



Social Report
Ericsson Nikola Tesla Group





ERICSSON NIKOLA TESLA - SOCIALLY RESPONSIBLE COMPANY

The Corporate Social Responsibility (CRS) implies the integration of responsibility for the society and environment into the Company's business strategy. By doing so, prerequisites for successful business operations and sustainable development of the society have been created. Bearing in mind a clear image of the importance of corporate social responsibility, Ericsson Nikola Tesla Group has been following, for many years now, top global standards in business. It has also been following Ericsson as a technology leader and a creator of trends at the global level, with an aim to increase the positive impact of technology on the society. In a long-term strategy development, the principles of social responsibility have been incorporated in all business segments and relations to all stakeholders, as well.

The Group impacts the society through economic and social dimension, and with a positive approach towards the environmental protection. Ericsson Nikola Tesla Group believes that communication is a fundamental human need, and that ICT industry is a generator of positive changes, having positive impact on people's lives, business and society. In other words, the process of networking the society, which has already begun, will connect all that can benefit from being connected. Thus, a solid ground is created for the ICT industry to become a powerful development driver in every segment of the society. For years now, the Group'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 service of people and development of society (Technology for Good).

The area of social responsibility is defined in Corporate and Company documents, such as Code of Business Ethics, Code of Conduct, Ericsson instruction "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 and its partners and suppliers as well. The Group operates transparently, and its management and supervision are pursuant to the principles of corporate governance. A great attention is given to inform the public timely and objectively about important activities and business results.

Achievements and positive practice towards all stakeholders are recognized in the society and therefore the Group has received numerous awards and recognitions over the years.

This Annual Report 2014 brings the most significant projects and activities.

ICT empowers:

SOCIETY

Education
Health
Inclusion

ENVIRONMENT

Resources
Pollution
Climate change

BUSINESS

Productivity
Competitiveness





KEY STAKEHOLDERS

Ericsson Nikola Tesla Group has a clear strategy regarding business development, leading position in its core business while constantly taking care about key stakeholders' interests. Understanding the needs, including into dialog, exchanging knowledge and partnership with all key stakeholders is of exceptional importance for achievement of business goals.

KEY STAKEHOLDERS	OUR WAY OF WORKING
CUSTOMERS	<ul style="list-style-type: none"> > Professionalism > Partnership in finding the best solutions > Innovativeness in providing comprehensive ICT solutions, with positive impact on business, 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 work environment > Modern equipped workplace
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> > Applying the principles of corporate governance > 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 transfer > Regular inspection of Quality and Environmental Management Systems
UNIONS	<ul style="list-style-type: none"> > Partnership > Consulting and involving in decision-making process > Support to unions' work, which includes care for the interests of its members and other employees
BUSINESS AND PROFESSIONAL ASSOCIATIONS	<ul style="list-style-type: none"> > Involvement in activities > Exchange of knowledge and opinions > Joint appearance
GOVERNMENT BODIES	<ul style="list-style-type: none"> > Participating in passing legislation > Exchange of ideas > Encouraging favorable business environment
EDUCATIONAL INSTITUTIONS	<ul style="list-style-type: none"> > Support to educational institutions > Transfer of knowledge on the latest technologies and trends > Financial aid
COMMUNITY	<ul style="list-style-type: none"> > Exchange of knowledge > Support and collaboration in local initiatives > Financial aid



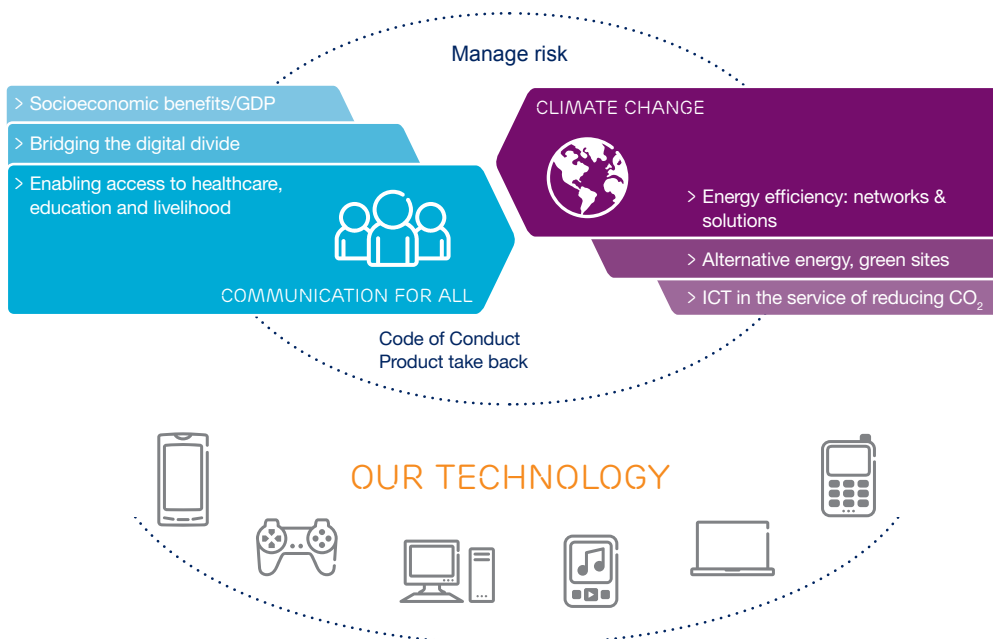
SOCIALLY RESPONSIBLE OPERATIONS

ICT rapidly creates new possibilities that will take us into the Networked Society in which, anywhere and at any time worldwide, a networked communication will be enabled to all that may benefit from it, whether it is about people, business or society. The networking process has begun and the number of connected machines and devices constantly increases, changing the perception of the usual communication to the networks, not depending on human interaction. The major trend is that everything will become mobile and it is estimated that in 2020 there will be 50 billion connected devices, six per every connected person, benefits of which will be seen in many areas of human activity, such as traffic, industry, state administration, education, healthcare and safety. A vision of the Networked Society provides endless possibilities for innovations, as well as the need for permanent improvement of the current ICT products, solutions, services and expertise of all ICT market stakeholders.

Ericsson Nikola Tesla Group has early recognized the directions of a new technological development, and supported it by continuously working on innovative products and services in the operator's segment and advanced solutions concerning healthcare, traffic, state administration, utilities and multimedia. In accordance with the Europe 2020 strategy, the Group bases its growth and development on three priorities, complementing each other: smart, sustainable and inclusive economy, with a high level of employment, productivity and social connectivity.



Key focus areas



Ericsson Nikola Tesla Group defined the following key areas of its impact:

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


Ericsson Nikola Tesla reports about 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.

We show our social responsibility in the following areas:

- > Economic sustainability
- > Including the socially responsible practices into the business strategy
- > Work environment
- > Market relations
- > Environmental protection
- > Community relations.

Key areas of sustainability and social responsibility

BUSINESS ETHICS



- > Doing business with a high level of integrity and ethics
- > Anti-corruption program
- > Respecting human rights
- > Responsible sourcing
- > Occupational health and safety
- > ICT role in IT safety and privacy protection.


EMPLOYEE ENGAGEMENT

- > Employee engagement in sustainability and social responsibility integration process in all business segments
- > Employee engagement in initiatives - Technology for Good
- > Enabling employees to clearly understand policies and directives.




ENERGY AND ENVIRONMENT

- > Ensure products, solutions and services that have a positive impact on energy efficiency, consumption of materials and the environment
- > Optimize the impact of our activities on the environment (business trips, transport, facilities management, etc.)
- > Ensure delivery of transformed ICT solutions for smart and sustainable cities.



CLIMATE CHANGE AND URBANIZATION

- > Climate change, challenges and urbanization possibilities
- > ICT has an important role in delivering transformed solutions for sustainable cities.





ECONOMIC SUSTAINABILITY

THE COMPANY'S CONTRIBUTION TO ECONOMIC PROSPERITY

Ericsson Nikola Tesla Group is committed to sustainable development of the society, i.e. the development that fulfills current needs and at the same time does not endanger the needs of the future generations. We spread the knowledge and awareness on sustainability among employees and proactively cooperate with stakeholders on the activities that have positive social, business and economic impact on people, business and society.

Economic sustainability and other strategic goals are monitored through a Balanced Scorecard (BSC) and Key Performance Indicators (KPI). Balanced Scorecard monitors achieved results through three basic perspectives: customers, employees, shareholders and the society.

DIRECT AND INDIRECT CONTRIBUTION TO ECONOMIC PROSPERITY

Contribution to economic prosperity of the society in which we operate can be monitored both through direct and indirect impact. Direct impact is measured by traditional financial indicators, which are presented and explained in detail in the Financial Statements of this Annual Report. For example, the value added from operations, realized in 2014 increased by 5.6 year-over-year and amounts to MHRK 657.7, and is distributed to key stakeholders.

EMPLOYMENT

In September 2014, Ericsson Nikola Tesla Servisi d.o.o. became a part of the Group, significantly increasing the number of the Group's employees. Today, the Group has almost 2500 employees, and more than 1800 are employees of Ericsson Nikola Tesla d.d. Due to the given new tasks and responsibilities in R&D and service delivery, the Company has employed over the last seven years more than 750 people. They are mostly young, highly educated experts, who are immediately included in the complex global ICT projects, important for the future Networked Society. Moreover, the Group was recognized as one of the best employers in Croatia, for providing quality work conditions to its employees, encouraging them for lifelong learning, and ensuring quality jobs and competitive earnings. In a two-way collaboration with the academic community, knowledge and transfer of the newest technologies are exchanged together with the cooperation on joint R&D projects.

TAXES AND CONTRIBUTIONS

Ericsson Nikola Tesla Group duly and transparently calculates taxes, contributions and other fees pursuant to positive regulations of the Republic of Croatia. The calculated amounts are duly paid into central and local government budgets. In this way, and in accordance with the Law, the Group finances the development of state administration and all other related matters, important for everyday life of Croatian citizens.

Ericsson Nikola Tesla Group - value added from operations

	2014	2013
	HRK '000	HRK '000
Sales revenue	1,314,868	1,345,226
Other operating income	3,772	2,120
Financial income	6,903	17,284
Total income	1,325,543	1,364,630
Procurement and other operating expenses	-621,540	-701,636
Depreciation and amortization	-46,280	-40,282
Value added distributed among:	657,723	622,712
- Employees	570,365	478,194
- Government (income tax)	0	0
- Financial institutions	8	163
- Shareholders	87,350	144,355
Value added increase	5.6 %	

PROCUREMENT

Ericsson Nikola Tesla requires from its suppliers and partners to meet high-quality standards and adhere to the Code of Conduct, which includes respecting the fundamental human rights, occupational standards, environmental management, and fighting the corruption. Suppliers are also familiarized with a list of harmful substances, as well as substances of banned or limited usage, and they must prove their products do not contain such substances.

IMPLEMENTATION OF NEW ICT

Communication is a basic human need, contributing to economic progress and social equality and providing high-quality solutions for many issues regarding the sustainable development. We aim to ensure that our technology is a force which does well on a global scale and has a positive impact on the environment. We believe that innovative products, solutions and services intended for the needs of the Networked Society do have a positive impact on people's lives, business and society.

STANDARDIZING OUR BUSINESS CHAIN

A key factor for sustainable development is trust of all stakeholders, participating in the business chain, from creating, using, up to the ecological disposal of products and solutions. Respecting high standards in all activities and processes and towards all stakeholders is a must for all Group employees to adhere.

EXCHANGE OF KNOWLEDGE

Exchanging knowledge on new ICTs, the latest business models and way of working, and using global standards in business are just a few of the relevant topics in which the Group experts participate. Many employees are recognized members of various professional associations, lecturers of specialized subjects in many educational institutions, and authors of numerous papers and articles, published in Croatia and abroad.

DIALOG AND CONSULTANCY

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

Innovative solutions for a Low-carbon Economy



SMART GRID -
ENABLES RENEWABLES AND SAVES ENERGY



THE CONNECTED CAR



MANAGING TRAFFIC



BRIGHTEST CONNECTION



EMERGENCY RESPONSE



CORPORATE SOCIAL RESPONSIBILITY AS INTEGRAL PART OF BUSINESS STRATEGY

INTEGRATED APPROACH

ICT has a positive impact on people's lives, business, environment and society at large. A solid foundation for sustainable development is made of partnership with customers, business excellence and technology leadership. Today, Ericsson Nikola Tesla Group is a leading regional provider of modern ICT products, solutions and services, initiating positive changes in Croatia and on all markets it operates on. Creation of new added value for business is continuously encouraged, with simultaneous business transformation, together with finding new business opportunities. The Group's competitiveness is based on permanent business improvement and managing changes, primarily through development of human resources, innovative culture 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.

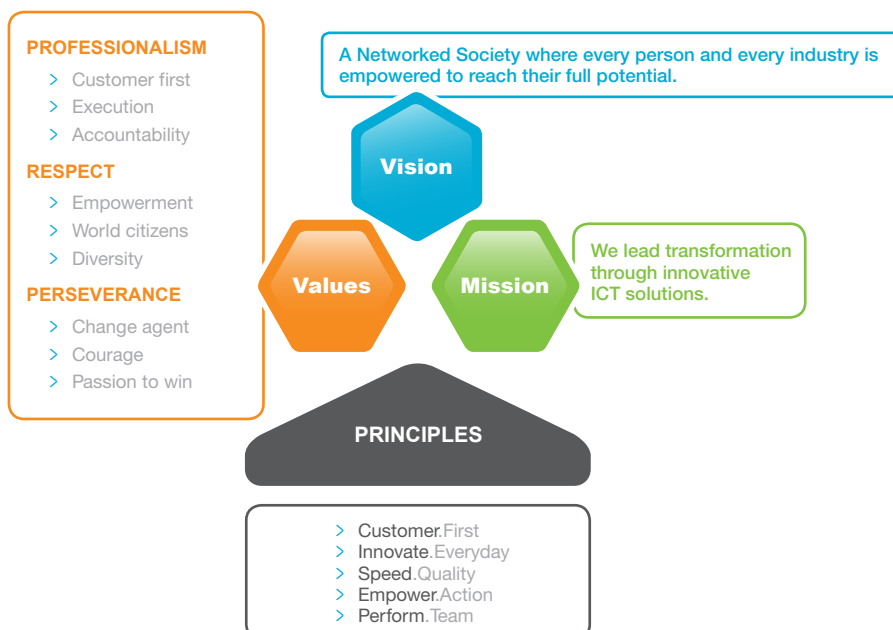
The implementation of Group's vision and mission is based on applying unique work principles and core values in daily work. The employees actively participate in

development and continuously improve collaboration with numerous customers, partners and other stakeholders. By creating and offering advanced ICT products, solutions and services, Ericsson Nikola Tesla Group initiates transformation and enables business growth for numerous customers and partners and accelerates positive changes in the society. Professionalism, perseverance and respect, being the core values of the Group are applied in daily work and interpersonal relations. The Group's strategy basic principles are focus on technology leadership, development of employees' competences, as well as regional and global presence.

KEY AREAS

Ericsson Nikola Tesla Group business strategy is focused on creating innovative ICT solutions that improve people's lives, and thus create new value for business and social community. The strategy also includes respecting high standards and applying the best practice of corporate social responsibility.

It begins with us



Ericsson Nikola Tesla Group, with its business, aims to:

- > Supply advanced ICT products, solutions and services
- > Apply efficient processes, in line with the vision and business strategy
- > Permanently improve products, solutions, services and business processes
- > Encourage employees' creative potential
- > Continuously work on increasing customer satisfaction
- > Ensure compliance with the market-set standards
- > Contribute to the ICT infrastructure development
- > Have a positive impact on the environment by providing energy-efficient and health safe high-tech products, solutions and services.

RISK MANAGEMENT

On a daily basis, the Group is faced with unfavorable market conditions and various business risks in implementing strategy and achieving business goals. The Group's Management System takes into consideration those risks and enables their timely identification, analysis and assessment, and takes appropriate preventive measures for their removal or mitigation.

Risk management is incorporated into all business segments and related operative processes throughout the Integrated Management System with the aim to ensure:

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

The management of all organizational units, together with all employees, actively participates in the risk management process. Each employee is expected to personally contribute in order to prevent or mitigate the risk.

TOTAL QUALITY MANAGEMENT

The Group ensures its successful operation by applying the Total Quality Management (TQM) principle. The Group strives for operational/business excellence in every activity.

This involves achieving a high level of organizational maturity and the applied process efficiency. The objective is to reach a high professional level of business in which all key processes are optimally applied and improved by surpassing the organizational unit "boxes". Thus, prerequisites have been made for achieving the major objective, to have satisfied customers. Motivational slogan for all employees is - do it right the first time. Total quality management is precisely what helps employees to achieve it.

INTEGRATED MANAGEMENT SYSTEM

The Integrated Management System is an effective tool helping the Group Management in providing support to their management activities. Each employee can at any time, through intranet pages, access important information from the area. The system enables execution of set business objectives and a visualization of all elements, used in the Group management process, placing the focus on business value streams, which are defined as business processes. The Management System also represents an interface towards partners and suppliers, which are in this way involved and motivated to comply and improve their way of doing business.

Group Management System is an integral part of and in alignment with the Ericsson Group Management System (EGMS). It is primarily based on the ISO 9001 standard, containing requirements for Quality Management. However, in the current ICT industry, it is no longer possible to comply with a sole standard. A synergy between various standards, models and methods is required. The Group Integrated Management System meets the Environmental Management System (ISO 14001) standard requirements, the Occupational Health and Safety Management System (OHSAS 18001), the Information Security Management System (ISO 27001), Quality Management for Medical Devices (ISO 13485). The internal control system is an integral part of the Integrated Management System. Risk management is based on the COSO model (The Committee of Sponsoring Organizations of the Treadway Commission). In the Integrated Management System some of the globally applied improvement models and methods have been included, such as CMMI (Capability Maturity Model Integration), EFQM (European Foundation for Quality Management) and Six Sigma. The Group, as well as the Ericsson Corporation, successfully adopts and applies advanced approach for software development based on Lean principles and Agile methods - Lean & Agile.

By means of the Integrated Management System, the Group defines functions and responsibilities, organization, processes, as well as other factors having an important role in ensuring operational/business excellence and achieving high quality of products, solutions and services. The Management System is regularly updated and adapted in line with the organizational changes.

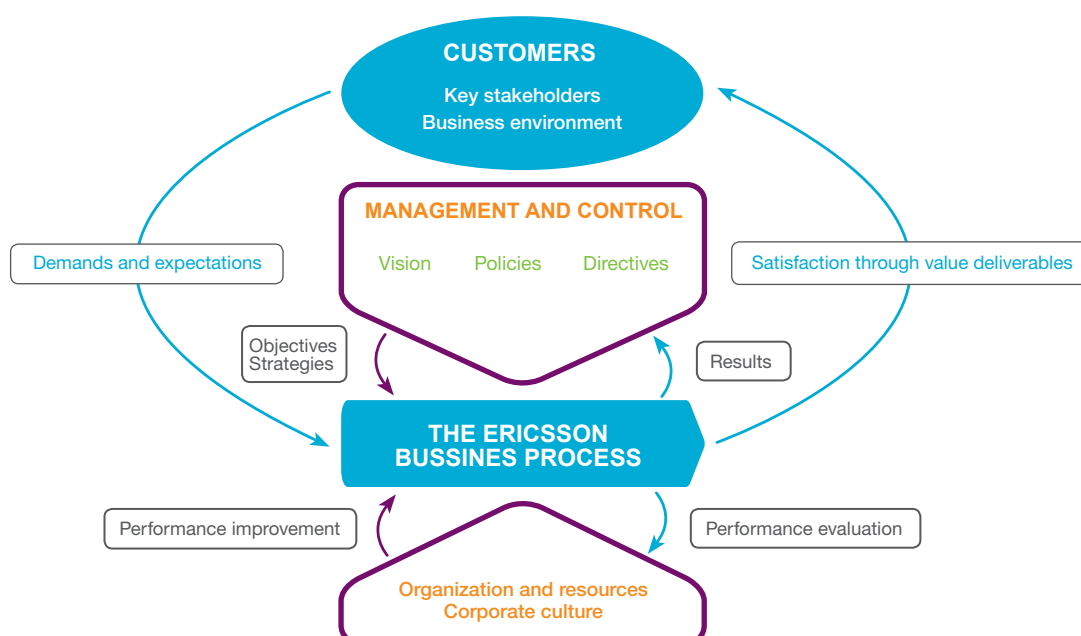
CERTIFICATES

Ericsson Nikola Tesla d.d. regularly certifies its Management System by using independent certification authorities, and this process is ongoing in subsidiaries.

Ericsson Nikola Tesla d.d. holds the following certificates:

- > **ISO 9001:2008** - Certificate for Quality Management System, including Regional Management, Marketing, Sales and Delivery of ICT Products, Solutions and Services, including Managed Services, Intertek, Sweden (as a part of the Ericsson Group certification)
- > **ISO 9001:2008** - Certificate for Quality Management System, including Research and Development in ICT Software, SIQ, Slovenia
- > **ISO 14001:2004** - Certificate for Environmental Management, including Regional Management, Marketing, Sales and Delivery of ICT Solutions, Products and Services, including Managed Services, Intertek, Sweden (as a part of the Ericsson Group certification)
- > **OHSAS 18001:2007** - Certificate for Occupational Health and Safety Management System, including Regional Management, Sales and Delivery of ICT Solutions, Products and Services, including Managed Services, Intertek, Sweden (as a part of the Ericsson Group certification)
- > **ISO 27001:2005** - Certificate for IT Security Management, including Marketing, Sales, Development and Delivery of ICT Solutions, Products and Services. (all in accordance with the latest Statement of Applicability), Intertek, Sweden
- > **ISO 13485:2003** - Certificate for Quality Management, related to Development, Marketing, Sales and Delivery of Services and Production of ICT Healthcare Solutions; Intertek, Sweden.

Management system





WORK ENVIRONMENT

OUR EMPLOYEES

Ericsson Nikola Tesla Group, within the Ericsson Corporation, successfully operates in Croatia and on numerous international markets. Business success, together with growth and development are based on innovativeness, knowledge and skills of employees.

One of the Group's strategic objectives is to attract, develop and retain efficient, competent and motivated employees, constantly encouraging individuals' ambitions to succeed in the competitive environment.

Core principles, governing the Group's operations, are:

- > Business ethics
- > Equal possibilities and work conditions for all employees
- > Equality and human rights protection.

Our values are the basis of our company culture. They guide employees in their daily work, interpersonal relations and the way of working:

- > Professionalism in daily operations and task performance
- > Respecting people, which is reflected in top work conditions and partnership with customers
- > Perseverance in achieving goals.

The Group, as a member of the Ericsson Corporation, respects all internationally proclaimed human rights, including the International Bill of Human Rights and Declaration on Fundamental Principles and Rights at Work, adopted by the International Labor Organization. We strive to ensure that we are not complicit in human rights abuses. Each employee in Ericsson Nikola Tesla Group is entitled to exercise his/her basic human rights and should not be forced to suffer physically or mentally during his/her work. No Company employee shall be discriminated based on race, color, gender, sexual orientation, marital status, pregnancy, parental status, religion, political opinion, social origin, social status, disability, age, or union membership.

Core values



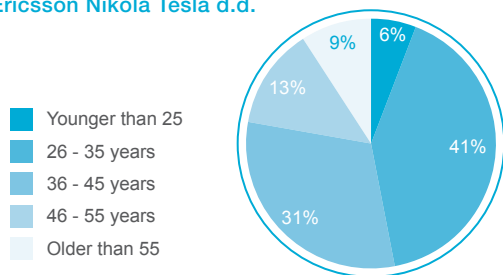
Employee structure:

- > **Number of employees (as at December 31, 2014)**
Ericsson Nikola Tesla Group - 2,491 employees
 - > Ericsson Nikola Tesla d.d. - 1,807 employees
 - > Subsidiaries:
 - Ericsson Nikola Tesla Servisi d.o.o. - 641 employees
 - Libratel d.o.o. - 25 employees
 - Ericsson Nikola Tesla BH d.o.o. - 18 employees
- > **University graduated experts (percentage)**
Ericsson Nikola Tesla Group - 70 percent
 - > Ericsson Nikola Tesla d.d. - 87 percent
 - > Subsidiaries - 23 percent
- > **Doctors of Science and Masters of Science (percentage)**
Ericsson Nikola Tesla Group - 7 percent
 - > Ericsson Nikola Tesla d.d. - 9 percent
 - > Subsidiaries - 2 percent
- > **Average employee age**
Ericsson Nikola Tesla Group - 42 years
 - > Ericsson Nikola Tesla d.d. - 38 years
 - > Subsidiaries - 45 years
- > **Employees, younger than 32, and their share in the total number of employees**
Ericsson Nikola Tesla Group - 606 employees (24 percent)
 - > Ericsson Nikola Tesla d.d. - 588 employees (33 percent)
 - > Subsidiaries - 18 employees (3 percent)
- > **Average employment duration**
Ericsson Nikola Tesla Group - 15 years
 - > Ericsson Nikola Tesla d.d. - 12 years
 - > Subsidiaries - 18 years
- > **Employees with up to two years of work experience (percentage)**
Ericsson Nikola Tesla Group - 15 percent
 - > Ericsson Nikola Tesla d.d. - 19 percent
 - > Subsidiaries - 2 percent
- > **Gender ratio (Male vs. Female) (percentage)**
Ericsson Nikola Tesla Group - 78 percent : 22 percent
 - > Ericsson Nikola Tesla d.d. - 73 percent : 27 percent
 - > Subsidiaries - 92 percent : 8 percent
- > **Average Manager age**
Ericsson Nikola Tesla Group - 46 years
 - > Ericsson Nikola Tesla d.d. - 44 years
 - > Subsidiaries - 48 years
- > **Female Managers (percentage)**
Ericsson Nikola Tesla Group - 22 percent
 - > Ericsson Nikola Tesla d.d. - 22 percent
 - > Subsidiaries - 28 percent

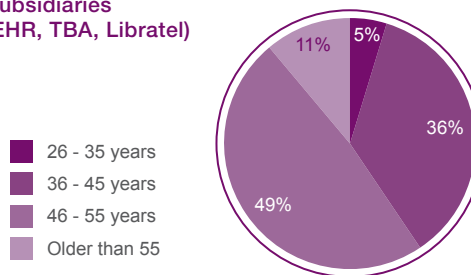
Employees according to age

as at December 31, 2014

Ericsson Nikola Tesla d.d.



Subsidiaries
(EHR, TBA, Libratel)



EMPLOYEE FLUCTUATION

In 2014, the Group employed 182 new employees. Ericsson Nikola Tesla d.d. itself, due to received new tasks and responsibilities in the R&D and service delivery and undergoing the period of intense growth, employed 172 new young experts.

TRAINEE INTRODUCTION INTO THE WORK PROCESSES

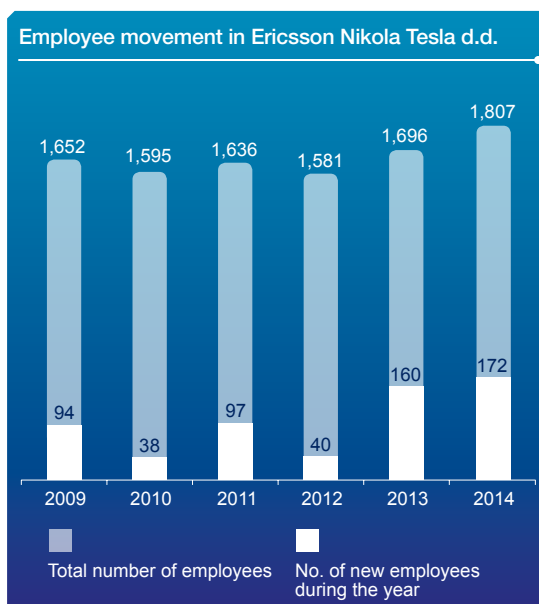
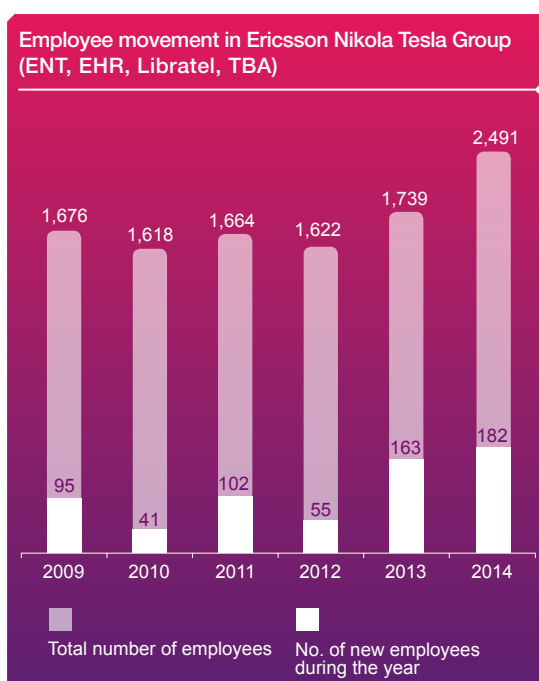
Ericsson Nikola Tesla d.d. operation was in the last years marked with a large number of newly employed young experts without any work experience. Therefore, more mentors were empowered to train new employees and to enable them to get involved into the new environment. Also, the mentors monitor both personal and professional development of young employees and participate in the process of career planning.

Regularly, once a year, a survey is conducted to measure the satisfaction of the employees, who started to work in the Company. Their opinion on the organization and work conditions, together with the work environment, the level of knowledge about strategic goals and tasks, the educational and career advancement possibilities, mentorship and other things is surveyed. The survey results are used to make corrective actions with an aim to improve this important process.

INVESTMENT IN LIFELONG LEARNING

In Ericsson Nikola Tesla Group, development of professional, business and personal competence of employees is an important part of a long-term development strategy. Aligning the employee knowledge, skills and competences with the needs of the Networked Society, agile way of work in ICT and modern project management are the focus of the Group's strategy development.

The Education center, as a part of Ericsson Nikola Tesla d.d., operates as a flexible organization focused on provisioning educational services to employees, customers and partners. Education center coordinates the work of internal trainers' network and collaborates with renowned educational institutions from Croatia



and abroad, and also Ericsson Academy that provides continuous education for all employees at the global level, as well.

Moreover, the employees can develop competences by taking e-courses, using the internal corporate software tools for exchange of specialist knowledge, by attending seminars, conferences, postgraduate studies, and during work on regional and global projects.

The Group is a part of the Talent Management Program and the Innovation Program. Those are Ericsson Corporation global programs where special attention is dedicated to experts with relevant knowledge and skills and top intellectual potential.

WORK ENVIRONMENT

Ericsson Nikola Tesla Group continuously creates and enhances motivating work environment by:

- > Ensuring attractive jobs and giving clear roles to each employee, in order to achieve common goals;
- > Providing possibility for continuous learning and improving, and career development;
- > Ensuring equal conditions for development and work to all employees;
- > Encouraging innovativeness in all work segments;
- > Providing possibility to work in global teams;
- > Recognizing and visualizing individuals and teams, which contribute to the Company's results the most;
- > Performance-based salary system;

- > Modern equipped work place with all tools necessary for work;
- > Motivating Company culture;
- > Flexible work hours;
- > Providing high level of employee healthcare;
- > Providing high level of occupational health and safety measures;
- > Supporting parents with children of preschool age by organizing daycare in kindergartens located in the immediate vicinity of the Company;
- > The possibility of recreation and socializing in sport and culture sections.

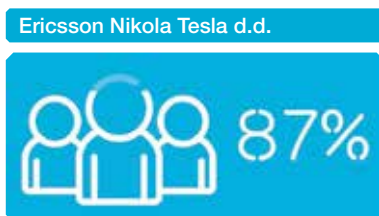
MONITORING EMPLOYEE ENGAGEMENT AND SATISFACTION

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, the employees of Ericsson Nikola Tesla d.d. together with managers, participate in suggesting changes and improvements in all work segments and business overall. In 2014, employee participation in the survey was as high as 95 percent, which is a representative sample for analysis, suggestions and improvement measures.

Major indicators of Dialog survey for 2014 are:

- > **Engagement Index** - is an index on the employees' personal willingness to contribute to business success. The results show that 90 percent of employees are ready to engage fully in order to personally contribute to Company's success.

University graduated experts



Subsidiaries



Doctors of Science and Masters of Science



Subsidiaries



- > **Performance Excellence Index** - monitors employee opinions on product and service quality. The result is 87 percent and indicates a highly efficient organization. Monitoring of this index is based on continuous improvement practice with a goal to achieve top results.
- > **Motivation Index** - shows the percentage of employees dedicated and satisfied with their work. The result of the survey is 83 percent, and 92 percent of respondents have a positive opinion about the future of the Ericsson Corporation. 95 percent expressed that they are proud because they work for Ericsson, and 94 percent thinks that Ericsson is an ideal work place and as such, 93 percent would recommend it to others.

OCCUPATIONAL HEALTH AND SAFETY

Ericsson Nikola Tesla Group is committed to maintaining a powerful culture for taking care of the occupational health and safety with promoting awareness on prevention and protection. In daily operation, we cooperate with our customers, suppliers and other stakeholders with an aim to ensure safe and healthy work environment. Our obligation is shown through a system of documented management controls and by taking appropriate actions. With application of those controls, we act as a responsible employer who aims to protect life and health of everyone working for Ericsson and to protect business interests, Ericsson brand and our customers.

The most important activities which took place in 2014, are listed below:

- > **Implementation of the Occupational Health and Safety Management System OHSAS Standard 18001** - Ericsson Corporation implemented in full a complete global system for occupational health and safety management, pursuant to the OHSAS 18001 standard. The global certificate obtained is applied to occupational health and safety management in Ericsson Nikola Tesla d.d. and Ericsson Nikola Tesla BH d.o.o., while Ericsson Nikola Tesla Servisi d.o.o. and Libratel d.o.o. are in the process of incorporating the occupational health and safety management system.
- > **Compliance with the Occupational Health and Safety Management System** - The Group regularly performs systematic activities to prevent and protect health and improve occupational safety. With the incorporation of the Ericsson Nikola Tesla Servisi d.o.o. to the Group, the number of employees, working on jobs with special working conditions, has significantly increased. At the moment, 303 Group employees work on jobs with special working conditions. In regular Occupational Health and Safety Committee meetings all relevant indicators are monitored, and on the basis of danger analysis and assessments, prevention measures and

corrective activities are being proposed. Important information and notices related to occupational health and safety are published on intranet pages, which are regularly updated and available to all employees. Three employees reported three occupational injuries last year that took place during commuting to/from work.

- > **Regular medical checkups** - For Group employees, regular medical checkups and specialized examinations are organized, as well as the examinations intended for employees travelling to high-risk countries. For all employees, specialist examination of the eye and sight was organized and performed. The results of regular checkups are being processed and analyzed in detail, and precautionary measures are suggested, in order to decrease the risk of disease and improve employees' health status.
- > **Doctor at the work place** - Occupational health and safety experts continuously cooperate with the occupational physician. Also, occupational physician is a part of the process for hazard assessment and activities aimed to improve work conditions and safety.
- > **Education and training of employees** - All new employees attend an introductory seminar, defined by the law, related to occupational health and safety and training for fire prevention. If the job requires so, some other occupational safety trainings can be organized. A special attention is given to regular trainings for workers engaged under special conditions, such as work on heights. Work equipment is renewed regularly and at the same time employees are trained to use it properly. Special training courses for occupational health and safety are organized for all the new managers, i.e. employer's representatives for occupational health and safety with an aim to understand the importance of conducting rules of occupational health and safety, and thus contributing to the satisfaction of employees and business process success.



MARKET RELATIONS

The Group employees, together with their colleagues from the Ericsson Corporation, 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 characteristic of the Company's way of working and doing business.

Operating with a strong sense of honesty is the key to maintain credibility and preserve trust of customers, partners, employees, shareholders and all other stakeholders. The Group believes it is a priority to create a transparent atmosphere in managing business.

All employees, as well as other stakeholders that have a contractual relation with the Group, are required to operate in line with the Code of Conduct and Code of Business Ethics. The management process is in accordance with the principles stated in the Code, and everyone, starting with the Management Board and Executive Management to each individual employee, is obliged to comply with the standards.

The purpose of the Code of Conduct is human rights protection, promotion of fair employment conditions, safety at work, responsible environmental management and high ethical standards. The Code of Business Ethics refers to individual responsibilities in relation to all stakeholders with whom one communicates or does business. The Code of Business Ethics reflects our commitment towards responsible business operations, including the commitments we have as responsible corporate citizens, respecting human rights in all our

business segments, taking care of health and safety, promoting sustainable development and supporting the UN Global Initiative.

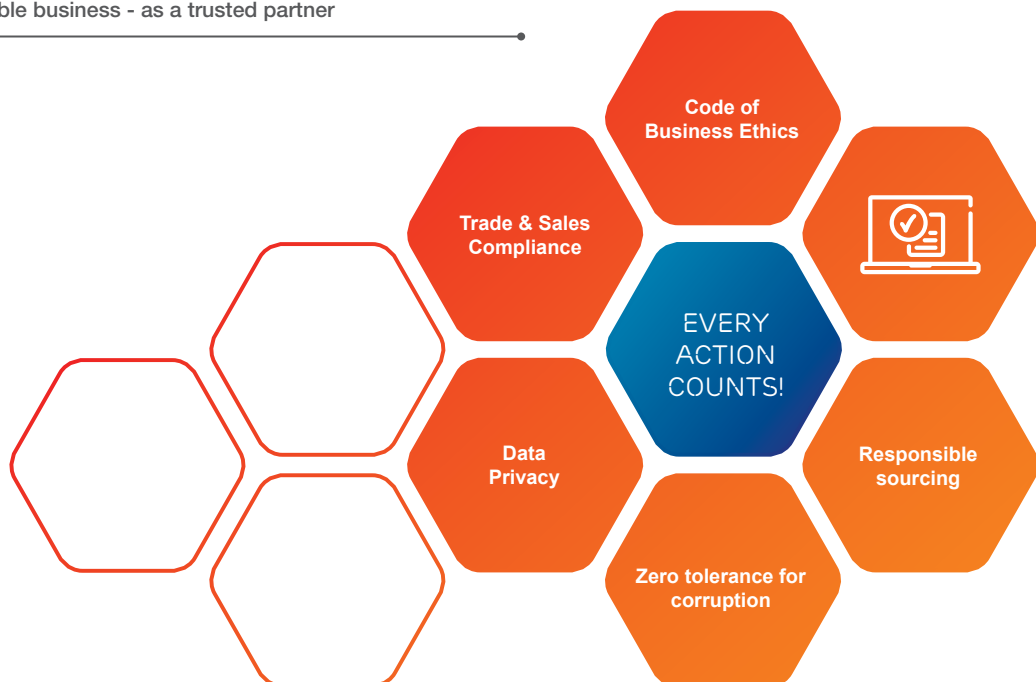
The Group promotes fair market competition as a foundation for business development and progress. Employees, involved in business transactions abroad, must be acquainted with and observe all current foreign and domestic laws and other regulations. In the open international market competition, employees of the Group must compete as strong and as constructive as they can, operating fully in line with the law of each country they operate in.

The Group operates in line with strict accounting principles and standards, and reports full and correct financial data that are compliant with the law and other regulations and requirements for being listed on the stock exchange.

Long-term relations have been established with suppliers and business partners. These relations imply dialogue, knowledge sharing and applying the highest up-to-date working models. The suppliers and their subcontractors are required to comply with the high-quality standards, the Code of Conduct and the Code of Business Ethics.

Everyone who works for Ericsson is obliged to professionally treat the corporate responsibility matters, including issues related to human rights, health, safety and environment, and have in mind Corporation's commitment to responsible business in daily work.

Responsible business - as a trusted partner





CORPORATE GOVERNANCE

Corporate governance represents a framework for business operations and supervision in the Company and its purpose is to create long-term economic value for shareholders. Corporate governance also describes the way of reaching decisions and the structure with which shareholders can either directly or indirectly control the Company's management.

Management Board and Supervisory Board of Ericsson Nikola Tesla d.d. continuously support the respect of basic principles of corporate governance, trying to ensure transparent business and protection of rights and equal treatment of all shareholders and strengthen the responsibility towards all the stakeholders. Company experts continuously, timely and objectively inform the public on all important business activities and achieved results, and by doing so, they strengthen the public perception of a Company that fully implements the Code of Business Ethics. Good management of the Company impacts the strengthening of trust of all stakeholders, credibility towards customers, partners, employees, shareholders and others, and represents a significant factor for attracting the investments in the Company.

Ericsson Nikola Tesla d.d. was among the first in Croatia to adopt the Principles of Corporate Governance, in April 2005, based on the legislation of the Republic of Croatia, and the recommendations published in OECD 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/corporate-governance>).

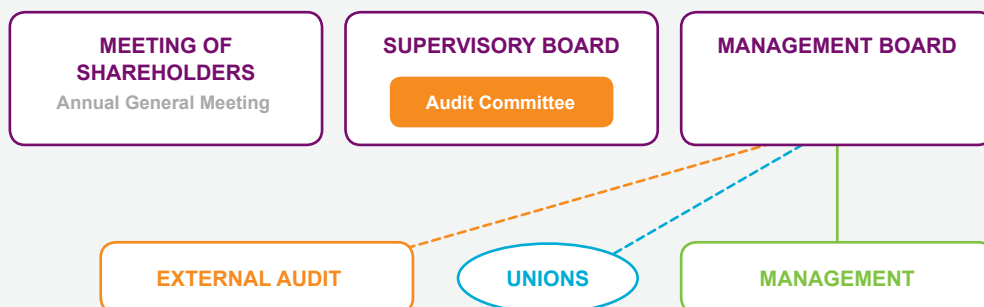
MANAGEMENT BOARD

The Croatian Companies Act, the Statute and the internal bylaws of Ericsson Nikola Tesla d.d. define the role of the Management Board in managing the Company. The Management Board is obliged to consciously perform its duties, taking into account the Company's and shareholders' interests. Ericsson Nikola Tesla d.d. has a one member Management Board, appointed by the Supervisory Board for a five-year term, with the possibility of re-election. The Management Board is obliged to inform the Supervisory Board on financial and business results, strategy and business plans. The Management Board also reports on its performance at the Annual General Meeting, and implements decisions reached at the Annual General Meeting. The salary and other earnings of the Management Board are defined by the Supervisory Board and they depend on the Company's business results.

SUPERVISORY BOARD

The main task of the Supervisory Board is to supervise the Management Board in business management. In doing so, Supervisory Board shall apply high ethical standards and take into account the interests of the Company and its shareholders. The Supervisory Board consists of five members, appointed for a four-year term, with the possibility of re-election. The Supervisory Board reports to the Annual General Meeting on the supervision of business management and provides opinions on the Management Board proposal on the profit allocation and

Management structure



suggests the appointment of the Company Auditor. In accordance with the decision of the Annual General Meeting, the members of the Supervisory Board receive a monthly remuneration amounting to the half of the average monthly gross salary of the Company employees. Ericsson representatives in the Supervisory Board, in accordance with the corporate policy, renounced their remuneration.

During 2014, four regular and three extraordinary meetings of the Supervisory Board were held. The Board discussed, in detail, financial results, business plans, market conditions and trends in the ICT industry. Also, strategic programs, investments, business risks, innovations and issues related to human resources were discussed. The Board also continuously supervised the business development and the responsibilities of the Research and Development Center, Service and Solutions Center and the ITTE unit. The Supervisory Board reviewed and supported the 2014-2017 Company Strategy.

In an extraordinary meeting, Supervisory Board discussed the payment of dividend, annual financial statements for 2013 and objectives for 2014 and the Company's entering into the new segment of managed services.

At the meeting, held on December 11, 2014, the Supervisory Board entrusted a new term to the Company Managing Director, Gordana Kovačević, starting January 1, 2015. Members of the Supervisory Board remained the same during the year. At the Annual General Meeting, Dubravko Radošević was re-elected as the Supervisory Board member for another four-year term.

AUDIT COMMITTEE

During 2014, the Company Audit Committee held four meetings. Current financial results, annual financial statements, revision plan for 2014, audit findings, independency and objectivity of the Audit members, internal control and risk management systems were discussed. The Committee also executed other tasks pursuant to the Audit Act. The Audit Committee regularly and timely informed other members of the Supervisory Board on all its conclusions and recommendations. The Audit Committee has two members, the chairman, Ignac Lovrek, and a member, Carita Jönsson. During 2014, there were no personnel changes in the Committee.

ANNUAL GENERAL MEETING

The Annual General Meeting is the place where the Company shareholders exercise their legally established rights. The Annual General Meeting decides on profit allocation, changes and amendments to the Company Statute, election and re-call of the Supervisory Board members. It is important to mention that the Annual General Meeting reaches decision on the performance of the Supervisory Board and

Management Board, appointment of the independent auditor, annual financial statements and other issues, explicitly defined by the law and the Company's Statute.



ENVIRONMENTAL PROTECTION

LAW, STANDARDS AND ISO 14001

A responsible approach towards the environment is an integral part of Ericsson Nikola Tesla Group business and culture, and the Environmental Management System is an integral part of the firmly defined Management System. Activities related to Environmental Management are executed and coordinated through a network for operational excellence and development and quality, respectively. Expert team members regularly and systematically carry out internal and external inspections of the Environmental Management systems' functionality, including controls in other Group members, as at selected suppliers, in order to keep the ISO 14001 certificate obtained at the corporate level. All these activities are in line with the current and relevant provisions of the Croatian law as well as with the highest international environmental protection standards. The experts of the Group actively participate in global initiatives related to environmental protection, such as expanding the list of banned and restricted substances, monitoring the adoption of regulations and regularly inspect implementation of the Croatian regulations related to environmental protection, thus fully providing their social contribution regarding the environmental protection.

KEY PRODUCTS

Solutions and products, created by the experts in Ericsson Nikola Tesla Group or the Ericsson Corporation, are harmless to the environment, energy saving, and improve business and life of people who are using them. Group members, with their way of working, have a positive impact on the environment and reduce carbon dioxide emissions, for which other branches of the industry are responsible. With innovative solutions (eHealth, eCadaster and Land Registry, etc.) we enable low-carbon economies and transform modern industry and society. Technology leadership and innovative approach enable us to use numerous and diverse applications in our own business process, whereby, together with efficiency, we protect the environment. We systematically analyze and manage our impact on the environment, such as air emissions, reducing waste and water pollution. The Ericsson's Life Cycle Approach (LCA) assessment, confirms that the energy, related to the use of products in operation is still of key importance for the impact on the environment. All local companies, part of the Ericsson Corporation, use Design for the Environment (DfE), so undesirable impact of their products is reduced to a minimum. On the other hand, our products, services and solutions improve numerous processes and preserve natural resources, all of which is explained in detail in the first part of the report, chapter "Everything Connected – Internet of Things".

GREEN ENERGY AND RATIONAL CONSUMPTION OF RESOURCES

We continually try to rationalize the consumption of electricity, water and steam, because they represent key

resources in the production chain, characterized by the intellectual work. By using a central monitoring system for energy sources consumption, we ensure quality energy system management and maintenance, which, despite of the increased number of employees, resulted in reduction of consumption of water and steam for heating, calculated from the beginning of the measurement. Monitoring of the entire pipeline system enables timely repair works, avoidance of unnecessary leakages and water loses and consequently, considerably reduced consumption. At the same time, newly installed substantial capacities of computer and testing systems resulted only in a slight increase in electricity consumption. From the mid-2014, ZelEn (green energy) from renewable energy sources is exclusively used in our operation. In this way, we have joined socially responsible and eco-aware entrepreneurs, who with the use of so-called green energy reduce carbon emission and protect the environment. The production of energy we are using is constantly controlled by the renowned German certification institute TÜV SÜD, and resources collected by selling the ZelEn are exclusively used for financing the projects for building the renewable energy sources. With this we contribute to achievements of national goals from the Horizon 2020 program and we fulfill one of the Corporation's strategic goals, related to "green business" and sustainable development.



Quantitative indicators related to water, steam and electricity resources for the location Krapinska 45, are given in the table.

Energy consumption

Year	Water ('000 m3)	Steam ('000 tons)	Electricity (MWh)
2010	36.726	8.975	15,136
2011	34.353	8.889	15,802
2012	30.241	8.425	16,768
2013	28.447	9.418	17,787
2014	23.537	7.563	18,296
2014/2013	-17%	-20%	+3%

BUSINESS TRIPS, LOGISTICS, REMOTE SERVICES

The Group manages the impact on the environment of its operations, including the usage of work premises, business trips and logistics, where shipping and distribution of products is being optimized. By using the virtual solutions, such as videoconferences, e-learning system, online meetings, etc. we have reduced the number of business trips and implemented smart solutions that save money and time as well as reduce carbon dioxide emission.

A considerable part of services to our customers is remotely delivered, primarily in the segment of network design and optimization, network integration and software upgrade. Intelligent tools are used for collaboration, thus increasing customer satisfaction, regardless of the fact that services are provided remotely.

WASTE MANAGEMENT

We take a comprehensive and systematic care of all types of waste. We meet all the requirements set by the Rulebook on electric and electronic waste management, which regulates that manufacturers and direct importers of electric and electronic devices have the obligation to regularly report to the Environmental Protection Fund. We observe all the prescribed requirements regarding the electronic waste and in accordance with Ericsson directive Ecology Management and Product Take-Back and our customers' demands we take care on disposing their electronic equipment.

Together with municipal solid waste, we collect, separate and ecologically manage glass, metal, plastic and wooden waste, cables, batteries, toners, fluorescent tubes and paper. In one year period, we collect approximately 150 tons of waste, which is significantly less than it was before. With raising awareness on avoidance on unnecessary printing and by using e-applications, we have reduced paper consumption for nearly one fifth. In the last three years only, by recycling 88 tons of waste paper, we have preserved a forest with 1500 trees and in that way provided oxygen for proximately 3000 grown-up people.

EDUCATION IN ENVIROMENTAL PROTECTION

Environmental protection specialists, as a part of the team in charge of business excellence, i.e. development and quality, contribute to the improvement of the

business processes. Through intranet, Internet and the "Komunikacije" magazine, continuous education is conducted, developing awareness and motivating both the employees and the wider community to positively impact the environment.

Group's experts, in collaboration with stakeholders, share knowledge and experience, and actively contribute to responsible approach of individuals, economy and society towards the environment.

SUPPLIER ENVIRONMENTAL REQUIREMENTS

Environmental Management Policy and Code of Business Ethics are the key documents, defining the positive impact on the environment. We are aware that we can manage the impact on the environment only if we review the entire supply chain, together with "cleaning our own doorstep". Therefore in our business we apply Ericsson Code of Conduct to all suppliers. The Code of Conduct contains guidelines in the field of basic human rights, work standards, anti-corruption and fundamental postulates for responsible attitude towards the environment. The requirements relating to suppliers' approach to the environment encompass environmental management system, design of product, friendly for environment and production, product information and transport. The suppliers are familiarized with the list of hazardous substances, and banned and restricted substances, and they are required to prove the absence of such substances in their products. We continuously audit the impact of our supply chain on the environment, by assessing our suppliers. In accordance with the findings, where necessary, we take the necessary corrective measures.





COMMUNITY RELATIONS

Ericsson Nikola Tesla Group, besides financial responsibility, has a high level of social awareness towards the community in which it operates. Realization of the projects focused on the community is in compliance with the best global practice. We elaborated methods and tools for recognition and selection of the projects with which we can contribute to the greatest extent to the development of the community in which we operate. Priority is given to projects in which technology, our products, solutions, services, as well as knowledge and skills of our experts, have the key role.

Furthermore, numerous projects in the fields of education, healthcare, culture, sport, together with a range of humanitarian projects were realized.

We highlight the humanitarian project:

**Rebuilding by Knowledge -
add your brick for the medical clinic**

When the eastern part of Croatia was hit by catastrophic flooding in spring 2014, Ericsson Nikola Tesla d.d. Management immediately reached a decision that the Company will donate a hundred thousand kuna for the victims of flooding. In agreement with the Croatian Red Cross, the Company organized and successfully realized the action during which food, hygienic and other products were collected. At the same time, Ericsson Nikola Tesla BH d.o.o. employees took part in the humanitarian action in order to collect aid for the victims of floods in the Bosnia and Herzegovina.

We wanted to connect our technological leadership and lifelong learning with the social responsibility of the organization and individuals, so we realized an action - Rebuilding by Knowledge - add your brick for the medical clinic.

During Innovation Days in Zagreb and Split, the employees could, by visiting innovation points, learn something new about innovative solutions for the Networked Society on which our employees work, and at the same time turn that new knowledge into symbolic bricks. Those bricks were in the end of the action tuned into one million kuna by the Company in order to rebuild the medical clinic in Gunja.

At the celebration of the 65th Anniversary of Ericsson Nikola Tesla, Gordana Kovačević, the President of Ericsson Nikola Tesla, handed over the symbolic key of the rebuilt medical clinic in Gunja to Luca Lešić, the principal of the Health Center Županja.

Results of action:

- > Visualization of our experts, working on innovative solutions for the Networked Society
- > Acquisition and exchange of knowledge
- > Increasing employees' awareness on the need for every individual to be socially responsible – everybody's contribution counts
- > The medical clinic in Gunja was rebuilt and put into operation



Ericsson Nikola Tesla d.d.
helped in rebuilding this clinic
by a donation.

In Gunja, November 27, 2014



AWARDS AND RECOGNITIONS

- > Croatian Public Relations Association granted Ericsson Nikola Tesla d.d. the annual award for:
 - > Grand PRix in the category public relations within the business sector for large companies for the project "60th Anniversary of Collaboration between Ericsson and Ericsson Nikola Tesla"
 - > Grand PRix for internal communication for the project "Ericsson Nikola Tesla All Employee Meeting-International College of Networked Society".
- > Croatian Public Relations Association granted a special award, Grand PRix to Snježana Bahtijari, the director of Marketing, Communications and Social Responsibility in Ericsson Nikola Tesla, for contributing to the development of the profession.
- > Asst. Prof. Darko Huljenic, PhD., in the Company responsible for relations with academic community, was appointed to the National Council for Science, Higher Education and Technological Development by the decision reached by the Croatian Parliament.
- > Ericsson Nikola Tesla d.d. was granted the best Oracle partner award, in the Technology&Cloud category in the Central Europe.
- > Ericsson Nikola Tesla d.d. and Vipnet won an award for green business for the implementation of the Ericsson PSI system, an energy-saving solution for base stations at the Global Telecom Business Awards 2014.
- > President of Ericsson Nikola Tesla d.d., Gordana Kovačević, was awarded at the International Convention on Informatics and Communication Technology, Electronics and Microelectronics (MIPRO) The Charter for exceptional long-term contribution to development of ICT, electronics and microelectronics, as well as promoting the ideas and thoughts of MIPRO.
- > The Croatian Exporters Association, on the occasion of marking the 10th anniversary, awarded the Platinum Key to Ericsson Nikola Tesla d.d., for proven continuity in excellence.
- > The International Symposium on Information and Communication Technologies, INTSIKT, which gathers scientists and engineers focused on ICT, awarded Ericsson Nikola Tesla, to mark the tenth anniversary, a Plaque for special contribution to the development and organization of INTSIKT.
- > Ericsson Remote Patient Monitoring Solution won an M2M TeleHealth Award for its ability to improve health care and wellness. M2M Data Management platform (M2M DM), part of the awarded solution, is developed in Ericsson Nikola Tesla.
- > Ericsson Nikola Tesla d.d. became the first and only holder of the status of an authorized economic operator for customs simplifications/safety and security, AOE certificate, in Croatia.
- > Zagreb Stock Exchange and daily business newspaper "Poslovni dnevnik" rewarded Ericsson Nikola Tesla d.d. the second place for best investor relations.
- > The Swiss ICERTIAS granted:
 - > ePrescription service in Croatia five red diamonds "ICERTIAS Customers' Friend" pentagonal red diamond mark with the title "Outstanding Service" for the best user experience
 - > Ericsson Nikola Tesla d. d. "Customers' Friend" certificate.
- > Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development awarded Ericsson Nikola Tesla the CSR Index Award in the segment of responsible policy and practice in the work environment.
- > Ericsson Nikola Tesla d.d. was awarded the plaque "Zlatna kuna" of the Croatian Chamber of Economy - Chamber Zagreb, in the category of large companies for the results achieved in 2013.



GRAND PRIX HUOJ - for PR, internal communication and development of the profession



ORACLE PARTNER AWARD in the Central Europe



GLOBAL TELECOM BUSINESS AWARD - for PSI system implementation



THE PLATINUM KEY - The Croatian Exporters Association



AEOF certificate



M2M TELEHEALTH 2014 AWARD - for Ericsson Remote Patient Monitoring



BEST CSR PRACTICE in the segment of taking care about employees



BEST INVESTOR RELATIONS



ICERTIAS - CUSTOMERS' FRIEND for ePrescription



PENTAGONAL RED DIAMOND "ICERTIAS Customers' Friend" mark with the title "Outstanding service" for the best user experience



Gordana Kovačević: 2ND MOST POWERFUL WOMEN IN THE CROATIAN BUSINESS



"ZLATNA KUNA" AWARD - The Croatian Chamber of Economy - Chamber Zagreb



CSR INDEX