005)</u>	<u>(3,421)</u>	<u>(442)</u>	<u>-</u>	<u>(211,545)</u>
	<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>



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 2022 1.33% (2021: 0.75%) 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

The Government of the Republic of Croatia adopted the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia (published in "Official Gazette" No. 85/22). With the aforementioned decision, the euro becomes the official monetary unit and legal currency in the Republic of Croatia on 1 January 2023. The fixed conversion rate is set at HRK 7.53450 for one euro. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent an adjusting subsequent event.



The Report of Ericsson Nikola Tesla d.d. Supervisory Board on the supervision performed on the Company's operations in 2022

April 21, 2023

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 the Company's business operations, taking respective decisions and conclusions at four (4) regular and two (2) extraordinary Supervisory Board meetings, held in 2022.

In 2022, the members of the Supervisory Board were:

- Franck Pierre Roland Bouétard (Chairperson)
- Olgica Spevec (Deputy Chair)
- Ana Vrsaljko Metelko (Member)
- Petra Vranjes (Member, on December 30, 2022, she resigned with effect as of January 01, 2023)
- Vladimir Filipović (Member and employees' representative until November 29, 2022)
- Petar Šimundža (Member and employees' representative since November 29, 2022)

There was full attendance of the Supervisory Board members at the meetings, except for the meeting held on February 3, 2022, 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 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 regularly informed about the development of business and responsibilities of the Research & Development Center, Customer Services and Solutions Center, Center for ICT solutions for Digital Society, IT & Engineering Services Unit, and the daughter company Ericsson Nikola Tesla Servi d.o.o..

At extraordinary Supervisory Board meetings, the members discussed targets for 2022, impact of crisis in Belarus on the Group's business activities and results in 2022, approval of annual financial statements for 2021, dividend proposal for 2021, and the Remuneration Report for Supervisory Board members and Management Board in 2022.

Based on a continuous focus on retaining, developing and attracting people to secure business continuity, the Company's Supervisory Board supported the Management Board proposal to



allocate MHRK 10 from retained earnings from 2020 for the program of purchase of treasury shares that will be used to pay a part of the bonus as well as an award for the Company's employees. Furthermore, the Management Board was given consent to allocate up to 5,000 treasury shares to the Company's employees. The Company's Annual General Meeting approved the above proposals.

In March 2022, a strategic workshop between the Management Board and the Supervisory Board was held, at which the strategic directions for the next five-year period were analyzed in detail and concrete guidelines for the further development of the company were proposed. During the year, the Supervisory Board has been continuously informed about the progress of each strategic direction.

The Supervisory Board strongly supported the activities on strengthening ethics and compliance business practice in order to secure that the Company meets the highest standards, in line with the Code of Business Ethics of Ericsson Nikola Tesla Group. Ericsson Nikola Tesla's Compliance and Investigation Officer regularly informed the members of the Supervisory Board about the reported compliance concerns, vetted third parties with indicated risks, evaluations of conflicts of interest, compliance trainings for employees and improvements done after risk assessments.

The Supervisory Board also focused on the efficiency of the risk management system and internal control. Based on the recommendation of the Audit Committee, which was based on the independent internal and external audits of the management system, the Supervisory Board concluded that the Ericsson Nikola Tesla Group has an efficient and strong integrated system of managing business risks - Enterprise Risk Management, with concrete measures for improvement.

The Supervisory Board conducted a self-assessment of the effectiveness, competences and composition of the Supervisory Board and its Audit Committee, as well as the performance of individual members. Furthermore, the Supervisory Board assessed the efficiency of cooperation with the Management Board and the adequacy of the support and information it receives from the Management Board. The evaluation was performed by the Supervisory Board itself, without the engagement of external advisors. The tools for assessment 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 open communication with the Management Board, continuous support to the Management Board in overcoming various challenges, dedicated and responsible work of each Supervisory Board member, unanimity in decision making process, quality strategic discussion, dedication to risk and compliance management, continuous monitoring of financial results and the diversity of the Supervisory Board members in term of their qualifications and gender representation.

In the forthcoming period, the Supervisory Board will continue to monitor strategic directions and provide support to the Management Board and Executive Management in overcoming business challenges, will maintain focus on profitability and other key financial indicators as well as business risks. Furthermore, it will continue to strengthen the communication of Supervisory Board members with the Company's shareholders to receive feedback about their expectations.

The Management Board assessed its own effectiveness in 2022 and presented its conclusions and future plans at the Supervisory Board meeting. 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 2022.

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. At the end of 2022, the representation of women in the Supervisory Board was 60%. At Group's level, the representation of women in Executive Management was 23.5%, among line managers, program & project managers 26%, and among the total number of employees 25%.

Analyzing the reports of the Management Board and monitoring the development of key financial indicators, the Supervisory Board assessed that Ericsson Nikola Tesla Group had a successful business performance in 2022, despite a challenging geopolitical and economic environment. An increase in sales revenue was achieved owing to sales growth in services to Ericsson and sales in the Digital Society segment in the domestic market. During 2022, the Group was focused on the realization of many projects related to modernization and expansion of telecommunication networks and digital transformation of the public and private sector, quality delivery and new responsibilities from Ericsson corporation, as well as finding new opportunities in order to partially offset the impacts of sanctions imposed on Belarus on business results. With the aim of continuation of stable business performance, the Group remains focused on its strategic



directions, risk management, cost efficiency, as well as further strengthening of the company's culture based on integrity, ethics and compliance.

Work of the Audit Committee

The Audit Committee, a sub-committee of the Supervisory Board of Ericsson Nikola Tesla d.d., held five (5) meetings in 2022, during which it discussed the financial performance during the year and annual financial statements, audit plan for 2021, internal and external audit findings, high-level 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 findings, audit fee as well as the Report on the audit of the financial statements. It evaluated the performance of the external auditors and enquired into their qualifications, independence and objectivity. After negotiations with external auditors, the Committee approved audit fee for 2022. It also pre-approved all non-audit services provided by the external auditors.

The Committee monitored the activities and approved Operational Excellence, Development & Quality team and Independent Internal Audit plan and objectives for 2022. The Committee reviewed Ericsson Nikola Tesla integrated system of managing business risks – ERM, based on the „Three Lines of Defense“ model, in which there is the Independent Internal Audit function as the „3rd Line of Defense“. Risk management, internal controls and compliance requirements have been checked during 2022 by independent internal audits and assessments, as well as by external audits of Ericsson Nikola Tesla Group Management System. Based on the outcome of the mentioned audits and assessments, the Committee concluded that Ericsson Nikola Tesla Group has efficient risk management system at all organizational and functional levels.

With respect to compliance, the Committee decided about reported compliance concerns. It evaluated and monitored Ericsson Nikola Tesla Group Ethics and compliance program activities with the special focus on tracking improvements after anti-bribery and corruption risk assessments conducted internally and externally. The Audit Committee opinion is that Ericsson Nikola Tesla Group has well established and efficient compliance procedures.

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 2023.



During 2022, the members of the Audit Committee were: Olgica Spevec (Chairperson), Vesna Vašiček (Member) and Petra Vranjes (Member). 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:

1. Management Board's Decision on Approving consolidated and non-consolidated annual financial statements;
2. Decision by the Supervisory Board on Approving consolidated and non-consolidated annual financial statements;
3. Management Board and Supervisory Board Decision proposal on allocating retained earnings from year 2021 and the Company profit achieved in the financial year 2022.

For the Supervisory Board

A handwritten signature in blue ink, appearing to read "Bouétard", written over a horizontal line.

Franck Pierre Roland Bouétard, Chairperson

Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45

OIB: 84214771175

Zagreb, 21. travnja 2023.

Zagreb, April 21, 2023

**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:

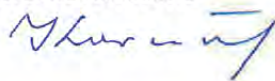
- Utvrđuju se godišnja financijska izvješća Društva za 2022.g.
- Utvrđuju se godišnja konsolidirana financijska izvješća Društva i njegovih podružnica („Grupa“) za 2022.g.

- The Annual Financial Statements of the Company for 2022 have been approved.
- The Annual Consolidated Financial Statements of the Company and its subsidiaries (the “Group“) for 2022 have been approved.

Ericsson Nikola Tesla d.d. Zagreb
Uprava

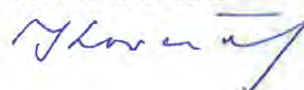
Ericsson Nikola Tesla d.d. Zagreb
Management Board

Gordana Kovačević




Ericsson Nikola Tesla d.d.
Krapinska 45
HR-10 000 Zagreb
CROATIA

Gordana Kovačević



01

Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45
OIB: 84214771175

Zagreb, 21. travnja 2023.

Zagreb, April 21, 2023

**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 2022.g.
- Utvrđuju se godišnja konsolidirana financijska izvješća Društva i njegovih podružnica („Grupa“) za 2022. godinu.

- The Annual Financial Statements of the Company for 2022 have been approved.
- The Annual Consolidated Financial Statements of the Company and its subsidiaries (the "Group") for 2022 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



Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45
OIB: 84214771175

Zagreb, 21. travnja 2023.

Predmet: Prijedlog Odluke Uprave i Nadzornog odbora Društva o raspodjeli zadržane dobiti iz 2021. i o uporabi dobiti Društva ostvarene u financijskoj godini 2022.

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 2022. u iznosu od 19.579.104,23 EUR (147.518.760,85 kuna) rasporedit će se u zadržanu dobit.
- Dioničarima Društva isplatit će se dividenda u iznosu od 6 eura po dionici iz zadržane dobiti iz 2021. i 2022. godine.

Zagreb, April 21, 2023

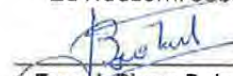
Subject: Management Board and Supervisory Board Decision proposal on allocating retained earnings from year 2021 and the Company profit achieved in the financial year 2022

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 2022, amounting to EUR 19,579,104.23 (HRK 147,518,760.85) will be allocated to retained earnings.
- The Company shareholders shall be paid dividend of EUR 6 per share out of retained earnings from year 2021 and retained earnings from year 2022.

Ericsson Nikola Tesla d.d. Zagreb

Za Nadzorni odbor


Franck Pierre Roland Bouétard
Predsjednik

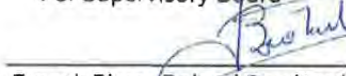
Uprava


Gordana Kovačević

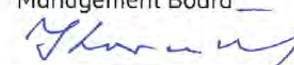
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For Supervisory Board


Franck Pierre Roland Bouétard
Chairperson

Management Board

01 
Gordana Kovačević



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