

SOCIAL REPORT 2012

Ericsson Nikola Tesla d.d.



ERICSSON NIKOLA TESLA – A SOCIALLY RESPONSIBLE COMPANY

The Corporate Social Responsibility (CRS) implies the integration of responsibility towards society and environment, and the Company's business strategy. By doing so, prerequisites for successful business performance and sustainable social development have been created. Bearing in mind a clear image of the importance of socially responsible business performance, Ericsson Nikola Tesla has been following, for many years now, top global standards in all business segments and in relations towards all stakeholders.

The Company impacts the society through economic and social dimensions as well as through its positive approach towards environmental protection. Ericsson Nikola Tesla believes that communication is a fundamental human need, and that ICT industry is a generator of changes that positively impact people's lives, business and society. In other words, social networking process, which has already started, will connect all that can benefit from being connected. Thus, a solid ground is created for ICT industry to become a powerful development driver in every segment of the society. Already for years, the Company's experts have been developing and offering a wide range of state-of-the-art products, solutions and services, constantly bearing in mind Ericsson's thesis that technology should be in the service of people and business development as well as the entire society (Technology for Good).

Ericsson Nikola Tesla's Marketing and Communications (including CRS) is, together with colleagues from other organizational units, in charge of managing social responsibility.

The area of social responsibility is defined in Corporate and Company documents, such as Code of Business Ethics, Code of Conduct, Ericsson's instruction entitled "How we manage our business", Supplier Code of Conduct and Environmental Management Policy. The documents listed are an integral part of the management system and refer to all Company activities as well as its partners and suppliers. The Company operates transparently, and its management and supervision are in compliance with the Principles of Corporate Governance. A great attention is paid to informing the public timely and objectively about all important activities and business results.

Ericsson Nikola Tesla is a socially responsible company whose achievements and positive practice towards all stakeholders have been recognized in the society. Therefore, over the years, the Company received numerous awards and recognitions.

This Annual Report brings the most significant projects and activities in 2012.

Corporate Social Responsibility



Our technology
drives positive
social changes

KEY STAKEHOLDERS



Ericsson Nikola Tesla has a two way, partner-based collaboration with all stakeholders, such as customers, employees, shareholders and investors, suppliers and partners, the trade union, business and professional associations, government bodies, educational institutions and the community. ICT industry is a driver of development of all other society sectors, and it has a very positive impact on people, business and the environment. The key to the Company's development is in quick adjustments, innovation and proactive approach because only by operations focused on creating value added, the Company can contribute to the satisfaction of all key stakeholders and to the prosperity of a society as a whole.

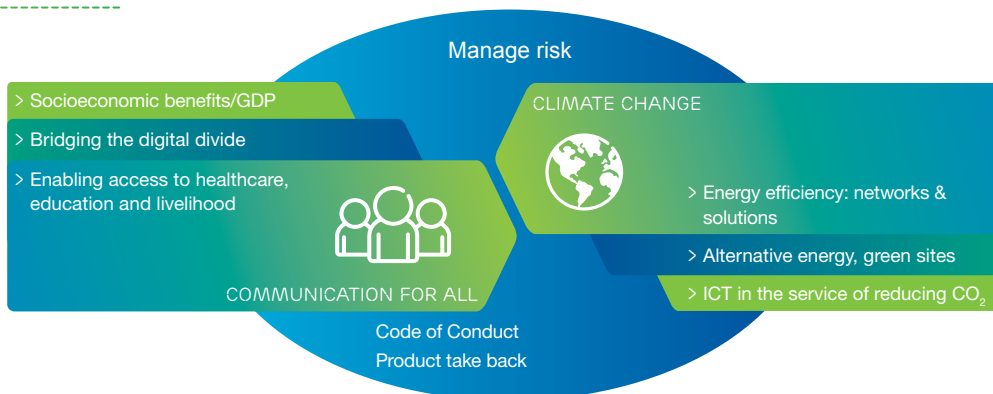
KEY STAKEHOLDERS	OUR WAY OF WORKING
CUSTOMERS	<ul style="list-style-type: none"> > Professionalism > Partnership in finding the best solutions > Innovativeness in providing total ICT solutions, which positively impact business operations, people's lives and the environment, including the climate as well > Measuring customer satisfaction
EMPLOYEES	<ul style="list-style-type: none"> > Lifelong learning and training > Attractive jobs in the ICT sector > Equal development and work opportunities for all employees > Performance-based salary system > Motivating working environment > Modern well-equipped workplace
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> > Application of Corporate Governance Principles > Timely and objectively informing on the most significant activities and achieved business results
SUPPLIERS AND PARTNERS	<ul style="list-style-type: none"> > Joint improvement and enhancement of the supply chain > Knowledge share > Regular inspection of Quality and Environmental Management Systems
TRADE UNION	<ul style="list-style-type: none"> > Partnership > Consulting and involvement in the decision-making process > Support to trade union work, which includes care for the interests of its members
BUSINESS AND PROFESSIONAL ASSOCIATIONS	<ul style="list-style-type: none"> > Involvement in activities
GOVERNMENT BODIES	<ul style="list-style-type: none"> > Participating in passing legislation > Exchange of ideas > Encouraging an environment favorable to business development
EDUCATIONAL INSTITUTIONS	<ul style="list-style-type: none"> > Support to educational institutions > Transfer of knowledge on the cutting-edge technologies > Financial aid
COMMUNITY	<ul style="list-style-type: none"> > Exchange of knowledge > Support and collaboration in local initiatives > Financial aid

AREAS OF CORPORATE SOCIAL RESPONSIBILITY

ICT technologies rapidly create new possibilities that will lead us into a networked society in which, at any time and from any place, a networked communication will be enabled to all that may benefit from it: people, business or society. Nowadays, we have a generation of digital natives, i.e. young people who do not know the world before the internet, and who observe technological and any other society development in the light of increased application of ICT technology. In such circumstances, ICT sector has been recognized as an accelerator of national economy growth, increase of competitiveness in other society sectors, export activities and sustainable development of society. The networking process has begun and the number of networked devices permanently increases, changing the perception of usual communication towards networks not dependent on human interaction. The major trend is that everything becomes mobile. This evolution was mainly moved by the increased need of people to be connected from any place and at any time, but also by using video content, services based on cloud computing and internet, and an increase in m2m connecting as well, which is an autonomous communication between machines, regardless of the current user interaction. Ericsson's experts estimate that in 2020 there will be 50 billion connected devices, benefits of which will be seen in many areas of human activity, such as traffic, industry, state administration, education, health care or security. A vision of a networked society opens endless possibilities for innovation, as well as the need for permanent improvement of actual ICT products, solutions, services and expertise of all ICT market stakeholders.

Ericsson Nikola Tesla has early recognized the directions of new technological development, and supported them by continuous work on innovative products and services in the operator segment and on advanced solutions concerning health care, traffic, state administration, utilities and multimedia communication. The Company included strategic priorities in its development strategy, which were defined by the EU in the document "Europe 2020". It is a vision of a social market economy for the 21st century, which encourages smart, sustainable and inclusive economy, with a high level of employment, productivity and social connectivity.

Key focus areas



OUR TECHNOLOGY



In addition, the Company recognizes the following key areas of its influence:

- > Important projects and programs (sustainability, energy, security, education, healthcare);
- > Leading and managing changes in telecommunications, together with customers, partners and suppliers;
- > Using innovative solutions, specialists' competence and skills to improve ICT business sector and open new possibilities in other sectors, such as energy industry, security, traffic and healthcare.

Ericsson Nikola Tesla reports on its impact on the environment through economic, social and environmental dimension, in accordance with the guidelines of the Global Report Initiative, which represent the framework for reporting on the Company's sustainable and responsible business performance.

The Company shows its social responsibilities in the following areas:

- > Economic sustainability;
- > Involvement of socially responsible practices into business strategy;
- > Working environment;
- > Market relations;
- > Environmental protection;
- > Community relations.



Smart,
sustainable
and
inclusive
growth



ECONOMIC SUSTAINABILITY

THE COMPANY'S CONTRIBUTION TO ECONOMIC PROSPERITY

Ericsson Nikola Tesla has been focused on the needs of key stakeholders and its own business development, which are the cornerstones of the Company's business practice, and at the same time a major indicator of the Company's overall social responsibility in the context of providing continuous successful business performance and the sustainable development of the society in which it operates.

Economic sustainability and the Company's financial stability and strategic development, respectively, are being monitored by means of Balanced Scorecard (BSC) and Key Performance Indicators (KPI). Ericsson Nikola Tesla has recorded stable operations for years, and according to the results achieved, it takes one of the highest positions in the Croatian economy. In the last decade it is positioned among the most successful companies in Croatia, and during the last few years it is among top Croatian exporters, and the largest exporter of knowledge.

DIRECT AND INDIRECT CONTRIBUTION TO ECONOMIC PROSPERITY

Ericsson Nikola Tesla observes its contribution to the economic prosperity of the country both through direct and indirect impacts. Direct impact is measured by traditional annual financial indicators, which are presented in detail in the Consolidated Financial Statements of this Annual Report. In 2012, the Company yielded almost MHRK 598 of value added from operations, which is 33 percent more year-over-year.

VALUE ADDED FROM OPERATIONS

	2012	2011
	HRK '000	HRK '000
Sales revenue	1,901,791	1,165,660
Other operating income	3,715	1,308
Financial income	24,524	34,732
Total income	1,930,030	1,201,700
Procurement and other operating expenses	-1,287,567	-704,633
Depreciation and amortization	-44,557	-48,441
Value added distributed among:	597,906	448,626
- Employees	471,684	419,490
- Government (income tax)	0	0
- Financial institutions	123	1,160
- Shareholders	126,099	27,976
Value added increase	+33%	

EMPLOYMENT

In view of the number of employees, Ericsson Nikola Tesla belongs to the category of large Croatian companies. The Company has almost 1,600 employees, namely university degree graduates; Masters of Electrical Engineering and Masters of Computing. Over the years, according to financial indicators, the Company belongs to the very top companies in the Croatian economy, which ensures the prosperity of over 5,000 Croatian citizens- employees and their families. This fact becomes even more significant in the time

of present crisis. In addition, Ericsson Nikola Tesla was recognized as one of the best employers in Croatia for providing high-quality working conditions to its employees, encourages them for lifelong learning, and ensures good-quality operations and competitive earnings. In a two-way collaboration with the academic community, Ericsson Nikola Tesla exchanges knowledge and transfer of the newest technologies, needed for the future experts, young talented graduates. In this way the Company helps young people to get prepared for the labor market, creating at the same time a stable platform for its own long-term business growth.

TAXES AND CONTRIBUTIONS

Ericsson Nikola Tesla and its employees, by duly paying taxes and contributions into central and local government budgets, finance the work and create prerequisites for development of activities, which are important for everyday life of the Croatian citizens.

PROCUREMENT

Ericsson Nikola Tesla requires from its suppliers and partners to meet high-quality standards and follow the Code of Conduct, which includes respecting basic human rights, occupational standards, environmental management, and preventing corruption. Apart from this, suppliers are familiar with a list of harmful materials as well as materials banned or of limited usage, and they must prove their products do not contain such materials. By doing business with local suppliers, the Company improves and contributes to the development of the local community.

IMPLEMENTATION OF NEW ICT

ICT means far more than technology itself. ICT enables the change in the way of operating and thinking, acceleration of business processes as well as saving time, money and energy. In addition, it positively impacts people and the environment, ensures quick access to the required data and documents exactly when we need them, and is used in different areas, such as health care, safety, traffic, business, public administration or entertainment. Through ICT solutions, products and services, technology helps people, whose lives would be unthinkable without its wide application in all social processes and structures. Investing in ICT segment is an investment which quickly pays back, and it has an enormous positive impact on improvement of people's lives, business and the society. Ericsson Nikola Tesla's experts are focused on the development and implementation of "green technologies" and they have a wide range of e-products and services in their portfolio, such as e/m-Health, e-Cadastre, Digital City, Intelligent Transport Systems and other.

STANDARDIZATION OF BUSINESS CHAIN

In order to create prerequisites for a sustainable society and trust of all participants involved in the business chain, Company's experts are engaged in all standardization activities of the business chain, in which they need to take equal action as its participants, from creating and using up to the proper disposal of products and solutions.

EXCHANGE OF KNOWLEDGE

Exchanging knowledge on new ICTs, modern business models and way of working, and using world standards in business performance are just a few of the important topics discussed by the Company's experts. Many employees are members of different professional associations, lecturers of specialized subjects in higher education institutions and faculties, and authors of numerous papers and articles.

DIALOG AND CONSULTANCY

In a community in which it operates, Ericsson Nikola Tesla initiates and shapes positive changes in the society, throughout dialog, consulting and exchange of its experts' opinions.

CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

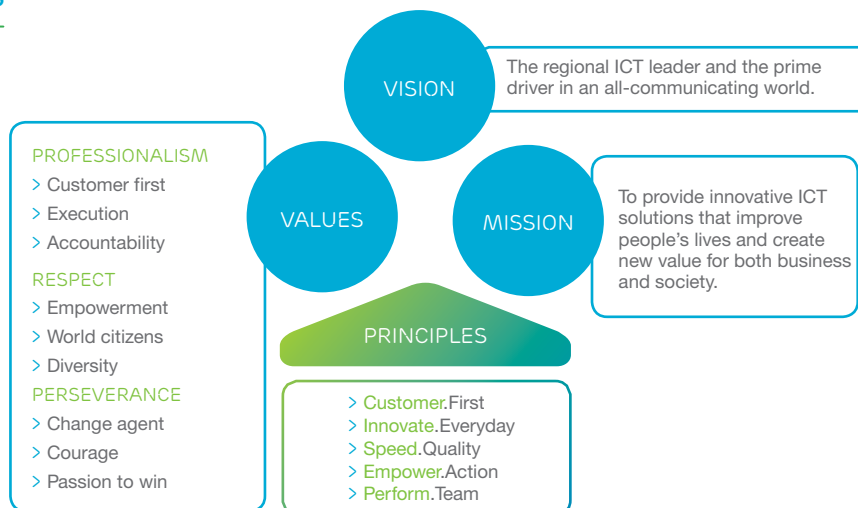
INTEGRATED APPROACH

The ICT industry has a positive impact on society from economic, social, health and environmental aspects. Ericsson Nikola Tesla's partnership with customers, operational excellence and technology leadership make a solid foundation for sustainable development and overall business performance, whereby the Company achieves its vision of the regional leader in information and communications industry that encourages and drives the communication development.

The Company drives positive changes within the society in which it operates, creating new business values as well as permanently undergoing business transformation and finding new business opportunities for long-term stable operations and growth. The Company's competitiveness is based on permanent business improvement and change management, primarily through human resources development, Corporate culture of innovation and new integrated ways of working and management. The way of working applied by employees in their daily activities is in line with corporate principles and values.

The implementation of Company's vision and mission is based on applying unique working principles in daily activities as well as the highest level of integration and business ethics. The Company's experts are leaders in business development and they continuously improve collaboration with customers, partners and other stakeholders. By creating and offering sustainable solutions, which have a positive impact on the environment, they create high-quality prerequisites for growth and development of customers, partners and society as a whole. To achieve that, the Company relies on core Corporate values - professionalism, perseverance and respect. Ericsson Nikola Tesla's messages and results reach citizens on daily basis, encouraging them to use the benefits of modern ICT technology in everyday life. By generating value added for customers and end users, the Company has been recognized as an innovative partner that, by its products, solutions and services, positively impacts people, business and society.

It begins with us



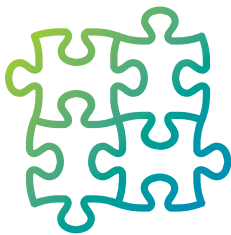
KEY AREAS

Ericsson Nikola Tesla's business strategy is focused on creating innovative ICT products, solutions and services, which improve people's lives, creating new value for business and social community. The strategy also includes high standards and the best practice of the corporate social responsibility. Employees are dedicated to core Corporate values regardless of what and where they work. These values have been incorporated in all business segments and relations towards all stakeholders.

As the leading regional ICT company, Ericsson Nikola Tesla aims to:

- > Supply products, solutions and services, which exceed customers' expectations;
- > Apply effective and efficient processes in line with the Company's vision and business strategy;
- > Permanently improve processes and products, solutions and services by continuous assessments and technical innovations;
- > Reach the full potential of all employees;
- > Foster a work culture oriented towards the increase of customer satisfaction;
- > Ensure compliance with market-set standards;
- > Building the infrastructure important for social development and improvement of people's lives;
- > Positively impact the environment by applying energy-saving, healthy and safe products and services as well as Green ICT solutions;
- > Encourage GDP growth.

Strategy deployment



- ✓ Technology leadership
- solutions, products, services
- ✓ Profitable growth
- ✓ Cost efficiency and risk management



We are involved in
creating new global
communication
trends

RISK MANAGEMENT

The Company is faced with unfavorable market conditions and various risks in implementing the strategy and achieving business objectives. The governance system enables timely identifying, analyzing and assessing all the risks, and, when situation allows it, taking appropriate preventive activities. Risk management is incorporated in the Company's operations and related processes throughout the integrated management system with the objective to ensure:

- > Responsibility;
- > Effectiveness;
- > Efficiency;
- > Uninterrupted operations;
- > Compliance with corporate governance, legal and other requirements.

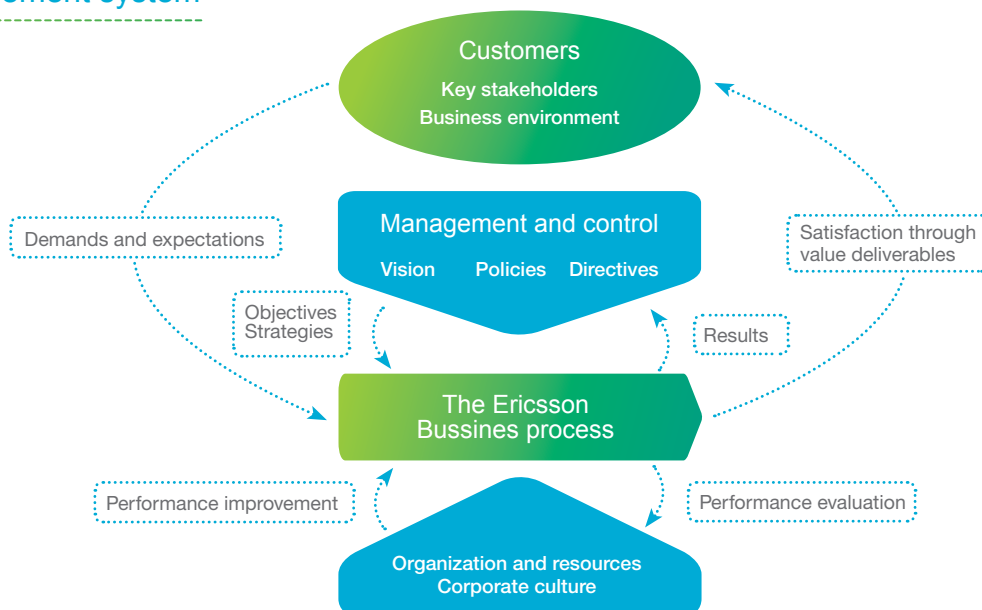
The Company management actively participates in the risk management process. Each employee, including all organizational levels, is expected to give personal contribution in risk prevention, avoidance or mitigation.

TOTAL QUALITY MANAGEMENT

Ericsson Nikola Tesla has been ensuring its successful performance by applying the Total Quality Management principle (TQM). The Company strives for operational/business excellence in each activity. This involves achieving a high level of organizational maturity and the applied process capability. The objective is to reach a high professional level of business performance in which all key processes are optimally applied and improved by surpassing the organizational unit frameworks. Thus, prerequisites have been made for achieving the major objective, which is having satisfied customers.

The motto is to "do it right the first time", which is possible by applying an integrated management system that enables achieving operational/business excellence.

Management system



INTEGRATED MANAGEMENT SYSTEM

The management system is an effective tool for both the Company management and employees that can be accessed on the intranet and provide support in their daily activities. The system enables an easier execution of the set business objectives and a visualization of all elements, which are being used in the Company's management, with a focus on "value streams" of business performance, defined as a business process. The management system is also an interface towards partners and suppliers, which are in this way involved and motivated to comply and improve their way of working and business performance.

Ericsson Nikola Tesla's Management System is compatible with the Ericsson Group Management System (EGMS) and is its integral part. It is primarily based on the ISO 9001 standard for Quality Management. However, in current complex world of telecommunications, it is not possible to comply with a sole standard. A synergy between various standards, models and methods is required. Ericsson Nikola Tesla's Integrated Management System meets also the requirements of the Environmental Management System (ISO 14001), the Occupational Health and Safety Management System (OHSAS 18001), the Information Security Management System (ISO 27001) and the Quality Management System for Medical Devices (ISO 13485). The requirements of the TL 9000 Quality Management System are also taken into account. The system of internal control is an integral part of the Company's integrated Management System. The risk management is based on COSO model (The Committee of Sponsoring Organizations of the Treadway Commission). In the integrated Management System some of the globally applied models and methods of improvement have been included, such as CMMI (Capability Maturity Model Integration), EFQM (European Foundation for Quality Management) and Six Sigma. Ericsson Nikola Tesla, as well as the Ericsson Corporation, successfully adopt and apply an advanced approach to developing software based on Lean principles and Agile methods - Lean & Agile.

By means of the integrated Management System, the Company defines functions and responsibilities, organization, processes and other factors that have a significant role in operational excellence and design of high-quality products, solutions and services. The integrated Management System is regularly updated and adapted to organizational and management changes.

CERTIFICATES

Ericsson Nikola Tesla regularly certifies its Management System by using independent notified bodies. Currently, Ericsson Nikola Tesla holds the following certificates:

- > ISO 9001:2008 Certificate for Marketing, Sales and Provisioning of Telecommunication Products, Solutions and Services, including Managed Services, Intertek, Sweden (as a part of regional certification);
- > ISO 9001:2008 Certificate for Research and Development in Information and Communication Software Technology, SIQ, Slovenia;
- > ISO 14001:2004 Certificate for Environment Management System for Management, Development, Product Management, Production, Supply, Sales and Support of Telecommunications Products and Services, Intertek, Sweden (as a part of the Ericsson Group certification);
- > OHSAS 18001:2007 Certificate for Occupational Health and Safety Management System for Management, Development, Product Management, Production, Supply, Sales and Support of Telecommunications Products and Services, Intertek, Sweden (as a part of the Ericsson Group certification);
- > ISO 13485:2003 Certificate for the Development, Marketing, Sales and Production of Healthcare Solutions; MDD IIa Certificate and CE mark for Ericsson Mobile Health, DNV, Sweden.

WORKING ENVIRONMENT

PEOPLE MAKE THE DIFFERENCE

Ericsson Nikola Tesla is a successful Croatian company, which within the Ericsson Corporation operates in the global information and communications environment. Behind the Company's results, there is a powerful team of almost 1600 specialists, whose knowledge and expertise are incorporated in all the projects and activities in the domestic and export markets. Expert and motivated employees, focused on goals and results, and fostering the winner culture, are the Company's main comparative advantage in a demanding ICT market and an important prerequisite for the future business development. One of the strategic Company's objectives is to be an employer of choice that will attract and retain the top professionals, simultaneously building a high-performance culture. Being the member of Ericsson Corporation, Ericsson Nikola Tesla shares the same core values:

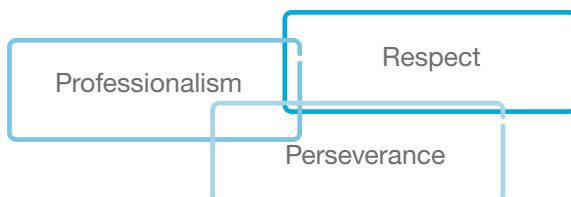
- > Professionalism in daily operations and task performance;
- > Respect, reflected in top working conditions and partnership with customers;
- > Perseverance in achievement of objectives.

Key principles we use to govern our business performance are: the highest level of integrity and ethics in managing business operations, equal possibilities and working conditions to all employees, equality and employees' human rights protection regardless of their race, nationality, color, age, sex, sexual orientation, marital, parental, social or civil status, disability, political opinion, religion, and other individual choices.

Employee structure:

- > 1,581 employees (as at December 31, 2012);
- > 87 percent of university graduates, the majority of whom are Masters of Engineering in Electrical Engineering and Computer Sciences (MENG in EECS);
- > 10 percent of Doctors of Science and Masters of Science;
- > Average employee age is 38;
- > 565 (36 percent) are younger than 32;
- > Average employment duration is 12 years;
- > 10 percent of employees have up to two years of working experience in the Company;
- > Gender ratio (male vs. female): 74 percent : 26 percent;
- > Managers' average age is 43;
- > 18 percent of managers are women.

Core values



Our values are the foundation of our culture. They guide us in our daily work, in how we relate to each other and in the way we do business.



> **1,580**

highly educated experts create value added in global surroundings, using their knowledge, competence and innovativeness

Over the period of the last five years, 444 new experts were employed at Ericsson Nikola Tesla's Zagreb and Split organizational units, the majority of whom are Masters of Engineering in Electrical Engineering and Computer Sciences. This significant employment is the result of making new business deals and new responsibilities awarded to the research and development segment and delivery services, and thanks to continuous and complete program of investing in experts' competence development. Due to a large number of young employees, more mentors were empowered to train new employees and enable them to get involved into the new environment and working projects in the shortest possible time.

INVESTMENT IN LIFELONG LEARNING

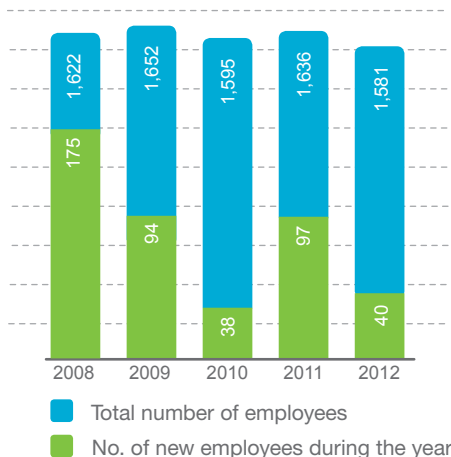
Ericsson Nikola Tesla permanently encourages employees to acquire new knowledge, and develop competencies and skills. In line with the Company's strategic guidelines, the key programs cover development of personal, human and business competencies.

The Educational center was opened in 2012 at Ericsson Nikola Tesla for employees, customers and partners. It operates as a flexible and profitable organization focused on supplying management services in the education field. Educational center coordinates the work of internal trainers' network and collaborates with renowned educational institutions from Croatia and the region as well as with Ericsson Academy, which provides continuous education for all the employees at the global level. This kind of modular educational platform enables a wide range of services in developing competencies. Thus, the course portfolio involves:

- > Specialized programs about Ericsson products, solutions and services, including the certification procedure;
- > Programs of relevant ICT professional solutions and services, including the certification procedure;
- > Business competencies programs (general and special knowledge in finance, new knowledge about the EU Funds, Project Management, Sales and Marketing, and an internal mini MBA Program), programs of knowledge and skills in managing teams and organizations, based on modern management skills;
- > Human Resources Competencies Development programs (Communication and Presentation Skills, Teamwork, Change Management, Negotiating Skills, Conflict solving, etc.).

Moreover, required knowledge is acquired through courses in Croatia and abroad, e-education, internal Corporate software tools for specialist knowledge exchange, seminars, conferences, postgraduate studies, international projects and similar.

Employee movement



WORKING ENVIRONMENT

In order to increase employee satisfaction and motivation, Ericsson Nikola Tesla has been constantly working on the enhancing the working environment by:

- > Ensuring attractive jobs and giving clear roles to each employee in order to achieve the common objectives;
- > The possibility of continuous learning, improving and career development;
- > Ensuring equal conditions for development and work to all employees;
- > The possibility of operating within global teams;
- > Recognizing individuals and teams, which contribute to the Company's results the most;
- > Performance-based salary system;
- > Modern equipped working place with all tools necessary for work;
- > Creating a motivating Company culture;
- > Flexible working hours;
- > Providing high level of employee health care;
- > Providing high level of safety at work;
- > Supporting parents with children of preschool age by organizing a daycare in kindergartens located in the immediate vicinity of the Company;
- > The possibility of recreation and socializing in sports and cultural clubs.

MONITORING EMPLOYEE ENGAGEMENT AND SATISFACTION

Employees' engagement and satisfaction are monitored by the Dialog survey, which is conducted once a year in all Ericsson companies worldwide. This survey represents an important tool for monitoring organizational environment and employees' opinion about various segments. In this way, employees, together with managers, participate in suggesting changes and improvements in all segments of work and business operations.

In 2012, employees' participation in the survey was 92 percent, which is an objective sample for analyzing results and improvement proposals.

Major employee engagement and satisfaction indicators for 2012 are the following:

- > **Engagement Index** is an index dealing with the employees' personal willingness to contribute to the Company's business success. The results show that 85 percent of employees are prepared for maximum engagement in order to personally contribute to the Company's success.
- > **Motivation Index** shows the percentage of employees dedicated and satisfied with their work. The survey results are 79 percent, which is a 2-percentage-point increase year-over-year.
- > **It begins with us** is an indicator of the level of integration of the Corporate way of working into employees' everyday life and work. The survey shows that 86 percent of examinees apply, to the full extent, the Ericsson's way of working in their everyday lives.

HEALTH AND SAFETY AT WORK

Ericsson Nikola Tesla continuously and systematically takes care of health and working conditions of its employees. During 2012, numerous activities, having a positive impact on health and safety at work, were taken, and we will highlight the most important ones:

> **Implementation of the Occupational Health and Safety Management System - OHSAS Standard 18001:2007**

At Ericsson Corporation a complete global system of health management and safety at workplace was implemented pursuant to the OHSAS 18001 standard. The global certificate obtained is valid through the entire Corporation, including Ericsson Nikola Tesla. It is important to highlight that Ericsson Nikola Tesla obtained the OHSAS 18001 certificate back in 2004, which makes it a unique company in Croatia and among a few companies within Ericsson Corporation that already then had this certificate.

> **Compliance with the Occupational Health and Safety Management System**

The Company regularly performs activities to prevent and protect health, and improve safety at work. In regular Health and Safety at work Committee meetings, in Zagreb and Split, indicators are monitored, and on the basis of danger analysis and assessments, prevention measures and correction activities are being proposed. During the year, intranet pages are being updated in line with the Corporate standards. By doing so, a high level of content quality is being reached, which makes it easier for employees to find the contents that interest them. Three employees reported injuries at work last year, and two of them were injured while commuting to/from work, while one person had a clumsy fall on the stairs within the Company's premises.

> **Regular medical checkups**

In the Company clinic, located in the immediate vicinity of the Company, two general practitioners teams and one dentist team, as well as a well-equipped biochemical laboratory are at disposal to Company's employees and their families. Regular medical checkups and specialized examinations are done at the clinic, as well as the examinations intended for employees traveling to high-risk countries. The results of regular checkups are being processed and analyzed in detail, and afterwards discussed at meetings of the Health and Safety at Work Committee. There, precautionary measures and activities are being suggested in order to decrease the risk of disease and improve employees' health status. Specialized consultations are organized for employees in the Company's clinic as well as specialist examinations, such as cardiological, gastroenterological, endocrinological and gynecological.

> **Doctor at the work place**

The cooperation between occupational safety at work service and general practitioners is a continuous one. The result is a constant improvement of working conditions and a positive impact on the health and safety at work of our employees, which therefore contributes to a higher level of their satisfaction at work.

> **Recreational activities**

In line with personal preferences, each employee can engage in sports and recreational program, tailored and adjusted to the personal needs and demands. The organized activities take place in and outside the Company's premises.

> **Education and training of employees**

All new employees attend an introductory seminar immediately after being employed, including training courses on health protection and health and safety at work. A special attention is given to regular trainings to workers who work under special conditions (work on heights). Working equipment is reestablished regularly and at the same time employees are trained to use it properly. Special training courses for health and safety at work are organized for all new managers, aiming at their understanding of the importance of following the rules, thus contributing to the satisfaction of employees.

MARKET RELATIONS

Ericsson Nikola Tesla permanently works on two-way communication and improvement of relations with its customers, suppliers, partners, shareholders and other stakeholders, but at the same time respecting its competitors.

The Company's employees, together with their Corporate colleagues, share a joint responsibility and commitment for the highest level of integrity and ethics in managing business. Integrity and ethics are deeply rooted in the Company's culture and are the basic characteristics for the Company's way of working and doing business. Operating with a strong sense of honesty is the key for this Company to be trustworthy and preserve the trust of all interested stakeholders.

Ericsson Nikola Tesla considers it a priority to create a transparent atmosphere in managing business.

All employees and stakeholders are required to work in line with the Code of Conduct and Code of Business Ethics.

The purpose of the Code of Conduct is protecting human rights, promoting fair recruitment conditions, safety at work conditions, responsible environmental management and high ethical standards. The Code of Business Ethics refers to individual responsibilities in relations towards all stakeholders with whom one communicates or does business. The Code of Business Ethics covers legal compliance, protection of confidential information, protection and proper use of Company's assets, respectful communication and human rights protection, solving conflict of interest, transparency and environmental protection.

Ericsson Nikola Tesla promotes fair market competition as a foundation for business development and progress. Employees involved in foreign business transactions must be acquainted with all the current foreign and domestic laws and other regulations, and comply with them. In the open international market competition, Company's employees must compete as strongly and constructively as they can, operating fully in line with the law of each country they operate in.

Long-term relations have been established with suppliers and business partners. These relations imply dialogue, knowledge sharing and applying the up-to-date working models. The suppliers of products and services are required to comply with the high quality standards, the Code of Conduct and the Code of Business Ethics. Furthermore, each year, Company's assessors make annual external assessments of major domestic suppliers through a questionnaire prepared in compliance with applicable standards. As a technology leader, Ericsson Nikola Tesla applies e-sourcing system, which enables a higher level of professionalism, efficiency and collaboration. The information system in the procurement area has a series of advantages of which transparency, comparisons based on facts and less time and money spent are considered the most important ones for suppliers.



CODE OF
BUSINESS
ETHICS



100% of our employees
have acknowledged our Code
of Business Ethics

CORPORATE GOVERNANCE

Corporate governance represents a framework for business operations and supervision in the Company, and has a purpose of creating long-term economic value for shareholders. Ericsson Nikola Tesla's Management Board and Supervisory Board continuously observe the fundamental principles of corporate governance, trying to ensure transparent operations, protection of rights and equal treatment of all shareholders as well as strengthen the responsibility towards all stakeholders. Company's experts continually, timely and objectively inform the public of all important business activities and results achieved and, by doing so, they strengthen the public perception of a Company that fully implements the code of ethical conduct.

Ericsson Nikola Tesla was among the first companies in Croatia to adopt the Principles of Corporate Governance, in April 2005, based on the legislation of the Republic of Croatia, and OECD recommendations on Principles of Corporate Governance. The mentioned principles clearly describe and define the rights and obligations of Management Board, Supervisory Board and shareholders (<http://www.ericsson.hr/company-governance>).

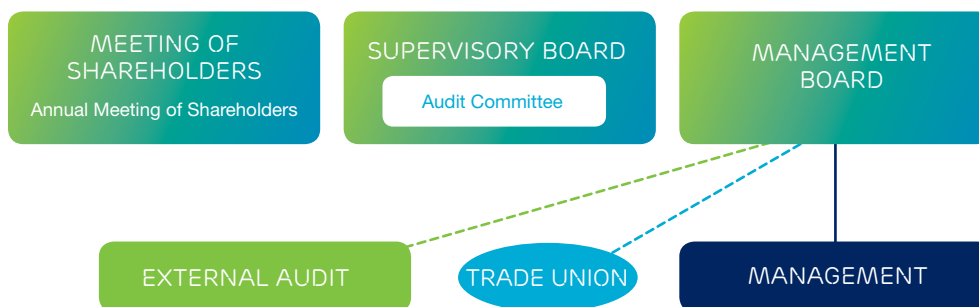
MANAGEMENT BOARD

The Croatian Company Act, the Statute of Ericsson Nikola Tesla and the internal bylaws define the role of the Management Board in managing Company operations. The Management Board is obliged to conscientiously perform its duties, taking into accounts the Company's and shareholders' interests. Ericsson Nikola Tesla has a one member of the Management Board, appointed by the Supervisory Board for the five-year term, with the possibility of re-election. The Management Board is obliged to report on financial and business results, strategy and business plans. The Management Board also reports on its performance at the Annual Meeting of Shareholders, and implements decisions reached at the Annual Meeting of Shareholders. The remuneration and other receipts of the Management Board have been set by the Supervisory Board and they depend on the Company's business performance.

SUPERVISORY BOARD

The main task of the Supervisory Board is to supervise the Management Board's conduct of business. In doing so, the Supervisory Board shall apply high ethical standards and take into account the interests of the Company and its shareholders. The Supervisory Board has five members elected to a four-year term with the possibility of re-election. The Supervisory Board submits a report to Annual Meeting of Shareholders on the supervision of business conduct, gives its opinion on the Management Board's proposal for profit allocation and presents a proposal on the appointment of the Company's Auditor. According to the decision of the Annual Meeting of Shareholders, the Supervisory Board members receive monthly remuneration in the amount of half the average monthly gross salary of the Company's employees. Ericsson's representatives renounced their remuneration in compliance with the Corporate policy.

Management structure



In 2012, four regular and two extraordinary meetings of the Supervisory Board were held. The topics discussed were financial performance, business plans, strategic programs, investment management, business risks, human resources, market conditions and ICT industry trends. The Board also monitored business development and responsibilities of the Research and Development Center, the Service Delivery Center and ITTE unit. At extraordinary meetings, the Supervisory Board discussed the payment of dividend, annual financial statements for 2011 and objectives for 2012.

The Board also reviewed and supported the Company's strategy for the period from 2013 to 2015 as well as focus areas, strategic priorities and key deals necessary for further business development.

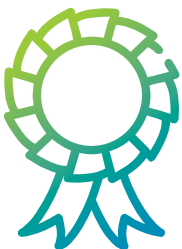
At the Annual Meeting of Shareholders, held on June 5, 2012, Roland Nordgren, the Chairman, and Carita Jönsson, member, were re-elected for another four-year term.


AUDIT COMMITTEE

In 2012, the Audit Committee held four meetings. The topics discussed were financial performance during the year, annual financial statements, audit plan for 2012, audit findings as well as internal control and risk management systems. The Committee also performed other tasks pursuant to the Audit Act. It regularly and timely informed the other Supervisory Board members of all its conclusions and recommendations. The Audit Committee has two members, Ignac Lovrek, the Chairman, and Carita Jönsson, member. In 2012, there were no changes in the Committee structure.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders is the place where the Company's shareholders exercise their rights. The Annual Meeting of Shareholders decides on profit allocation, changes/amendments of the Company Statute, re-election and re-call of the Supervisory Board members. In addition, the Annual Meeting of Shareholders evaluates performance of the Supervisory and Management Boards, decides on the appointment of the independent auditor to perform the audit of the annual financial statements and attends to any other business in accordance with the law and the Company Statute.



 We at Ericsson Nikola Tesla share, together with Ericsson, the commitment to the highest level of integrity and ethics in the conduct of business. Integrity and ethics have always characterized the way we conduct business. Operating with a strong sense of integrity is critical to maintaining trust and credibility with our customers, partners, employees, shareholders and other stakeholders.



ENVIRONMENTAL PROTECTION

LAW, STANDARDS AND NORM ISO 14001

A responsible approach towards the environment is an integral part of Ericsson Nikola Tesla's operations and culture, and the Environmental Management System is an integral part of the Company's Management System. Activities related to Environmental Management are executed and coordinated through a network for operational excellence/operational development and quality. Internal and external inspections of the Environmental Management System are carried out regularly and systematically in order to keep the ISO 14001 certificate obtained at the Corporate level. All Company's activities are in line with the current, relevant provisions of the Croatian law, the highest international environmental protection standards, observed by the entire Ericsson Corporation, and the relevant EU directives. Company's experts actively participate in processes related to improvement of the Croatian regulations related to the environmental protection. They monitor the adoption of regulations and regularly check their implementation.

The Company assesses its active and responsible approach towards environmental protection via numerous questionnaires made by various institutions, specialized in this area.

KEY PRODUCTS

ICT solutions, products and services offered by the Company have been recognized for having a positive impact, not only on the life of individuals, but on the environment as well, including the prevention of adverse climate changes. Ericsson Nikola Tesla either developed or participates in the development and application of a wide range of e/m products and services, such as e/m-Health or e-Cadastre. Thereby we substitute very well the need for traveling, i.e. changing location to perform a service, and by doing so, we save hundreds of tons of CO₂, which would have been emitted in the atmosphere without these services. As substantiated by relevant researches, the ICT industry can reduce the CO₂ emission by 20 percent, although it is responsible for only 2 percent of CO₂ emission at the global level. You can read about the improvements of numerous processes and savings of diverse resources in detail in the chapter Human-friendly technology.

KEY DOCUMENTS

Key documents which define the Company's relation to the environment are Environmental Management Policy and Code of Business Ethics. We are aware that we can control the impact on the environment only if we review the entire supply chain. Therefore, in our operations we apply Ericsson's Code of Conduct to all suppliers. The Code of Conduct contains demands in the field of basic human rights, working standards, environmental management and fighting corruption in work place. The environmental requirements regarding the suppliers include: environmental management system, environmental and production-friendly design, product information and transport. Suppliers are acquainted with the list of harmful substances and those limited or banned for usage, and they need to prove that their products are hazard-free. We continuously evaluate the impact of our supply chain on the environment by assessing our suppliers in line with the corresponding Company's plans. In accordance with the findings, we take necessary corrective measures.

RATIONAL CONSUMPTION OF RESOURCES

Since our main product is knowledge, we try to rationalize the consumption of electricity, water and steam, because they represent key resources in a production chain, characterized by intellectual work. By using a central monitoring system for energy sources consumption, prerequisites are made for better-quality energetic system management and maintenance, which resulted in steam reduction, and considering the newly installed capacities of the testing systems, only a slight increase in electricity consumption. Monitoring of the entire pipeline system enables timely repair work, avoidance of unnecessary water losses and consequently reduced consumption.

ENERGY SOURCES CONSUMPTION

year	Water (in '000 m ³)	Steam (in '000 t)	Electric energy (in '000 MWh)
2010	36.7	9.0	15,100
2011	34.4	8.9	15,800
2012	30.2	8.4	16,800
2012/2011	- 12 %	- 6 %	+ 6 %
2012/2010	- 18 %	- 7 %	+11 %

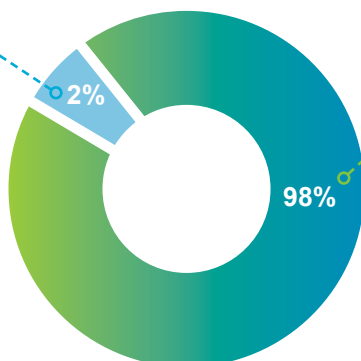
* Location Krapinska 45, Zagreb

BUSINESS TRIPS, LOGISTICS, REMOTE SERVICES

The Company reduced the number of business trips by using virtual solutions, such as video-conferences, online meetings, etc. The application of such smart solutions saves time and money and reduces the emission of CO₂. Trying to reduce the impact on the environment; the Company continuously monitors all its activities, including logistics, where shipping and distribution of solutions, products and services are being optimized.

Equally, some services are being remotely delivered, primarily in the field of network design and optimization, network integration and program upgrading, which considerably reduces the need for travelling. Moreover, intelligent tools are being used for remote collaboration, which increases the consumers' satisfaction by the service provided, no matter the distance.

GREEN ICT
2% of global
CO₂ emissions
come from ICT



GREENING WITH ICT

ICT solutions can help to reduce a significant part of the remaining 98% of global CO₂ emissions that come from other sectors (health care, traffic, education, government, ...)



ICT industry
positively impacts
the environment

WASTE MANAGEMENT

Ericsson Nikola Tesla takes comprehensive and systematic care on all types of waste. The rulebook on electric and electronic waste management regulates that producers and direct importers of electric and electronic devices have the obligation to report it to the Environment Protection Fund. Practically until the end of 2012 they were obliged to pay the fee per kilogram of either imported or produced equipment, regardless of their end destination. At the very end of the year, the Rule book was changed, so that the companies in Croatia, including Ericsson Nikola Tesla will not pay a fee on the exported equipment. The Company meets all the requirements prescribed by the Rulebook, disposes electronic waste in the prescribed way in its own location, and in line with the demands of particular customers, takes care about their electronic waste disposal. The Company has organized the collection, separation and ecological management of glass, metal, plastic and wooden waste, cables, batteries, toners, fluorescent tubes and paper. The Company noticeably reduced paper consumption by using modern technologies in business operations.

By reducing the unnecessary printing, potentially 75 grown trees, 750,000 liters of water and over 17 MWh of electricity were saved, which is the required amount for production of 3.77 tons of new paper. Additionally, one shall not fail to mention that, during the last three years, by sending over 145 tons of wasted paper to recycling, a forest of almost 2,500 trees was saved, 29 million liters of water and over 590 MWh of electricity were not spent, and 580 tons of greenhouse gases were not unnecessarily emitted into the atmosphere.

WASTE PRODUCED

Waste type	2010 (in tons)	2011 (in tons)	2012 (in tons)
Waste printing toners	0.36	0.57	0.31
Paper	50.52	47.80	46.75
Wood	46.45	46.08	28.49
Electronic waste	19.66	46.58	19.73
Various storage batteries	1.13	3.05	0.84
Glass	2.65	3.77	0.50
Plastics	24.03	32.73	28.00
Aluminum	0.00	6.43	9.69
Iron and Steel	32.07	41.45	58.98
Cable conductors	0.22	0.53	1.11
Fluorescent tubes	0.20	0.43	0.24
Total	177.29	229.42	194.64

EDUCATION IN ENVIRONMENTAL PROTECTION

Environmental protection specialists, as a part of the Company's team in charge of business excellence, development and quality, contribute to the improvement of the business operations within the Company. Ericsson Nikola Tesla, through intranet, internet and *Komunikacije* magazine, conducts permanent learning, develops awareness and increases motivation of both the employees and wider community for improving the condition of the environmental protection. Each organizational unit has an environment coordinator who works in line with the field of work of the organizational unit and its impact on the environment.

Ericsson Nikola Tesla's experts, in collaboration with stakeholders, such as the respective ministry, educational institutions, civil associations and business partners, exchange knowledge and experience and in this way contribute to the appropriate approach of individuals, economy and society towards the environment.

COMMUNITY RELATIONS

Ericsson Nikola Tesla emphasizes that the Company, besides financial responsibility, has a high level of social awareness towards the community in which it operates. Projects of social responsibility, which the Company conducts, are in compliance with the best global practice in this area. The use of strategy and policy of sponsorship and donations, priorities and tools required, as well as the methods of recognizing and implementing defined the most qualified socially beneficial projects. Priority is given to projects in which technology, products, solutions, services, as well as knowledge and skills of Company's experts have the key role. Ericsson Nikola Tesla believes that socially beneficial products strengthen competitiveness, help the Company to build a reputation, ensure employees' motivation and satisfaction as well as a wider social acceptance.

During 2012, the Company funded selected projects, such as humanitarian, educational, healthcare, culture, sport, etc. Herewith, we present the three most significant projects which marked the year 2012.

Partnership in the Center for Rural Health project - Ericsson Nikola Tesla joined a partnership with associations PIN for Health, CroMSIC - Croatian Medical Students' International Committee and Sjeverovac on the *Center for Rural Health* project, in Sisak-Moslavina County, where the Company, along with expert resources, assigned valuable Ericsson Nikola Tesla's equipment for remote monitoring of patients in this area. As in similar projects, the Company wishes to establish a technological platform for more accessible and improved medical care for all the citizens, no matter of their residence.



The Etiquette for a Better Understanding of Persons with Disabilities - Initiated by the Association for promotion of equal opportunities, Ericsson Nikola Tesla donated significant funds, and companies experts voluntarily edited, prepared and graphically designed the Etiquette booklet. Illustrations were drawn by a young author Ante Žeravica, and it was printed under favorable conditions by printing office Kerschoffset.



The Etiquette booklet for better

understanding of people with disabilities has 68 beautifully designed pages, in which we follow Darko, a student of the Faculty of Teacher Education, a student with disabilities, in his everyday life. Throughout various situations in a daily life, he teaches us how to better understand people with disabilities, thus contributing to mutual respect and understanding, as well as to integration of each person within the society, regardless of the differences. The Etiquette booklet is intended for young people, primarily teenagers, but also for all the citizens of Croatia who wish to promote their communication with the members of this vulnerable group of the society. Nowadays, one in five people have a sort of a disability. Polite and attentive relation towards them is a sign of human warmth, solidarity and tolerance.

Donation for demining of mine hazardous areas

- In order to encourage the development of the birthplace of Nikola Tesla, whose name the Company bears, Ericsson Nikola Tesla donated funds for demining of 15,260 m² mine hazardous area around Smiljan, west of the Museum of Nikola Tesla.



DONATION
FOR DEMINING
OF MINE
HAZARDOUS
AREAS IN
CROATIA

AWARDS AND RECOGNITIONS

- > Ericsson Nikola Tesla's share was listed in 2012 CEERIUS Sustainability Index of the Vienna Stock Exchange. The index covers shares of leading companies which are listed in Central, East and South-Eastern Europe stock exchanges, and it shows the level of their social and ecological awareness.
- > National Foundation for Supporting the Pupil and Student Standard awarded Ericsson Nikola Tesla the recognition for its exceptional contribution to promotion of pupil's and student's standards in the Republic of Croatia
- > Euro Health Consumer Index (EHCI) - According to the report published in 2012, Croatia went six places up the scale and is now ranked 17th, in the group with Germany and the United Kingdom. This success was mostly contributed by points in the category "Patients' rights and informing", given on the ground of the successful implementation of the Central Healthcare Information System (CEZIH), supplied by Ericsson Nikola Tesla.
- > The Association for Promotion of Equal Opportunities awarded Ericsson Nikola Tesla the recognition for extraordinary contribution to civil society development and acting in socially responsible manner regarding the Company's voluntary work on editing, printing and promotion of The *Etiquette for a Better Understanding of Persons with Disabilities*, the educational publication for young people.