

# GENERAL REPORT 2012

Ericsson Nikola Tesla d.d.

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# COMPANY POSITION REPORT



DEAR SHAREHOLDERS,

Despite all the challenges in the development of a modern civilization, ICT continues to change business performance and people's lives and have even more significant impact on the society and the environment. Recognizing the needs of modern people for permanent use of innovative ICT solutions as well as the need for sustainable development of the society, the industry we operate in has been quickly modulating the new communications era that takes us to the networked society. At Ericsson Nikola Tesla, we share the vision of a networked society due to our awareness of its impacts on human life, productivity and sustainable development.

Although exposed to a demanding market environment, and negative economic trends in Croatia and other markets, Ericsson Nikola Tesla ended the year 2012 with excellent business results. Sales revenue is 64 percent higher year-over-year, as a result of a significant increase of revenue in CIS and Ericsson markets. Simultaneously, sales in domestic markets increased slightly year-over-year, while other export markets decreased as a result of negative economic trends, political turmoil and postponed customer investments.

I would like to point out that in 2012 we strengthened our market share and implemented a few strategically important projects and contracts, respectively, which show that continuous market presence and listening to the needs of our customers combined with technology leadership and competent expert resources bring the results. The revenue structure by markets is significantly changed in favor of export markets. In total sales revenue the domestic market share is 14 percent, and the export reached a record high 86 percent.

In the Russian market, we successfully implemented a demanding project on 2G and 3G mobile networks for Rostelecom. With a new mobile network, Rostelecom becomes a convergent operator,



Gordana Kovačević, MSc,  
President of Ericsson Nikola Tesla d.d.

which will provide a whole package of convergent services to its users in the field of information and telecommunications in mobile and fixed networks across the Russian Federation. This is the biggest deal the Company signed in the last few years. However, it is unrealistic to expect that such a large single deal with an individual customer happens each year.

In the domestic market Ericsson Nikola Tesla became the only supplier of the cutting-edge radio access network to Vipnet and thus consolidated its position as the leading supplier of the cutting-edge solutions. Furthermore, a multi-year agreement concerning the implementation of IP/MPLS network backbone was signed with Hrvatski Telekom (T-HT), which is the foundation for future business performance of T-HT as a convergent operator and a way to „all-IP“ environment. In the area of ICT solutions for Industry and Society segment, we made deals on maintenance and upgrade of the Central Information Healthcare System in the Republic of Croatia.

In the market of Bosnia and Herzegovina, we made an agreement with BH Telecom on mobile network extension related to 2G/3G technologies, which is, at the same time, a preparation for the transition to LTE technology. By investing additional efforts, in order to strengthen our presence in a neighboring market of Bosnia and Herzegovina, and improve our business performance as well, we established a company ETK BH d.o.o., fully owned by Ericsson Nikola Tesla. Consequently, Ericsson Nikola Tesla submits consolidated financial statements as of the financial year 2012.

The major part of our activities and the related revenues refer to research and development and other expert activities, where the Company permanently expands its portfolio and responsibilities and our experts are engaged in numerous demanding projects. The performance of our Research & Development Center in 2012 was evaluated as high by Ericsson R&D Operational Steering Group. Bearing in mind the importance of this segment for the future of the entire Company, we shall continue to put our maximum focus on this

area in order to improve our competitiveness.

I would like to emphasize that our permanent focus on innovations gives excellent results. We have been recognized by the Ericsson Group for our quality, innovation processes and creativity of our experts, which is also confirmed by global awards won by our teams and individuals.

As a part of the Company reward and motivation program, we acquired additional 2,375 Ericsson Nikola Tesla shares intended for distribution to our employees.

In the year 2012, Ericsson Nikola Tesla achieved the following consolidated results (2011 figures in brackets):

- > Sales revenue MHRK 1,913.3 (MHRK 1,165.8);
- > Net profit MHRK 126.9 (MHRK 28);
- > Strong cash flow from operating activities MHRK 298 (MHRK 134.8);
- > Company's motivating culture and a strong employee engagement were confirmed by the annual Employee Engagement Survey (Dialog);
- > The customer satisfaction was confirmed by the annual Customer Satisfaction Survey.

In brief, in 2012 we achieved a significant improvement of almost all key performance indicators also mirrored in a stable balance sheet. With the increase in sales revenue, net profit grew by 353 percent year-over-year. We also achieved a strong cash flow from operating activities. We have continued to invest in strategic customer projects, competence development of our employees and strengthened our market position. Simultaneously, we had a strong focus on efficiency increase, cost reduction and risk management. Therefore, 2012 was a successful business year, which is an excellent precondition for future positioning, investment and development.



#### Sales revenue

**MHRK 1,913**

(2011: MHRK 1,166)

#### Net profit

**MHRK 127**

(2011: MHRK 28)

#### Cash flow from operating activities

**MHRK 298**

(2011: MHRK 135)

## OUTLOOK

In the period to come, the telecom market will remain extremely dynamic. Mobile data traffic shows a significant growth due to the considerable increase in the number of mobile smart devices, as well as due to the increased internet usage. Accordingly, further growth of fixed broadband access to xDSL technologies and also introducing high-speed technologies based on optics (FTT-x) are expected.

Mobile broadband access will continue a strong growth by further implementing the 3G and 3.5G mobile technologies (HSPA, HSPA+), and in Croatia we expect a more intense implementation of LTE technology. Furthermore, we expect a more significant modernization of the existing mobile networks based on SRAN concept (Single Radio Access Network), which enables operators to improve operational efficiency and optimize costs.

As regards edge and core networks, transformation to "all-IP" Next-Generation Convergent Networks based on the IMS architecture will continue.

We also expect modernization of Operations Support Systems (OSS) and Business Support Systems (BSS) as well as IPTV platforms. Finally, this all will enable operators to provide a wide range of convergent services regardless of the location or the user approach.

The implementation of ICT should be increased in the Industry and Society segment both in enterprise and state administration because of effects and benefits achieved by development, implementation and usage of up-to-date ICT solutions and services.

The first steps in the area of m2m (machine-to-machine) communications are also expected, as well as gradual implementation of cloud solutions and business models based on them.

Considering mostly unchanged market environment, risks in business performance

which marked the previous period still remain present. Therefore, by assessing the risks of Ericsson Nikola Tesla's business performance in 2013, hereby I list the following:

- > Reduction and slowdown of operators' capital expenditures and postponements of strategic investments in both public and private sectors;
- > Impact of product and service mix on gross margin;
- > Strong competition among existing and new service providers, including IT companies entering the ICT market;
- > Consolidation among customers and competitors may have additional impact on prices of products and services;
- > Continuation of political uncertainty and instability in some markets;
- > Enlarged credit and commercial risk exposure in case of deterioration of our customers' financial conditions;
- > Negative impact of foreign exchange fluctuations since the majority of our revenues have been generated in EUR and USD;
- > Retaining highly skilled and top-performing employees to stay competitive.

Ericsson Nikola Tesla operates in line with established policies and directives, the Croatian legislative regulations as well as the Principles of Corporate Governance and the Code of Business Ethics.

The strategy of Ericsson Nikola Tesla is focused on further strengthening of the position in domestic, internal Ericsson and export markets, on further expanding of the customer base,

### Networked Society



**40%**  
of the world's mobile traffic runs through Ericsson-supplied networks

acquiring new responsibilities and offering the cutting-edge solutions, products and services. The key factors to achieve this are technology leadership, development of new models that encourage permanent learning and development of innovations. ICT industry will continue to have an important role in business performance development and in the society in general. The introduction of new devices and applications results in increasing user expectations concerning the quality and network performance, which increases the demand for our technological solutions and services. Therefore, our strategic priorities are focused on the areas with growth potential, such as mobile broadband access, services as well as operations and business support systems. Strengthening profitability and reducing costs are still of utmost importance in our strategy.

It is quite certain that economic uncertainty and business challenges will mark 2013 as well. Therefore, we will be focused on a constant adjustment to technological and market conditions, as well as risk management. We shall continue to contribute to Ericsson's technology leadership, strengthen our relations

with customers and all other partners, and shall invest into knowledge and competencies of our employees, remaining aware of the fact that this is what makes us recognizable in the market.

All other data, being an integral part of the annual company report, pursuant to Article 250 (a) of the Company Act, can be found in the enclosed 2012 Annual Report, comprising of the General Report, Social Report, and Consolidated Financial Statements as at December 31, 2012.



Gordana Kovačević  
President  
Ericsson Nikola Tesla d.d.

# BUSINESS RESPONSIBILITIES/ ACTIVITIES

Ericsson Nikola Tesla is a leading regional provider of ICT technology solutions. Through innovations and thought leadership the Company drives opportunities and profitable sales growth. It creates value together with its customers by combining technology leadership, leadership in services, regional presence and e2e abilities.

The Company's core business activities include the following:

- > Research and Development Center;
- > Center for e2e communications solutions;
- > Local, regional and global Service Delivery Center;
- > Center for ICT solutions in Industry and Society segment;
- > Marketing and sales of information and telecommunications products, solutions and services.

Ericsson Nikola Tesla:

- > Provides innovative ICT solutions that improve people's lives, creating new value for both business and society;
- > Encourages the prosperity of its environment by ensuring access to modern information and communications systems and technologies;
- > Operates in the area of advanced technologies, and plays an active role in e-projects;
- > Is among leading exporters in Croatia, and the largest Croatian exporter of knowledge;
- > Provides modern test environment of highest standards.



When one person connects,  
his or her life changes.  
With everything connected,  
our world changes.



# PRODUCTS AND SERVICES

Ericsson Nikola Tesla offers its customers and partners a complete portfolio of Ericsson/3PP communications products, solutions and services in the following segments:

- > High-performance networks;
- > World-class operations and network evolution;
- > Multimedia with leading Business Support Systems, TV solutions and applications;
- > Solutions for selected Industry and Society segments based on understanding the customers' needs and offering e2e concept.

Networking  
promotes  
creativity



80

For every 1,000 connections,  
**80** new jobs are created



1%

For every **10** percent increase  
in broadband penetration, GDP  
increases by **1** percentage point



3.8%

A **1** percentage point increase  
in broadband penetration  
increases new business  
registration by **3.8** percent

## SALES AND MARKETING

The domestic market accounted for 14 percent, while export accounted for 86 percent (export to Ericsson market for 29 percent, and export to other markets 57 percent) of Ericsson Nikola Tesla's total sales revenue.

### DOMESTIC MARKET

In the domestic market, sales revenue totaled MHRK 268.1, which is 2 percent higher year-over-year. Negative economic trends and increasing competition affected the Croatian telecom market (behavior of end users and operators' revenue). Apart from that, the Government investments in strategic ICT projects have still been postponed.

Vipnet selected Ericsson Nikola Tesla as a strategic partner in building the 4G mobile network (LTE). By signing the contract, Ericsson Nikola Tesla became the sole supplier of the cutting-edge radio access network to this domestic operator. In addition, a contract on a continued construction of the radio transmission network was signed. This enabled Ericsson Nikola Tesla to remain the supplier of radio transmission network based on Ericsson's ML (minilink) portfolio. During the analyzed period, the cooperation on expansion and modernization of 2G and 3G infrastructure was continued, as well as the core network upgrade, with the implementation and testing of new functionalities.

Our cooperation with T-Hrvatski Telekom (T-HT) continued on projects of network transformation into the new network generation and expansion of the broadband internet access.

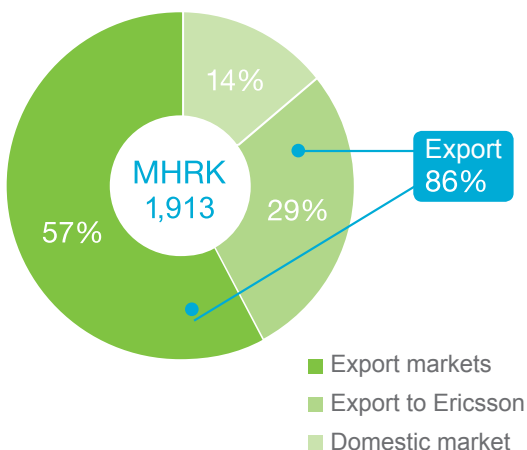
The implementation of IP/MPLS backbone network project is reaching its peak, which is the

basis for the future T-HT business performance as a convergent operator and the way to all-IP environment. A contract concerning BIAD (Basic Integrated Access Device), devices for end users, was also signed. Ericsson Nikola Tesla actively participates in a mobile network modernization by expanding the capacities of microwave radio-relay systems required to handle the increased data traffic volume. Apart from that, the Company was selected as the supplier of the new generation solutions to meet the demands for automated optimization and capacity management, as well as mobile network resources management. The migration PSTN is going on in compliance with the time schedule.

A long-term collaboration continues with mobile operator Tele2 by focusing on functionality and modernization improvement of the existing network. In line with actual telecommunication trends, main focus is still on a speed increase and coverage by broadband internet access services.

Essential activities in the field of ICT segment for Industry and Society are focused on projects of upgrading the national ICT healthcare system, implementation of Joint Information System (JIS) for Land Registry and Cadastre as well as modernization and expansion of Hrvatska elektroprivreda d. d. (HEP), the Croatian electricity company.

### Sales by market



We are focused  
on customers  
and their needs



## EXPORT MARKETS

In export markets (except for Ericsson market), the sales revenue totaled MHRK 1,093.2, which is an increase of 161 percent year-over-year.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) the sales revenue totaled MHRK 204.9, a 24-percent decrease year-over-year. Negative economic trends and political turmoil still have a significant impact on the operators' investments in these markets.

At the beginning of the year, Ericsson Nikola Tesla signed a 2.5-year contract with Kosovo operator Ipko concerning the application of the latest software versions in Ericsson network elements, implemented in Ipko's network. This contract is of strategic importance for Ericsson Nikola Tesla because it paves the way for further Ipko's network upgrades by using the most advanced Ericsson's technology.

A contract on expansion of the existing mobile network in 2G and 3G segments was concluded with HT Mostar. It covers the delivery of the state-of-the-art equipment as well as installation and integration services. Apart from that, with the same operator we made a contract on the support and maintenance of their fixed and mobile networks. Furthermore, in the last quarter contracts on the expansion of GSM/UMTS mobile network, as well as on the fixed network expansion were signed. The implementation

of these networks will enable the expansion of BH Telecom 2G and 3G networks, as well as the strategic preparation for transition to LTE technology by means of a simple software upgrade.

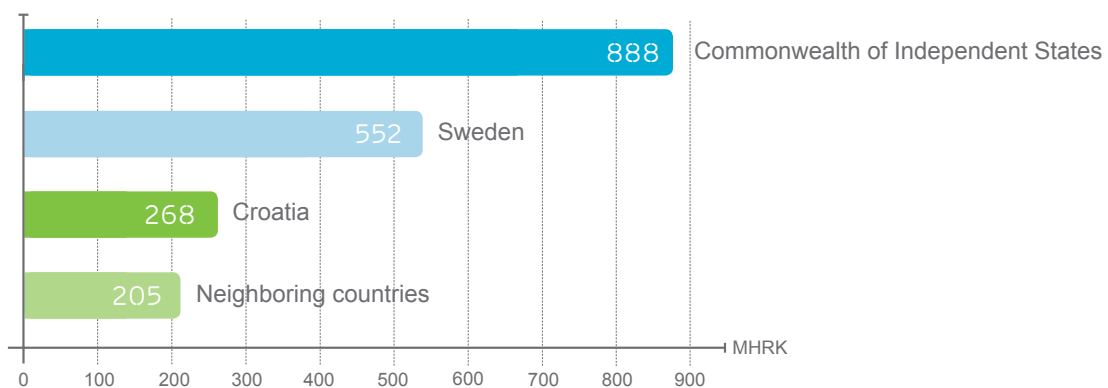
In CIS markets sales revenue totaled MHRK 888.1, which is an increase of 501.7 percent year-over-year. This was primarily due to the implementation of the contracted business deals in the Russian market.

We delivered the equipment for 2G and 3G mobile networks to Rostelecom, the leading Russian telecom services provider. The delivery included multi-standard radio base stations of RBS 6000 type, a channel and package switching networks, and the architecture for the Evolved Packet Core network, as well as Operations Support Systems (OSS). The implementation of solutions based on the Ericsson Media Delivery Network (MDN) is currently ongoing.

Sales revenue in the Ericsson market totaled MHRK 552, a 14-percent increase year-over-year.

Ericsson Nikola Tesla's Research and Development Center, applying the innovative, agile way of working (Lean & Agile), successfully continues to operate on developing new functionalities and is permanently expanding its portfolio and responsibilities at the global level.

## Major markets



In the core network segment, the development of new functionalities for the next MSS product generation (Mobile Softswitch) is going on, whereby new functions in SIP (Session Initiation Protocol) and Vo-LTE (Voice over LTE) segments intensively continue to develop. Successful cooperation has been achieved with numerous customers worldwide.

In the area of fixed core networks and AXE platforms, as well as in a part of WSO organization (Wireline Switching Operations), we are globally responsible for delivery and maintenance of software packages and for providing services to demanding customers in different time zones across Europe, North Africa, the Middle East, America and Asia.

An important achievement, in the platform activity segment, represents a successful completion of the development and implementation of EVO ET solution. This extensive and complex project required a development of a completely new hardware and software, as well as the implementation of numerous innovations. Thanks to the constant focus on quality, the product trial operation in the Telstra Australia network was executed without any difficulties reported, and its global acceptance (GA) is just being launched.

Numerous other software deliveries have been done at the high-quality level, which was confirmed at all verification stages. Due to proven flexibility, innovative and excellent performance, additionally strengthened by an agile way of working, our company was granted a position of a strategic partner within the Ericsson organization for developing platforms, which is a valuable recognition.

Experts from Service Delivery Center were engaged in numerous projects in markets worldwide, and delivered their services to the following operators: O2 Great Britain, Vodafone Great Britain, Vodafone Ireland, KPN Netherlands, Vodafone Netherlands, Telekom Austria, Swisscom Switzerland and Polkomtel

Poland. One of important projects to be mentioned was the support provided during the Olympic Games in London and optimization of Vodafone Great Britain mobile network. During the year, the engagement in the expansion of the LTE network for Vodafone Germany was continued.

In addition, experts from the Center also provided consulting and dimensioning services for A1 Austria, T-Mobile Austria, Mobitel Slovenia, Slovak Telekom, Orange Romania, Monaco Telecom, Vodafone Spain, MTN IranCell, Magticom Georgia and services related to optimization and management of the new generation mobile network for Softbank Japan.

The experts from the Global Competence Center for Radio Broadband Access Networks also worked on the LTE optimization and on Heterogeneous network strategic projects.



#### Export markets

**MHRK 1,093**

(2011: MHRK 442)

#### Export to Ericsson

**MHRK 552**

(2011: MHRK 461)

#### Domestic market

**MHRK 268**

(2011: MHRK 263)

## SCIENTIFIC AND RESEARCH ACTIVITIES

A permanent development of scientific and research activities is one of the long-term strategic objectives of Ericsson Nikola Tesla. Primarily, this means, a permanent development of new products and solutions and continuous research work on new technologies and processes.

The major strength of the Research and Development Center is research and development unit as well as those organizational units engaged in activities for Ericsson Development Unit (DU). The units' activities cover core systems and IMS, radio, IP and broadband systems. This part of activities on development projects are focused on fixed networks and their transformation. Operating in international teams, our experts collaborate on daily basis not only with their colleagues from R&D centers within Ericsson Corporation, but also with other experts from different business units within the Company as well as with researchers from universities in Croatia and abroad.

An important part of research activities is related to participating in EU funded projects, such as a four-year project named UniversAAL – UNIVERSal Open Platform and Reference Specification for Ambient Assisted Living (AAL) that is still going on. Its main objective is to make technically feasible and economically justified ideas, their elaboration and implementation related to new, innovative services that intend to improve the AAL environment. A three-year research on pan-European project HeERo (Harmonized eCall European Pilot) is going on. The project's mission is to ensure a significant progress of traffic and public safety through an e-Call service. In the future, this new service will enable an automatic call set-up from a vehicle participating in an accident to a local public security access point. In Q4 2012 a new project, Cloud Scale, was launched with a main objective to ensure scalability and flexibility of applied systems on IT-cloud platform.

Ericsson Nikola Tesla has successfully continued the long-term collaboration with the Faculty of Electrical Engineering and Computing of the University of Zagreb on mutual research projects. A research work on the project concerning m2m communication is especially important since, in terms of business, it is a very promising area. In addition, the research of systems for network topologies emulation/simulation in test domain continued, especially as the artificially generated traffic load is concerned. A part of the results

obtained has already been implemented into virtual network test equipment that, apart from being used in the Company, started to be used in the Ericsson Corporation. Besides, further technology research activities on Model Driven Development (MDD) projects, implying quick and efficient writing and application of computer programs at minimum cost, are worth mentioning.

Ericsson Nikola Tesla and its partners from the academic community jointly organized the 12th Ericsson Nikola Tesla's Summer Camp. This important, already traditional project, was accomplished in cooperation with the Faculty of Electrical Engineering and Computing of the University of Zagreb, Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture of the University of Split, Faculty of Engineering of the University of Rijeka, Faculty of Electrical Engineering of the University of Sarajevo, Faculty for Electrical Engineering of the University of Tuzla and the University College for Applied Computer Engineering, Zagreb. It is worth mentioning that, throughout the cooperation with Ericsson in Hungary, this was the first time that Hungarian students joined the Camp. During summer months, students worked on specific problems important for implementation of the current R&D projects, applications and demos for customers and internal tools for future use. The participants of the Camp had the opportunity to offer improvements of the existing solutions and ideas gained through innovation process and propose new innovative solutions and prototype applications.



Innovative  
thinking

# HUMAN-FRIENDLY TECHNOLOGY

The sustainability of any human activity, especially in times of crisis, directly depends on capability of comprehensive and, as precise as possible perception of future user needs, or even better, on abilities to actively create new needs for the current and potential users. Thus, relevant trend analyses and forecasts, especially in terms of ICT technology, are always appreciated since the insight into future technologies that may improve human

lives in all aspects is, no doubt, precious for comprehensive insight into future, both through numerous segments of human activities and all social structures. It is clear that current presentations of the most important trends are source dependent, and slightly differ from one another. However, the role of ICT as an innovative development driver that makes human life better is, undoubtedly, a key to the globally winning combination of the 21st century.

## CONSUMER TRENDS

Driving forces for ICT development are strongly related to consumer trends, and just the end user abilities and wishes tailor the business destiny of all stakeholders in our own ecosystem. Therefore, Ericsson ConsumerLab published the following list of ten most important consumer trends in 2013 that are expected also in the future:

- 1. CLOUD RELIANCE RESHAPES DEVICE NEEDS**  
Concerning tablet computers and smartphones, users appreciate user-friendly features of the same applications and data available through a cloud computing on multiple devices. With that, requirement for access to internet comes from products that recently were not connected, such as cameras or cars.
- 2. COMPUTING FOR A SCATTERED MIND**  
Instead of a desktop, consumers more often choose a tablet, as well as they prefer a smart telephone rather than a laptop. This trend is favored by the possibility to use a device spontaneously, in compliance with the current situation, anywhere and any time.
- 3. BRING YOUR OWN BROADBAND TO WORK**  
Employees bring to work their own smartphones with their favorite and most useful applications they are subscribed to.
- 4. CITY DWELLERS GO RELENTLESSLY MOBILE**  
Good mobile network coverage is the fourth most important driver of satisfaction with life in cities.
- 5. PERSONAL SOCIAL SECURITY NETWORKS**  
Because of economic uncertainty, consumers give more credence to personal networks and communities. Thus, LinkedIn took over such a role due to which traditional employment agencies are faced with underperformance. And as of Twitter, CV data can already be sent. According to reports by Royal Pingdom, in October 2012 Facebook recorded more than a billion users, two months later Twitter reached 200 million users, and there are even 2.2 billion e-mail users worldwide.
- 6. WOMEN DRIVE SMARTPHONE MARKET**  
The research agency Gartner shows that sales of standard mobile phones dropped in 2012, but at the same time women more often than men recognize the advantages of smartphones. They are also more frequent photo senders and receivers, as well as SMS and social network users. According to investigations, at the end of 2012 there were 1.3 billion smartphones in use. Some four billion hours of video are being watched on YouTube per month, and on Facebook some 7 thousand terabytes (7 petabytes) of photos are added per month, and the majority of these activities are executed just via smartphones.

## 7. CITIES BECOME HUBS FOR SOCIAL CREATIVITY

A contrast to the image of estranged urban life is the intensified social online activity. City dwellers have a considerably larger number of online friends than people in the country. The third most common reason for social networking is interconnection and exchange of ideas. Along with the need for being connected to family and friends, this makes it one of the prime drivers of social networking.

## 8. IN-LINE SHOPPING

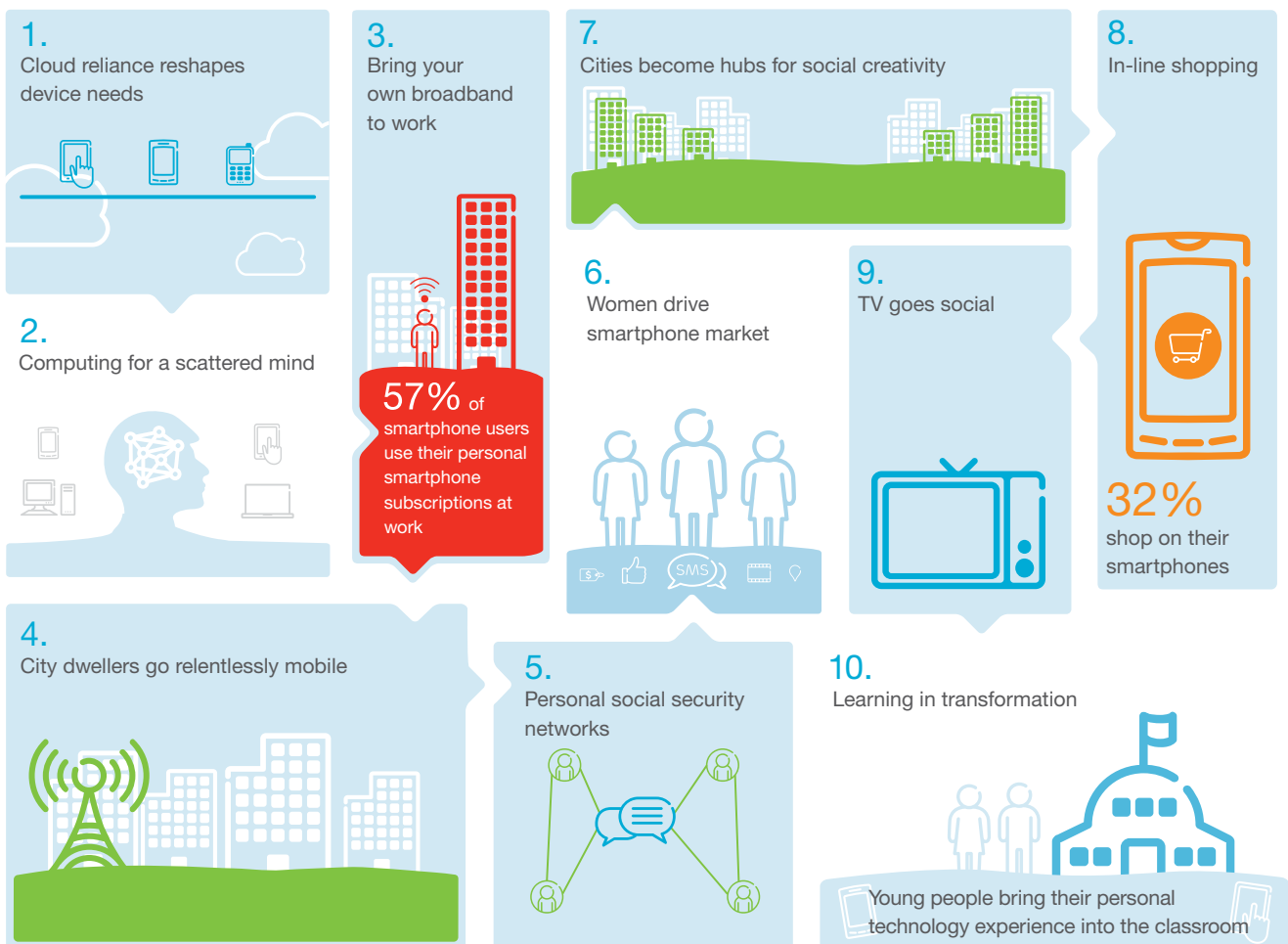
Approximately one third of smartphone users already now use their mobile phone for online shopping and they want to make it even more sophisticated by combining advantages of online and in-store shopping. They want to see products and obtain additional information, compare prices, see the full market offer and, finally, when they make a decision, they want to pay safely and with no queuing at a cash desk.

## 9. TV GOES SOCIAL

The number of social network users who chat while watching TV increases. Many of them, at least once a week, discuss the topics currently broadcasted.

## 10. LEARNING IN TRANSFORMATION

Learning process has considerably transformed due to both inside and outside driving forces. Young people add to the process their personal technological experience, thus forming pressure upwards. At the same time, governments and institutional bodies search for new, more efficient ICT solutions to be applied in education.



## CHALLENGES OF MEGACITIES

Real ICT challenges will be focused on solving the vital problems of the majority of population related mainly to their lifestyle. At the beginning of the 19th century, it was only 3 percent of people living in towns and two centuries later, in 2008, the number reached 50 percent. According to experts, by mid of this century, three fourths of the world population will live in urban areas. Towns and cities, spread on only 2 percent of the territory, are responsible for 75 percent of CO<sub>2</sub> emission. The most complex challenges are those already experienced by the inhabitants of megacities (large urban areas of more than 10 million inhabitants that developed from a single city or by merging several towns). By 2050, according to UN experts' estimates, 13.6 percent of the world's population will be concentrated in megacities. To survive and

provide satisfactory living conditions, they shall inevitably become smart cities. This term implies smart water and energy supply infrastructure, as well as various solutions in the public administration, transportation, education, environmental protection and similar segments. According to ABI Research analysts, there are 102 currently ongoing projects worldwide that are focused on smart cities, and 38 of them are taking place in Europe. The available data say that by 2016 the total annual investment into smart cities technology will reach almost 40 billion dollars. Among the world prominent companies, such as IBM and BMW, Ericsson Corporation is also the one that offers solutions for smart cities, and has a large share in finding optimum solutions for the following seven mega challenges of megacities:

### 1. WATER

Many cities worldwide, even in moderate zone, especially in China, already today are faced with water shortage and their inhabitants (if compared to Western countries) live with reductions. Mexico City is a drastic example in that sense. It was built along an old lake but now it is drained up to the extent that the whole city is sinking. And when it comes to waste waters, it is a special problem since they cause pollution of rivers, lakes and seas in coastal zones. Having in mind that population of some areas is already doomed to "desalination" of sea water, this most important resource of future times is still Croatia's strategic advantage that requires a responsible approach at all levels.

### 2. ENERGY

Challenges related to watercourses management are closely related to the power consumption, which is, as well as air pollution, often at the top of such lists. Until recently, pompous glamour of illuminated cities including buildings "decorated" with air conditioners was the symbol of social well-being. But today, those really rich spend less energy than their neighbors do since they invest in insulation, energy-saving lighting and devices with reduced energy consumption, solar collectors and panels, respectively. Professionals are well aware of Ericsson's achievements in the segment

#### In the 2030 city:



Many do not own a car, but have an autonomous car subscription



Half of all basic healthcare can be delivered remotely



Universities are accessible to all, digitally



Working remotely is as natural as going to the office

of a smart grid and the research activities are continued. EU has set a goal to introduce power sources with no CO<sub>2</sub> emission by 2050. State and government leaders agreed the implementation of 20-20-20 goals: i.e. by 2020, CO<sub>2</sub> emission shall be reduced by 20 percent, energy efficiency shall grow by 20 percent and a share of renewable energy sources shall reach 20 percent in the total energy consumption. Ericsson is a member of the UN Global Compact work group formed based on the UN initiative on "Energy Sustainable for All", which helps to identify the best ICT practice and supports ambitious goals related to improvement of energy approach, energy efficiency and usage of renewable energy resources. Besides, Ericsson was granted a Green Electronics award by the *Elektra* magazine, as well as the 2012 product of the year for its latest series of DC/DC converters of BMR 456 and BMR 457 types that reduce the power consumption by 3 to 10 percent, depending on the unit/board to which bus they are mounted.

### 3. WASTE

According to the experts, one can expect that megacities, depending on the stage of society development, produce above 3.5 million tons of waste a year. One of solutions offered is careful selection, separation and recycling of all types of waste that can be recycled. Further on, ecological waste incineration of remaining waste is possible with usage of heat resulting from it. But in warmer parts of the world, it is a much better solution to reduce waste drastically by recycling it or by direct industrial reuse of all that can be reused. According to estimates from the UN World Urbanization Prospects, the annual value of this market only in Europe is higher than 300 billion dollars. So, today the growing number of industrial corporations, Ericsson included, designs its products for recycling and reuse, thus applying Life-Cycle-Assessment. This results in the increased number of products Designed for Environment, which implies identification and reduction of adverse impact of products and services to environment, including ore extraction, production, transportation, life-cycle-usage and disposal. In Ericsson more than 98 percent of material is reused, and less than 2 percent ecologically disposed.

### 4. AIR

Need to preserve the best possible air quality and to reduce pollution, respectively, is a must for modern cities. For many endangered groups of inhabitants this approach literally means a survival. Illustrations of pollution in Beijing negatively impressed the world and older population in London or Milan still remember similar inconveniences in their home towns too. Technology advances to an unimaginable extent, so that the tunnels constructed in concrete that neutralizes NO<sub>2</sub> by 20 to 70 percent are already in use in Germany and Italy. However, from the long-term perspective, the air quality is directly connected with heating, traffic challenges and mobility.



You always know your arrival time ahead of the commute



It takes only 10 minutes to start a new business



Municipal and user water conservation is supported by real-time information



Electric cars can be charged anywhere

## MOBILITY - TRAFFIC

The last biggest world car show (International Automobile Exhibition - IAA 2011), which takes place every other year in Frankfurt, proved that vehicles of the future will be lower environment pollutants but will be networked to communicate. This is also one of premises in Ericsson's vision of networked society, where all that can benefit from networking will be connected. Therefore, Ericsson and Arthur D. Little created Networked Society Cities Index to rank cities for their ability to use ICT to meet the basic needs of their citizens. Numerous solutions on intelligent transport systems aiming to reduce fuel consumption, such as smart traveling to work, have already for years been a part of that index as well as Ericsson's standard portfolio. Traveling and transportation are already today responsible for 13 percent of global CO<sub>2</sub> emission, a percentage that is constantly rising. Ericsson actively participates in environmental management and carefully plans product transportation, business trips and supervision of facilities. Therefore, in addition to the introduction of more efficient transport system as well as fuel-efficient and electric vehicles, the response to traffic challenges may include also reductions of trips and usage of virtual services, such as video-conferences, e-Cadastre or e-Health, in contrast to physical products.

### 6. HEALTH CARE

Solutions that improve health care and are related to mobility and networking are especially important if one considers the growth of ageing population. This has an impact on the increase in number of patients. Although hospitals and other healthcare institutions today use thousands of systems, computers and other devices, they are often unable to communicate with one another to share information. The gap of inconvenient incompatibility could be bridged soon, since standardization and the interoperability are considered the inevitable step towards smart health care. It is about better and faster patient data management, analysis, real-time available guidelines in the primary healthcare system, chronic disease monitoring and quick reaction that can prevent serious medical condition of an individual or epidemics – and all that is a reality already today. The majority of high-risk patients experience problems and symptoms out of a hospital, i.e. at work or at home. By using Ericsson Mobile Health (EMH) solution for remote medical monitoring, doctors are able to record patient's problem at an early stage. Thus, the solution can be reached faster. There is not always necessary to travel to get an opinion and instruction by a specialist based on actual medical indicators, but thanks to the current technical solutions, one can get it all regardless of place and time. There is no need to spare time or money, and add to the environment pollution. Such solutions, and those from AAL (Ambient Assisted Living) domain, when used in a healthcare system, improve patients' care and considerably reduce costs. Patient can leave hospitals earlier than before, and carry sensors which are easy to fit in a daily life. Such solutions are time saving because patients can be at home and not in hospitals, and can monitor their physical status indicators. Thus the quality of life for chronically ill patients is improved, and their mobility as well. If a treatment in a special medical institution is required, it is possible, by using special-purpose systems and applications, to find the place with the shortest waiting time for a patient. Such advanced functionalities are those of e-Health system introduced in Croatia. In addition to EMH product, this solution was also developed in Ericsson Nikola Tesla and is a part of Ericsson's global portfolio in health care segment, so the Croatian citizens already enjoy the benefits of eReferral, ePrescription and eOrdering. Thus, since the last Euro Health Consumer Index (EHCI) report, Croatia moved up by 6 positions and today it takes the 17th place in the group with Germany and United

**50%** of the world's population lives in cities today - a figure set to increase to 70 percent by 2050. For individuals, it is about improving quality of life for themselves and their families - seeking opportunities, freedom and a sense of belonging.

TRAFFIC



is the biggest cause of tension for the city dwellers



Kingdom. EHCI became a scale of standard in the European healthcare system, and the issue of 2012 compared 34 national healthcare systems in Europe according to 42 indicators in five areas of key importance for the health care users. This success was primarily due to the points in the category "Patient Rights and Informing", resulting from the successful implementation of the Central Health Care Information System delivered by Ericsson Nikola Tesla.

Since the health is one of a few universal categories, Ericsson Corporation pays a special attention to innovations in a health care segment, in which Ericsson Nikola Tesla plays a key role.

## 7. SAFETY

Temperature increase in the Earth caused climate changes that resulted in the increased number of floods and cyclones hitting densely populated and urban areas. This also means a large number of victims. Many large cities are located in the earthquake prone-areas, and coastal areas are endangered by tsunamis. Should any of natural disasters hit a megacity area, the consequences could be unprecedented. Therefore, among the most important challenges today there is a reduction of adverse impact of human activities and climate changes suppression, as well as the development of a system that can forecast a natural disaster as early as possible with an efficient assistance in case of its occurrence. Ericsson is engaged in raising awareness of politicians and global leaders on the importance of ICT in creating a society with a low level of carbon emission. In global expert forums, Ericsson is strongly advocating the introduction of broadband internet access and investment into infrastructure that will enable sustainability of global aims related to prevention of climate changes. In addition, Ericsson Nikola Tesla has a key role in the realization of a system for automatic traffic accident notification, named eCall, in Croatia. This service goal is to increase the road traffic safety as well as public safety in general. Its development was encouraged by the European Committee from its very beginning. The project has been launched in another eight countries too, all united in a pan-European project HeERO (Harmonized eCall European Pilot). Thanks to the intensive and engaged work of all participants in a national consortium, which especially refers to Ericsson Nikola Tesla, as a technological partner, Croatia is ready for the introduction of eCall service that will be mandatory in the year 2015. Data analysis show that even today we have a robust and reliable eCall service, compliant with standards and expected level of services. This was proved by a number of interoperability tests, which was one of primary goals of HeERO project.

## AUGMENTED REALITY

If you managed to avoid the term Augmented reality, while thinking of ICT future and applications that already "tomorrow" will be at your disposal, it is time to learn about it. Some of the most informative applications of today already use such layered presentation. Basically it is about an idea that information available through various media (e.g. via maps, GPS, compass, telephone, e-mail, etc.) shall be connected all together, in layers, to a single unit display, like for example a smartphone. Thus, an application for in-line shop is already near to augmented reality, and the project Glass that is expected to be presented during 2013 may remind us of James Bond glasses. With a single

glance they enable him to see all subjects of his interest in the street (e.g. cars equipped with GPS or restaurants), or will notify him about an approaching sunset, or about the number of e-mail messages arrived in the meantime. But Google Sky Map that may be considered one of the nicest applications for augmented reality will enable you free of charge, to have today an insight into past or future starry sky. You will be able to see through Hubble lenses, and boast with your knowledge on the position of planets or neighboring galaxies. However, it is worth training today, because as the experts have it, we will soon be faced with even more complex applications of augmented reality.

## STATISTICS AND FORECASTS IN NUMBERS

Mobility, broadband and cloud computing have been the fundamental drivers of networked society. They are credible response to the biggest challenges of civilization, such as environmental pollution and climate changes, traffic or health care.

Along with the already described examples, the statement is illustrated by data published by Ericsson at the end of 2012. According to the report on traffic and market, in 2018 we can expect the following:

- > 3G networks will cover 85 percent of the world's population, and half of the population will be covered by 4G networks, which is also due to the urbanization process;
- > The number of smartphone users will exceed 3 billion;
- > Global mobile data traffic will increase 12 times;
- > Many people worldwide will use mobile phones as the only means for internet access. Thus the number of user identities in mobile networks will exceed 9 billion, and 6.5 billion of them will refer to mobile broadband access.

LTE technology, which is a global standard for 4G mobile communications and enables extremely fast mobile broadband internet access, will continue with the fastest development in the history of mobile communications. It will offer the capacity and speed necessary for the accelerated data traffic increase. As of the number of LTE commercial contracts, Ericsson is the world leader since it signed contracts with nine of ten best ranked global operators. At the beginning of 2013, Ericsson had more than 90 commercial LTE contracts on six continents, and 50 of them were already implemented. At the midyear 2012, more than 455 million people worldwide had access to LTE network, and 305 million of them were covered by LTE networks delivered by Ericsson.

The intensity of m2m communication is also witnessing growth, so it is forecasted that in 2020 there will be some 50 billion networked devices.

With regard to the ever growing possibilities offered by Ericsson in the segment of transport and routing, Current Analysis agency increased the assessment of Ericsson IP-portfolio and affirmed Ericsson a leader in IP transport and routing. According to the analysis, based on five categories of service provider infrastructure (solutions, products/introduction plan, services/support, strategy/implementation and driving force/routing), it is confirmed that Ericsson's 4G IP products (4 GIP) and the leadership in wireless technology offer operators a unique interdisciplinary expertise, and Ericsson portfolio was granted the highest possible status.

## ERICSSON NIKOLA TESLA CONTRIBUTION

Along with the listed considerable contribution to the development of Croatia in e-Health segment and traffic and safety area, it is important to underline that Ericsson Nikola Tesla, together with the association PIN for Health, the Croatian

Medical Students' International Committee – CroMSIC, and the association Sjeverovac, achieved respectable results in the joint project by the Rural Health Centre – mobile health that is aimed to remotely monitor health care provision

2018



>3  
billion  
smartphone  
subscriptions



12X  
mobile  
data  
traffic

for the rural population in Sisak-Moslavina County. With the undoubted advantages for the local community and precious additional experience for medical students – volunteers, this project was another achievement for Ericsson Nikola Tesla in its product testing in a real environment. The data and feed back from the users was the basis for improvement of Ericsson Mobile Health (EMH) solution as a part of the Company portfolio. This versatile product is of a really great potential, especially in a country with more than 60 permanently populated islands, daily faced with organizing a transport for patients. However, it is possible to provide EMH set that will transfer measurement data (such as ECG) simply and error free to the adequate specialist.

In addition, Ericsson Nikola Tesla is a strategic partner of Vipnet, an operator that selected the company for its LTE network building. The contracted deals are within a broader five year strategic agreement between Ericsson and A1 Telekom Austria group covering the modernization and upgrade of Austrian and Croatian mobile network to LTE technology. The new LTE network means further increase of transmission speed, as well as improvement in user experience. Thus users (mainly urban) will be able to enjoy, via laptops and smartphones, even during 2013, data transmission at speed up to ten times higher than now. From the very beginning Ericsson Nikola Tesla specialists participate in the development of LTE technology at the global level and in implementation of LTE networks worldwide. Therefore, it is not strange that just they were the first in Croatia to present features of this superior technology. Besides, they were the first to participate in the implementation of test LTE network in Croatia.

A small but creative team from Croatia executed the first very successful optimization of telecom network for the Olympic Games in London.

For quite a number of years the Company cooperates successfully with a Japan operator

Softbank Mobile. Consulting services by Ericsson Nikola Tesla specialists were very important for fast and efficient expansion of the mobile network in Japan.

Ericsson Nikola Tesla operates successfully in the global ICT environment, and therefore, it has not only an access to recent technologies, but also participates in their development. In order to maintain the competitive advantage, the Company pays a great attention to the development of high technology, innovative organizational culture, invests in research and development and expertise centers as well as in knowledge and competencies of employees, who are encouraged to participate in demanding international projects.

For quite a number of years, the Company successfully cooperates with the Faculty of Electrical Engineering and Computing of the University of Zagreb, the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture of the University of Split and other similar faculties. Thus, it creates prerequisites for its own growth and development and prepares students to join the labor market in the best possible way. So far, for already 12 summers in a row, more than 400 students attended Ericsson Nikola Tesla Summer Camp. They were supported by 150 mentors from the Company and the faculties, and worked on approximately 200 projects and more than 100 prototypes.

Ericsson Nikola Tesla, being a part of Ericsson Corporation as well as the leading Croatian ICT company and one of the regional leaders, permanently promotes not only a profitable growth but also socially responsible performance, including numerous incentives for positive changes in the society. Today, it means advanced human-friendly solutions for sustainable, better quality and happier future.



>9  
billion  
mobile  
subscriptions



6.5  
billion mobile  
broadband  
subscriptions



85%  
of the world's  
population will  
be covered  
by 3G

## EVENTS IN 2012

- > A conference on the “Valuable Management to Protect and Promote Human Rights and Sustainable Development of the Republic of Croatia”, organized by the Office for Human Rights of the Government of the Republic of Croatia and Ericsson Nikola Tesla, was held on the Company’s premises.
- > The round table titled „Blood Count of the Healthcare System“, and held at the Novinarski Dom in Zagreb, started a sequence of six planned round tables on the actual situation regarding the Croatian healthcare system. The event was organized by *Banka* magazine and the Institute of Economics Zagreb, under the auspices of the Ministry of Health of the Republic of Croatia, and the major partner was Ericsson Nikola Tesla.
- > At the press conference, the public was presented 2011 business results and outlook for 2012. The conference gathered numerous journalists from the print media, radio and TV, as well as representatives of investors and financial analysts.
- > Vipnet, in partnership with Ericsson Nikola Tesla, launched the first LTE network in Croatia.
- > Within the European Week of ICT professions and digital competencies, eSkills week 2012, which was held under the auspices of the President of Croatia and the Croatian Government, a special attention was given also to elderly people and their understanding of newly implemented eServices. The representative of Ericsson Nikola Tesla held a lecture adjusted to elderly people of above average education, called “The impact of e-Health on individuals and the society“.
- > Energy Efficiency Arena 2012 - an international conference of the Central and South-East Europe on Energetic efficiency was organized by Infoarena Group, the European Bank for Reconstruction and Development (EBRD), and Energy Institute Hrvoje Požar. It was held under the auspices of the Ministry of Construction and Physical Planning of the Republic of Croatia. The representative of Ericsson Nikola Tesla held a well-received presentation on “The Green Technologies and a Networked Society“.
- > The 5th International Consultation on Railway, organized by the Croatian Society of railway engineers, was held in Opatija. Our experts took part in the Consultation during which they presented GSM-R solution intended especially for Railways.
- > The Swedish Trading Council, the Embassy of Sweden, the Croatian Chamber of Economy and the Croatian Employer’s Association organized a conference titled “Investment Summit Croatia and SEE”. Ericsson Nikola Tesla, as a member of Ericsson global corporation took an active part in this business and finance conference.
- > The 35th Anniversary MIPRO, a regional meeting on information and communications technology, electronics and microelectronics was traditionally held in Opatija. Attended by over a thousand participants from more than forty countries, the Meeting also covered important social topics, which in their origin have ICT achievements and challenges. Experts from Ericsson Nikola Tesla took active part in many activities, organized for the participants.
- > Health Care Business Arena 2012, a regional conference on business performance in health care was organized by the Infoarena Group and under the auspices of the Ministry of Health of the Republic of Croatia. Ericsson Nikola Tesla’s experts took part in the conference.
- > Traditional Ericsson Nikola Tesla’s Suppliers and Partners’ Day was held in the Company. This time the topic was strengthening of competitiveness and activities we undertake to adjust to market opportunities and challenges as fast as we can, as well as to regulatory changes associated with Croatia joining the European Union.

- > Ericsson Nikola Tesla successfully held the Annual Meeting of Shareholders.
- > The magazine Lider organized a meeting of Lider's Exports Club in Ericsson Nikola Tesla. The subject of the meeting was the export of knowledge, innovation and research and development activities in Croatia. After the official part, the guests visited the Company's premises and received extra information about the most significant projects our experts are engaged on.
- > An international scientific conference on software, telecommunications and computer networks, SoftCOM 2012 was held in Split. Experts and scientists from 22 countries, including experts from Ericsson Nikola Tesla, had the opportunity to take part in professional workshops, tutorials and Economic forum for the ICT area.
- > Within the framework of the international Summer Camp, Ericsson Nikola Tesla organized a conference on involvement of students into the labor market and business environment.
- > A Conference of cities and municipalities on the efficient management of the local economic development, held in Zagreb, gathered over 100 interested participants from the segment of government and local administration, science, economy and non-profit sector. Company's experts had an active role during the conference.
- > In Split, the 30th Anniversary of Ericsson Nikola Tesla Split Center for Research and Development was marked.
- > During their four-day visit to Croatia, where they came to gather information on e/m-Health care, a group of Russian and Ukrainian journalists visited Ericsson Nikola Tesla. They were especially attracted by the meeting with the Minister of Health of the Republic of Croatia and the Director of the Croatian Health Insurance Institute, who spoke about the actual achievements of e-Health care in Croatia, as well as about the action plans for the future.
- > The National Administration for Rescue and Saving, in collaboration with the European organizations ERTICO – ITS Europe and EENA (European Emergency Number Association), and the partner in the pilot project, Hrvatski autoklub, and Ericsson Nikola Tesla as a technological partner, organized the international conference HeERo in Zagreb. The conference was held on „e-Call - a new future service of automatic notification of the traffic accident to the operational and communication center - Center 112“. Ericsson Nikola Tesla's experts took an active part in the conference.
- > On the Company's premises, Ericsson Nikola Tesla successfully organized ETK Agile Day, a conference attended by numerous Croatian and foreign experts.
- > In Hypo Center's conference room Kornati, Zagreb, the All-Employee Meeting of Ericsson Nikola Tesla's employees working in Zagreb was successfully held. On this occasion, teams and individuals having achieved significant results in 2012 were presented.
- > In the Museum of Contemporary Art in Zagreb, the Christmas Party marked the end of the business year. The Party gathered a large number of customers and partners from Croatia and abroad, as well as the representatives from public, political and academic life. In the first part of the program, the three most significant socially useful projects in 2012 were presented.

## COMPANY PERFORMANCE



In 2012 the macroeconomic environment remained challenging. Domestic and neighboring market economies did not return to the long expected growth path. The financial sector continued to struggle as debt crisis is still to be resolved. Despite the economic turmoil and challenged country debt rating, kuna remained fairly stable in relation to main currencies during 2012.

In the business environment we observed further globalization and consolidation among operators in the telecom sector. Transition from voice into mobile data accelerated with surging data consumption and growing traffic through customers' networks.

Throughout 2012 we focused on executing our financial strategy anchored on four main pillars: profitable growth, efficiency, cash flow and risk management.

We managed to deliver a solid sales growth of 64 percent. The sales pattern was mixed among geographical segments with a significant increase in export to CIS, while domestic and neighboring countries remained flat or declining.

In 2012 we strived for increased efficiency. We took actions to optimize costs in order to improve profitability and market competitiveness. We focused on the right scoping of the projects and worked on reducing operational and supply costs in relation to sales volumes.

Operating profit was successfully restored to positive HRK 117 million compared to sequentially negative in the last two years.

Net profit improved to HRK 127 million (2011: HRK 28 million) despite being adjusted by HRK 14 million deferred tax removal. ROS increased to 6.6 percent (2011: 2.4 percent).

We stayed focused on capital efficiency to improve cash conversion. We managed to reduce working capital despite significantly increased sales volumes. We delivered solid operating cash flow of HRK 298 million (2011: HRK 135 million) and maintained strong liquidity with net cash, cash equivalents and financial assets of HRK 657 million (2011: HRK 594 million).

Risk management was always on the top of priorities and considered as essential part of sound financial management. In order to mitigate commercial and market risks related to export, we successfully extended our mutual cooperation with the Croatian Bank for Reconstruction and Development (HBOR).

We believe financial strength of Ericsson Nikola Tesla gives a solid foundation to carry out long-term strategic plans and allows us to provide a good return to shareholders.



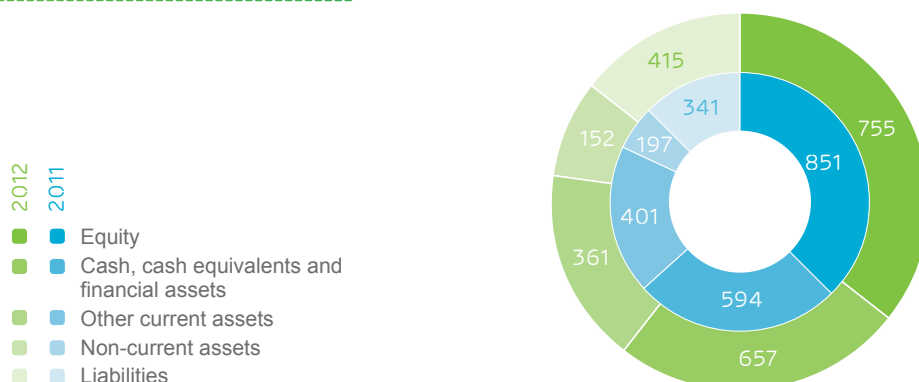
Rafal Rybkowski  
Finance Director  
Ericsson Nikola Tesla d.d.



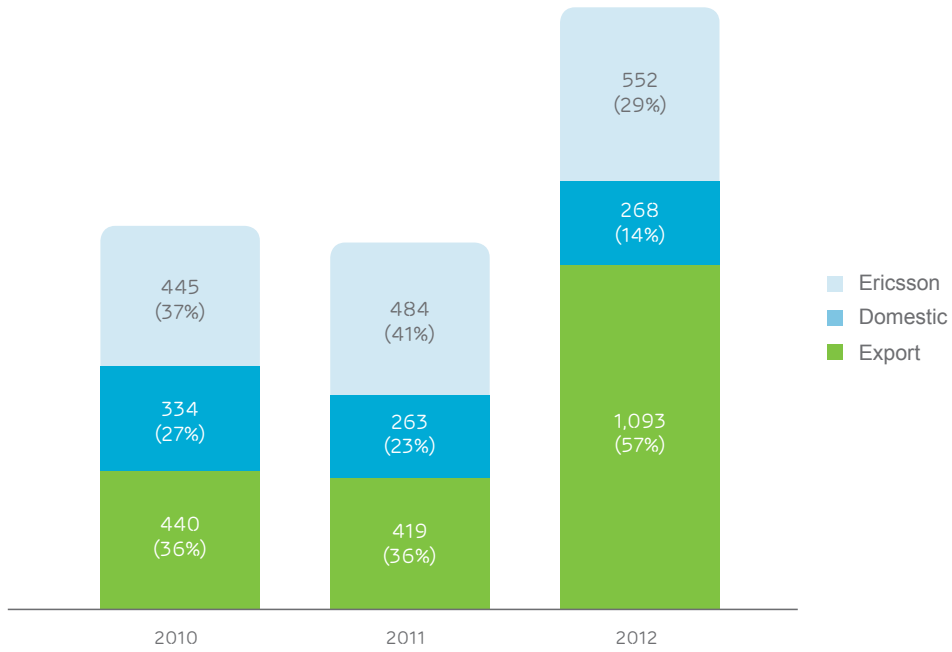
## 2012 FINANCIAL HIGHLIGHTS

in MHRK, except per share amounts	2012	2011	2010
<b>PROFITABILITY:</b>			
Sales revenue	1,913	1,166	1,219
Gross margin	11.1%	11.5%	17%
Operating profit	117	-11	-15
Profit before tax	141	22	26
Profit for the year	127	28	24
Operating expenses	99	146	237
Earning per share (EPS) in HRK	96	21	18
<b>FINANCIAL POSITION AT YEAR-END:</b>			
Total assets	1,170	1,191	1,425
Cash, cash equivalents and financial assets	657	594	737
Capital employed	759	857	1,079
Equity	755	851	1,071
<b>RATIOS:</b>			
Return on equity (ROE)	15.8%	2.9%	2.1%
Return on capital employed (ROCE)	15.7%	2.9%	2.3%
Return on sales (ROS)	6.6%	2.4%	2.0%
Equity ratio	64.5%	71.4%	75.2%
Capital turnover	2.4	1.2	1.1
Current ratio	2.5	3.0	3.7
P/E ratio	14.5	51.1	75.6

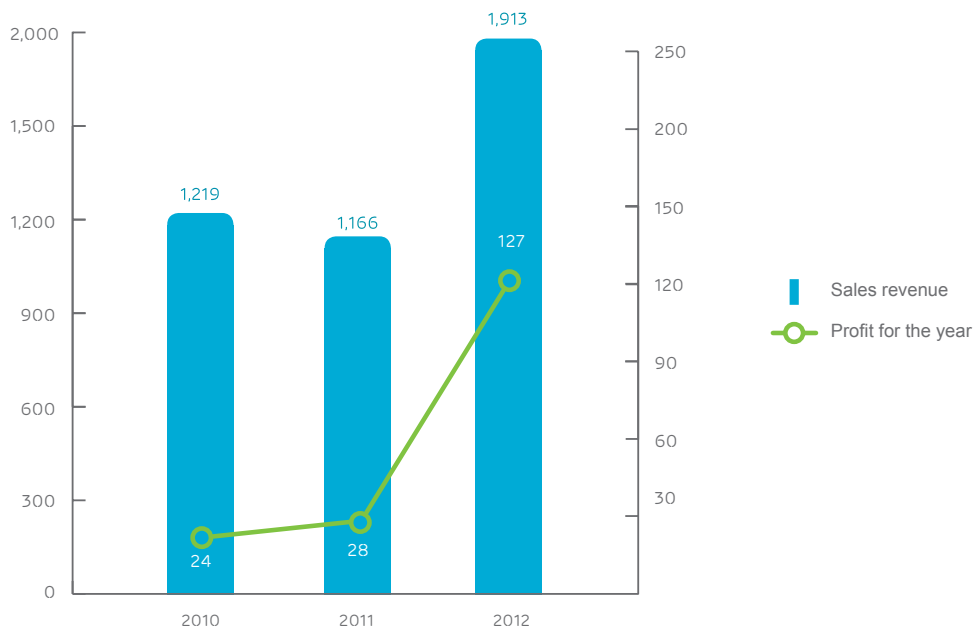
### Balance sheet structure (in MHRK)



### Sales revenue by ETK cornerstones (in MHRK and percentage)



### Sales revenue and profit for the year (in MHRK)





# INFORMATION FOR SHAREHOLDERS

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

## SHARE TRADING AND PRICE MOVEMENT

Ericsson Nikola Tesla's share is the sixth most liquid one on the Zagreb Stock Exchange with 4.1 percent share in the equity turnover of the Zagreb Stock Exchange. In 2012 total share turnover amounted to MHRK 118.4, while in the previous year it amounted to MHRK 174.9.

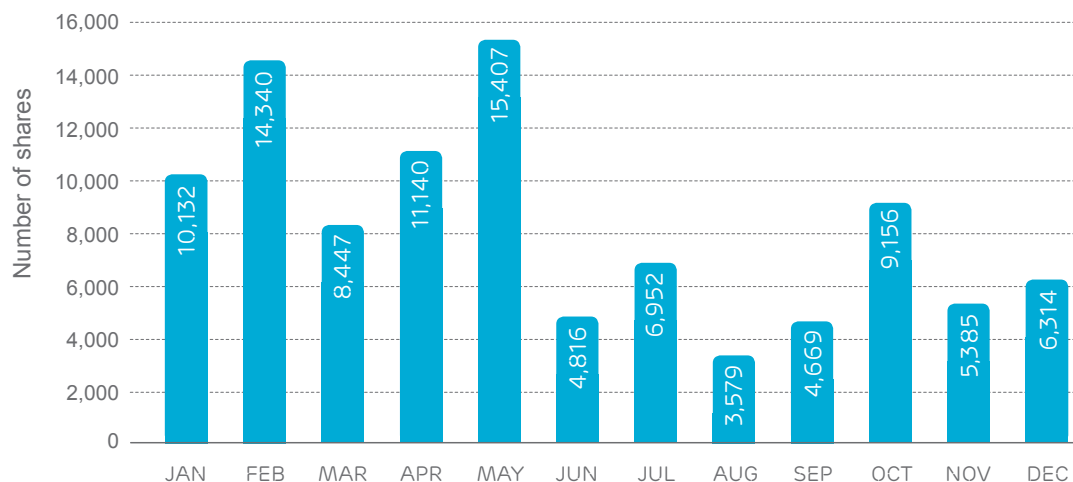
At the end of 2012, Ericsson Nikola Tesla's market capitalization amounted to MHRK 1,844.3, while in the previous year it amounted to MHRK 1,438.2. Ericsson Nikola Tesla's share in the market capitalization of the Zagreb Stock Exchange is 1.4 percent.

For a third consecutive year, at the end of 2012, Ericsson Nikola Tesla's share was granted membership in the CEERIUS (CEE Responsible Investment Universe) Sustainability Index. This is a sustainability index published by the Vienna Stock Exchange, which includes shares of the leading companies in relation to economic performance as well as social and ecological awareness, which are listed on stock exchanges in Central, Eastern and South-Eastern Europe.

Share price and turnover	2008	2009	2010	2011	2012
Highest (HRK)	3,490	1,575	1,777	1,650	1,386
Lowest (HRK)	1,000	820	1,181	1,000	870
Last - end of year (HRK)	1,200	1,340	1,361	1,080	1,385
Turnover (MHRK)	952.0	196.2	168.8	174.9	118.4
Dividend per share (HRK)	70	120	190	170	170*

\* Proposal for dividend amount sent to Ericsson Nikola Tesla's Annual Meeting of Shareholders for approval

## Trading volume of Ericsson Nikola Tesla shares



## Comparative Ericsson Nikola Tesla's share price movement and share indices on the Zagreb Stock Exchange



## Average Ericsson Nikola Tesla's share price movement 2008 – 2012 (in HRK)



## SHARE CAPITAL

As at December 31, 2012 the share capital of the joint stock company Ericsson Nikola Tesla amounted to HRK 133,165,000 divided into 1,331,650 ordinary registered series A shares. Each share carries one vote at the Annual Meeting of Shareholders. The total number of treasury shares at the end of 2012 was 3,408 (0.26 percent of the share capital). Shares were owned by 6,778 shareholders.

## SHAREHOLDERS

Below follows a list of Ericsson Nikola Tesla's major shareholders as at December 31, 2012.

Shareholders	Number of shares	Percentage of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen mandatory pension fund	123,444	9.27%
Societe Generale-Splitska banka d.d. / Erste Plavi mandatory pension fund	32,961	2.48%
Hypo-Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje mandatory pension fund	30,615	2.30%
Zagrebačka banka d.d./ custodian account for Unicredit Bank Austria AG	29,994	2.25%
PBZ d.d. / State Street client account	25,375	1.91%
PBZ d.d. / The Bank of New York as custodian	17,164	1.29%
Societe Generale-Splitska banka d.d. / AZ mandatory pension fund	15,376	1.15%
PBZ d.d. / custodian client account	10,431	0.78%
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen voluntary pension fund	8,254	0.62%
Other	384,563	28.88%

## ANNUAL MEETING OF SHAREHOLDERS

The joint stock company Ericsson Nikola Tesla held its Annual Meeting of Shareholders on June 5, 2012. The amount of HRK 85,273,300 of share capital was represented at the Meeting, which was 64.04 percent of the total Company share capital.

In the presence of a Notary public, the Meeting was presided by Snježana Bahtijari, Director of Marketing and Communications (including CRS). Besides the Company management, the Meeting was attended by the members of the Supervisory Board: Ignac Lovrek, Dubravko Radošević and Zvonimir Jelić. The major shareholder, LM Ericsson, was represented by Tomas Malm.

At the Annual Meeting of Shareholders a resolution was passed regarding a regular dividend payment amounting to HRK 20 per share, and an extraordinary dividend payment amounting to HRK 150 per share, totaling HRK 170 per share from the retained earnings realized in 2001, 2002, and from a portion of retained earning realized in 2003.

Dividend payment was effected on June 28, 2012 to the Company's shareholders who, as at May 29, 2012 had Company's shares registered on their securities accounts in the Central Depository and Clearing Company. The Company's total profit amount for 2012 of HRK 27,976,482.87 was allocated into retained earnings.

Concerning the Company's business management in 2011, the statement of release for Gordana Kovačević, the Company's Director, as well as for the Chairman and the members of the Supervisory Board, was issued. In addition, decisions were made on the Statute amendments as proposed in the agenda. Members of the Supervisory Board Klas Roland Nordgren and Carita Annett Jönsson were re-elected for another four-year term.

At the Annual Meeting of Shareholders, PricewaterhouseCoopers d.o.o., Zagreb, was reappointed as the Company auditor for 2012.