



SOCIAL REPORT 2011
Ericsson Nikola Tesla d.d.

ERICSSON NIKOLA TESLA – A SOCIALLY RESPONSIBLE COMPANY

A concept of corporate social responsibility implies the continuing commitment by business to contribute to sustainable economic development.

Being a part of Ericsson's global organization, Ericsson Nikola Tesla plays an active role in driving changes, starting from our active participation in the great global idea of sustainable development (impact on resources, energy and safety). Furthermore, by combining the accumulated knowledge in the telecommunications industry, we may well define our role in creating future trends; and finally, it is already clear that our industry drives the development of all social structures, and in this sense, positive effects of applying ICT technology have already been obvious. Through such operations, the Company ensures the added value and a very positive impact on the overall development of the society. In short, our innovative solutions are not a goal in itself, but it is about empowering people, business and society with the goal of a positive impact on people and communities through a better quality of life, better performance and preservation of resources and the environment.

At Ericsson Nikola Tesla, Marketing and Communications (including CSR), together with colleagues from other organizational units, is in charge of managing social responsibility activities. The following Corporate and Company documents define the area of social responsibility: 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 listed documents are an integral part of the management system, and refer to all Company activities and business processes as well as all participants involved in these processes. This Annual Report deals with the most important projects and activities in 2011.

Over the past several years, Ericsson Nikola Tesla has won numerous awards and recognitions for its achievements and best practices of social responsibility. Just to mention that three times in a row, the Company won the Corporate Social Responsibility Index in the category of large-sized enterprises for its good practice towards key stakeholders.

3T model of economic growth

Creative people > economic grow

TECHNOLOGY

- > Innovativeness
- > Focusing on high technologies

TALENT

- > Human capital

TOLERANCE

- > Diversity
- > Removal of barriers

Source: Richard Florida, Creative class theory

KEY STAKEHOLDERS

Ericsson Nikola Tesla has established a two-way, partner-based cooperation with all key 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. The Company's concern about its own long-term development and all stakeholders is a cornerstone and an indicator of the total social responsibility, relating to the future successful operations and sustainable development of the whole society.

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 have a positive impact on business operations, people's lives and the environment, as well as climate changes > Customer satisfaction measurement
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 > Motivational working environment > Modern, well-equipped workplace
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> > Application of corporate governance principles > Timely and objective information on all important Company's activities and business results
SUPPLIERS AND PARTNERS	<ul style="list-style-type: none"> > Joint improvement and enhancement of the supply chain > Exchange of knowledge > Regular assessment 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 activities, which include safeguarding the interests of its membership
BUSINESS AND PROFESSIONAL ASSOCIATIONS	<ul style="list-style-type: none"> > Involvement in activities
GOVERNMENT BODIES	<ul style="list-style-type: none"> > Participation in passing legislation > Exchange of ideas > Promoting an environment conducive to business development
EDUCATIONAL INSTITUTIONS	<ul style="list-style-type: none"> > Support to educational initiatives > Transfer of knowledge regarding the cutting-edge technologies > Financial aid
COMMUNITY	<ul style="list-style-type: none"> > Exchange of ideas > Support and cooperation regarding local initiatives > Financial aid

AREAS OF CORPORATE SOCIAL RESPONSIBILITY

The modern information and communications technology opens up new horizons, paving the way for the future of communications - networked society. The phenomenon of communications anywhere, and any time as well as networking of all that is beneficial to people, business and society are just some features of the future networked society. Today communication and high-speed internet connection are the fundamental needs of any person. The “digital natives”, as we today call the young generation, are not aware of life prior to internet or mobile telephone, and it will be in the networked society that they will reach their full potential. Therefore, technological and any other development is to be seen in the light of increased use of information and communications technology leading to economic development in the long run. It is estimated that by 2020 there will be an amazing number of 50 billion different devices networked across the globe. The fundamentals of a networked society development are mobility, broadband and cloud. The networking process was already launched worldwide. Converged services are universally available at any device, such as smart phone, tablet, personal computer, digital radio or HDTV. The use of innovative services, information and knowledge necessary for man's work and life has considerably increased through access to digital contents and applications via internet. This huge potential is very important to all fields of activities. The Networked Society City Index is an indication of the degree to which ICT solutions have been implemented in large cities, and it shows considerable social, economic and environmental benefits, having impact on the efficiency of health care, education, environmental management and the interaction of citizens. In its second edition, the Networked Society City Index ranked 25 of the world's largest cities, the top three being Seoul, Singapore and Stockholm, while London, New York, Paris, Los Angeles, Tokyo, Shanghai and Beijing were among top 10. There is no doubt that ICT industry drives a modern society development. Therefore, as a leading ICT company in the region, and in compliance with the strategy Europe 2020, our business growth is based on three priorities that complement each other:

- > **Smart growth:** our business is based on knowledge and innovation;
- > **Sustainable growth:** promoting “green” economy, based on the efficient use of resources;
- > **Inclusive growth:** continuously recruiting young specialists, investing into competences and skills of all our employees, encouraging them to lifelong learning that enables them to be competitive in the labor market throughout their working age;

Key focus areas



Being a member of the Ericsson global organization, Ericsson Nikola Tesla is ready to play a prominent and active role in building a modern society, thus creating new opportunities for people, business and society as a whole.

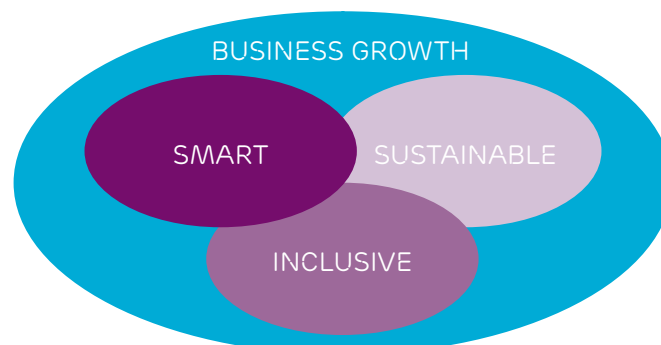
Key areas impacted by Ericsson Nikola Tesla:

- > Projects of global importance (sustainability, energy, security, education, health care);
- > Leadership and management of changes in telecommunications, along with customers, partners and suppliers;
- > Using innovative solutions, specialists' competence and skills to improve operations in the ICT sector and create new opportunities in other sectors of human activities, such as energy, security, transportation and health care.

In accordance with the guidelines of the Global Report Initiative (GRI) that represent the leading framework for reporting on sustainable and responsible business operations, Ericsson Nikola Tesla reports on its impact to its surroundings through the economic, social and environmental dimensions.

The areas in which the Company expresses its social responsibility are:

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



ECONOMIC SUSTAINABILITY

THE COMPANY'S CONTRIBUTION TO ECONOMIC PROSPERITY

Care about key stakeholders and the Company's business development is the cornerstone of business practice and an indicator of the total social responsibility in the sense of providing continually successful business operations, and sustainable development of the whole society.

At Ericsson Nikola Tesla, economic sustainability, implying financial stability and strategic development have been monitored by means of a Balanced Scorecard (BSC) and Key Performance Indicators (KPIs). The Company strategic processes are monitored through three main BSC perspectives: customers, employees and shareholders. Each of them has its own key performance indicators and persons responsible.

DIRECT AND INDIRECT CONTRIBUTION TO ECONOMIC PROSPERITY

Since economic sustainability is not only a concept within a company itself, Ericsson Nikola Tesla views its contribution in terms of direct and indirect impact on the economic prosperity of the country as a whole. Direct impact is measured by traditional financial indicators, which are also presented in the Financial Statements section of this Annual Report. Indicators of added value from operations, which is distributed among all key stakeholders, show that the Company yielded MHRK 448 added value from operations in 2011.

RECRUITMENT

Ericsson Nikola Tesla is a large Croatian company, having more than 1,600 employees, mainly university graduates. According to estimates, the existence of some 5,000 Croatian citizens is directly related to the Company's operations. Since it offers its employees good working conditions, motivating them to

ERICSSON NIKOLA TESLA – ADDED VALUE FROM OPERATIONS	
	2011
	HRK '000
Sales revenue	1,165,660
Other operating income	14,664
Financial income	34,480
Total income	1,214,804
Procurement and other operating expenses	-718,720
Depreciation and amortization	-48,441
Value added distributed among	447,643
> Employees	419,489
> Government (income tax)	0
> Financial institutions	178
> Shareholders	27,976

develop their careers through a lifelong competence development, as well as competitive earnings in relation to other Croatian companies, it enjoys a reputation of one of the best employers in Croatia. In order to recruit the best employees not only for present but for future too, the Company has established long-term partner relations with the Faculty of Electrical Engineering and Computing, University of Zagreb, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split.

TAXES AND CONTRIBUTIONS

By taxes and contributions duly paid into central and local government budgets, Ericsson Nikola Tesla and its employees contribute to the work and development of areas important for the functioning of the Croatian society as a whole.

PROCUREMENT

Ericsson Nikola Tesla requires its goods and service suppliers to meet high-quality standards and observe the Code of Conduct, which includes respecting basic human rights, occupational standards, environment management and the prevention of corruption. Suppliers are also familiar with a list of harmful materials, as well as those banned or with a limited usage, and they must prove that such materials are not present in their products. By conducting business with local suppliers, Ericsson Nikola Tesla strongly supports the growth and development of the Croatian economy.

IMPLEMENTATION OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGIES

Ericsson Nikola Tesla's experts have developed a wide range of e-products and services, such as e-Health, e-Cadastre, digital cities, Intelligent Transport Systems (ITS), maritime surveillance radar and communication systems, etc., and offer them to the market. These products and services enable better utilization of natural resources, time management and quality of life improvement, as well as faster information access.

STANDARDIZATION OF BUSINESS CHAIN

The Company experts take active part in the business chain standardization in which all participants operate in a uniform manner, starting from design to environmental treatment of products and solutions. This approach builds trust among all participants in the business process and also creates preconditions for sustainable development of the community.

SHARING KNOWLEDGE

Ericsson Nikola Tesla's employees are actively involved in sharing knowledge on new information and communications technologies, modern business models and way of working, as well as world standards used in business. The Company experts are prominent members of numerous professional associations; they lecture vocational subjects at colleges and faculties and publish professional papers.

DIALOG AND CONSULTANCY

We encourage dialog, open feedback, consultancy and sharing opinions, thus contributing to shaping positive changes and useful initiatives within the community in which we operate.

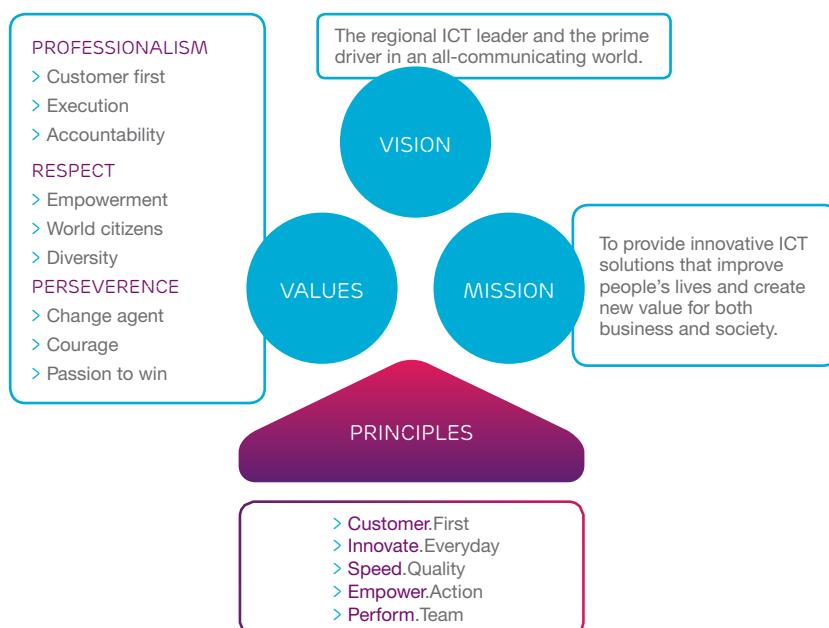
CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

IT BEGINS WITH US

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

Ericsson Nikola Tesla drives positive changes in the society in which it operates. The Company encourages creation of new values in business; it has been permanently undergoing business transformation and has been seeking new opportunities for stable business operations and growth. The Company bases its competitiveness on the permanent improvement of operations and management, primarily through the human resources development, corporate innovation culture and new ways of working and governance. This involves application of corporate principles and values in everyday work.

It begins with us



The implementation of Company's vision and mission is based on unique principles of work and corporate values applied in daily operations. Employees have to be permanently in the forefront of developing new products and solutions and shall be proactively engaged in the improvement of cooperation with customers, partners and other stakeholders. By designing and offering sustainable solutions that have positive impact on the environment, Ericsson Nikola Tesla is providing its customers, partners and society with prerequisites for their growth and prosperity. To achieve that, the Company applies three core corporate values in ways of working and operations, such as professionalism, perseverance and respect. The messages and results of the Company should reach ordinary citizens to empower them to use the benefits of the modern technology. By generating benefits for our customers and end users, the Company wishes to be recognized as an innovative partner, with products having positive impact on people, businesses and the society as a whole.

BUSINESS STRATEGY

Ericsson Nikola Tesla's business strategy is focused on design of innovative ICT solutions, which will improve people's lives by creating new values for both business and social community. The strategy also includes the high standards and the best practice of the corporate social responsibility. Employees are dedicated to core corporate values wherever they work and wherever they are. These principles have been incorporated in all segments of business and in relations with all stakeholders.

Being a regional leader, Ericsson Nikola Tesla aims at:

- > Supply of products, solutions and services, which exceed customers' expectations;
- > Application of effective and efficient processes in line with the Company's vision and business strategy;
- > Improvement of its products, solutions, services and processes by means of permanent evaluation/ reviews, and technical innovations;
- > Release of the full potential of its employees by means of guidance and inspiration in work;
- > Fostering a work culture oriented towards customer satisfaction;
- > Ensuring compatibility with external standards;
- > Building the infrastructure essential for social development and improvement of people's lives;
- > Positive impact on the environment by use of energy saving products and solutions as well as Green ICT solutions;
- > Encouraging GDP growth.

RISK MANAGEMENT

In implementing the strategy and achieving business goals, the Company has witnessed unfavorable market conditions and various risks. The governance system, applied in the Company, takes into account the risks and enables their timely recognition, analysis, and evaluation as well as taking appropriate preventive measures for their avoidance or mitigation. The risk management has been implemented in the Company business operations and related processes through the integrated management system in order to provide a high level of:

- > Responsibility;
- > Effectiveness;

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

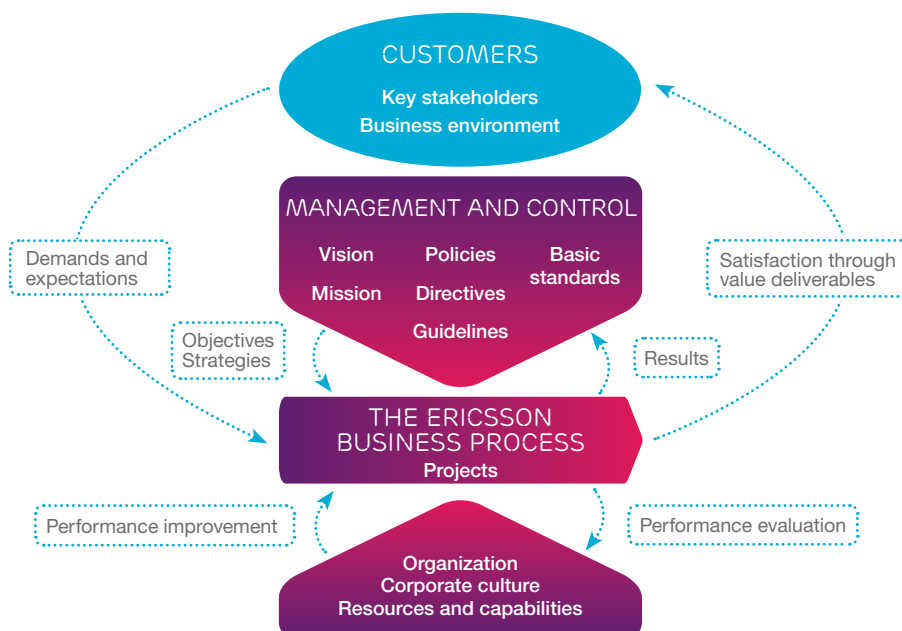
The Company management takes active part in the risk management process. In doing so, all employees, at all organizational levels, are also expected to contribute personally to risk prevention, avoidance or mitigation.

TOTAL QUALITY MANAGEMENT

Ericsson Nikola Tesla has been successful in its overall business performance owing to the application of Total Quality Management (TQM) principles. In addition, it maintains a safe and healthy environment and relies on technology for more efficient use of resources. The Company strives for operational/ business excellence within all of its activities. This means the achievement of a high level of the organization maturity and process capability. The objective is to reach a high professional level in business conduct at which all key processes are optimally used and improved in all organizational units. Thus, the Company is to achieve its core goal - customer satisfaction.

The implementation of TQM principles enables permanent improvements and involvement of all employees. The integrated management system is the key factor in enabling such way of working. It is also a prerequisite for operational excellence resulting in the increased customer satisfaction with products, solutions and services, as well as in cost efficiency and increased competitiveness.

Ericsson Nikola Tesla Management System



INTEGRATED MANAGEMENT SYSTEM

The management system is a powerful tool for both the company management and employees in their everyday work that can be accessed on the intranet. The system enables the execution of set business goals. The integrated management system monitors all company's management elements, with focus on "flows of values" of a business deal that are defined as a business process.

Ericsson Nikola Tesla's Management System is compatible with the Ericsson Group Management System (EGMS) and is its integral part. It is based on ISO 9001 standard for Quality Management. However, in today's complex world of telecommunications, compliance with only one standard is no longer an option. There has to be strong synergy among various standards, models and methods. Ericsson Nikola Tesla's integrated Management System meets various requirements of other ISO management systems such as 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). It also meets the requirements of the TL 9000 Quality Management System. 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). Certain elements of different models and methods such as CMMI (Capability Maturity Model Integration), EFQM (European Foundation for Quality Management) and Six Sigma are also included into the integrated Management System.

By means of the integrated Management System, the Company defines functions and responsibilities, organization and other factors that play 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. At present, the Company holds the following certificates:

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

WORKING ENVIRONMENT

Ericsson Nikola Tesla is a Croatian company that, as a part of the global Ericsson Group, operates in the global ICT market.

One of the Company strategic goals is to be an employer of choice in Croatia. Therefore, a special attention has been paid to human resource development planning as well as to attracting and retaining professionals who are able to accomplish tasks in the dynamic ICT industry.

OUR EMPLOYEES

Ericsson Nikola Tesla's employees are highly educated, innovative professionals who follow the Company's strategic objectives responsibly and professionally, creating new values for customers, shareholders and other stakeholders.

The Company has set the following key principles for the conduct of its operations:

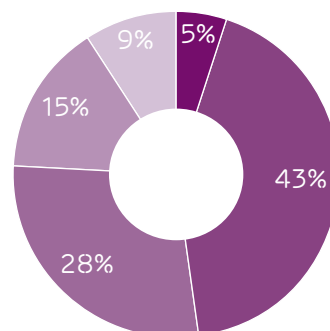
- > Business ethics;
- > Equal opportunities and working conditions for all employees;
- > Equality and protection of human rights.

Employee structure:

- > 1,636 employees (as at December 31, 2011);
- > 85 percent of university graduates, the majority of whom are master engineers in electrical engineering or computing science;
- > 9 percent of Masters of Science and Doctors of Science;
- > Average employee age is 38;

Ericsson Nikola Tesla employees (according to age) *

- AGE TO 25
- AGE 26 - 35
- AGE 36 - 45
- AGE 46 - 55
- AGE ABOVE 55



* As at December 31, 2011

- > 634 employees (39 percent) are younger than 32;
- > Average employment duration is 12 years;
- > 13 percent of employees have two or less years of working experience in the Company;
- > Gender ratio (male vs. female) is 74 percent: 26 percent;
- > 21 percent of managers are women.

EMPLOYEE TURNOVER

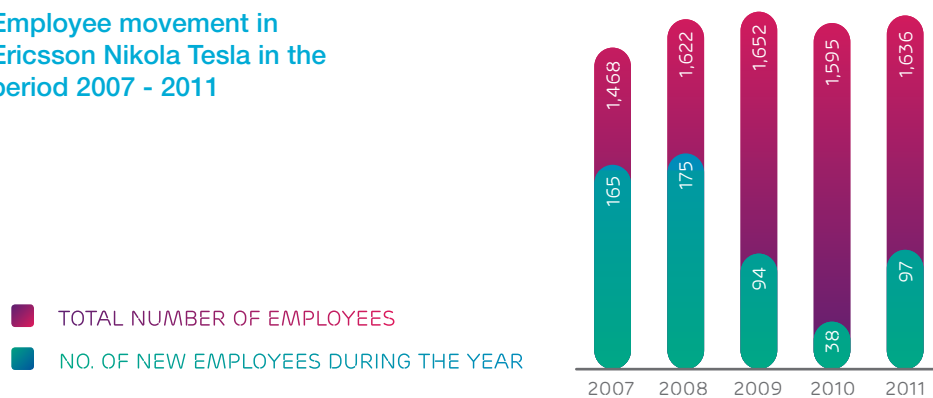
Over the period of the last five years 568 new employees, the majority of whom are master engineers in electrical engineering and computing, have been hired in our organizational units in Zagreb and Split. It was mainly due to new responsibilities that the Ericsson organization gave the Company in the areas of research and development, service delivery, and other expert centers.

INVESTMENT IN COMPETENCE DEVELOPMENT

Ericsson Nikola Tesla permanently encourages its employees in acquiring new knowledge and development of competences and skills. It is done in a close cooperation with Ericsson Academy that is providing education to all Ericsson's employees. Quite often, the Company employees participate in regional projects and thus acquire new competences.

Knowledge is acquired at training courses organized in the Company and/or training centers in the country or abroad, by e-learning, by proprietary software tools for exchange of expert knowledge, at seminars and conferences, by participation in international projects, etc.

Employee movement in Ericsson Nikola Tesla in the period 2007 - 2011



In 2011, employees attended the following training programs:

- > **Professional competence development programs**
Courses are customized in accordance with current needs and wanted position. In certain cases, certification is included. In 2011, in line with market requirements, the course subject Long Term Evolution (LTE) and all-IP technology was still of the utmost importance.
- > **Human resources and business competence development program**
New competences and skills in the field of finance, communication and presentation, management, team work, change management, negotiating, resolution of conflicts, etc. Through Ericsson Academy, the employees had access to lectures held at the most prestigious universities in the world, such as Harvard Business School.
- > **Project management skills development**
The program is intended for employees who work on projects, and training is organized in cooperation with external institution including the Project Management Institute (PMI). The program covers each aspect and level of knowledge from basic to advanced levels, and includes testing and international certification for the Project Manager function.
- > **Management competence development programs**
Programs for management competence development include the Leadership Core Curriculum (LCC) Program, Assessment & Development Center, which is a program for assessment and development of young managers, Corporate leadership programs as well as job rotation within the Company and out of it and work in international teams.
- > **Postgraduate study**
For a number of years the Company has encouraged and awarded scholarships to employees who want to get their doctor's degree, either in their original field of expertise or in business management.
- > **Mentorship program**
Because the Company hires a large number of new young employees, there is a number of trained mentors giving their support to new employees, so they can faster acclimatize to a new environment on their arrival or when they change their workplace. Mentors also provide support to personal and professional development of new employees, and participate in the planning of their careers. In order to provide the best support to newly employed, mentors also take courses, especially in human relations, communication, motivation, learning, etc.

WORKING ENVIRONMENT

The Company has been constantly working on the enhancement of the working environment in order to increase employee satisfaction and motivation by providing:

- > Attractive jobs and clearly defined roles for every employee in the fulfillment of common objectives;
- > Opportunities for lifelong learning and development, equal development and working conditions for all employees;
- > Recognition of individuals and teams who contribute to the Company results the most;
- > Performance-based salary system accompanied by various incentive reward schemes;
- > Stimulating working environment, modern workplaces and tools;
- > Creating motivating company culture;

- > Flexible working hours;
- > Care of employees' health and high health care standards;
- > Safety at work measures;
- > Support to young parents by organizing day care centers in the immediate vicinity of the Company;
- > Recreation and socializing in sports, cultural and other clubs.

MONITORING EMPLOYEE SATISFACTION

Motivation and engagement of employees is monitored by the Dialog survey, which is conducted once a year in all Ericsson companies worldwide. The survey is an important tool for monitoring employees' satisfaction and getting employees' opinion about various segments of activities. It enables employees and their managers to jointly propose changes and improvements of all segments of work and business.

In 2011, employees' participation in the survey was 88 percent, which is considered a good sample for results analysis and further improvement.

Employee engagement indicators for 2011:

- > **Motivation Index** shows that in our Company 77 percent of the surveyed employees are motivated or committed and satisfied with their job, which is a 4-percentage point increase year-over-year.
- > **Engagement Index** is a newly introduced index that shows to what extent the employees are willing to engage personally in order to contribute to business success. According to the result, 84 percent of the surveyed employees engage their own potentials in order to contribute to the Company's business success.
- > **It Begins With Us** is an index that measures a degree of integration of the Corporate way of working into everyday life and work of each employee. The index value of 85 percent shows a very high degree of acceptance of a new way of working by the surveyed employees.

People make difference



HEALTH AND SAFETY AT WORK

Ericsson Nikola Tesla systematically takes care of its employees' health and improvement of their working conditions. Among numerous actions taken during 2011, the following are highlighted:

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

In compliance with its policy, Ericsson implemented globally the health and safety at work management system pursuant to the OHSAS standard 18001:2007. Therefore, it has obtained a global certificate, valid throughout Ericsson Corporation, including Ericsson Nikola Tesla. It is to point out that Ericsson Nikola Tesla obtained a certificate OHSAS 18001 still in 2004, what made it unique in Croatia and among a few companies in Ericsson Corporation that already then had the certificate.

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

Monitored indicators are the number of injuries at work, preventive and corrective measures defined in accordance with danger assessment, direct monitoring and measures proposed at regular meetings of the Health and Safety at Work Committee. In 2011, four such meetings took place. In addition, last year not a single injury at work occurred on the Company premises. Five employees were injured while arriving to or leaving from work, but the Company could not influence it.

> **Regular medical checkups**

In the Company clinic, two general practitioners and two nurses, as well as one dentist and one nurse work permanently. In addition to regular medical checkups and specialized examinations, examinations of employees travelling to high-risk countries are also arranged. The results of regular medical checkups are processed and analyzed. They are discussed at the meeting of the Health and Safety at Work Committee and, based on the results and discussions, decisions are made on measures to prevent disease and improve employees' health. As needed, employees can also make blood and urine tests as well as cardiological, gastroenterological, endocrinological and gynecological examinations.

> **Doctor at the workplace**

Day-to-day cooperation between the occupational medicine specialist and occupational safety experts positively affects health and safety at work and increases employees' satisfaction. Doctors are also active in developing a study on workplace injury and disease risk assessment, including risks at workplace where employees are working on personal computers. The study also includes corrective measures for areas where there is space for improvements.

> **Recreational activities**

Various sports and recreational programs intended for employees and adapted to their needs have been taking place on the Company premises. In addition, the Company supports numerous employees' sports and recreational activities outside the Company premises.

> **Education and training of employees**

In addition to industrial safety training according to law, all new employees attend training courses on health protection and health and safety at work at the introductory seminars. Special training courses are organized for managers, so they would understand how important it is to strictly apply health and safety at work rules and regulations, thus contributing to the satisfaction of employees and business success of the Company.

MARKET RELATIONS

Ericsson Nikola Tesla permanently improves relations with its customers, suppliers, partners and related stakeholders, and respects its competitors.

In doing so, the Company follows its core values – professionalism, respect and perseverance. In particular, it means that the Company requires from all its employees and stakeholders (such as suppliers and their subcontractors) to act in line with the provisions of the Code of Conduct and the Code of Business Ethics.

The purpose of the Code of Conduct is human rights protection, promotion of fair recruitment conditions, safety at work, responsible environmental management and high ethical standards.

The Code of Business Ethics pertains to personal responsibilities in relations with employees, customers, suppliers, shareholders, and others, with whom one communicates, or does business. With the Code of Business Ethics, the Company covers legal compliance, protection of confidentiality, protection and proper use of Company assets, respectful communication and human rights protection, conflict of interests, transparency, environmental protection and supports reporting of illegal or unethical behavior.

The Company continuously enhances its relations with different customers in the domestic and foreign markets it operates in. We adjust to meet the customers' needs, offer innovative solutions for their business growth, thus fostering partnerships and building mutual trust.

Our ways of working with our customers are validated through a Customer Satisfaction Survey, on an annual basis.

We build long-time relationships with our suppliers through dialog, knowledge exchange and application of up-to-date ways of working. Suppliers of our products and services are expected to observe high-quality standards and provisions of the Code of Business Ethics. In addition, the Company assessors make annual external assessments of major domestic suppliers through a questionnaire, prepared in line with applicable standards. Being a leader in technology, Ericsson Nikola Tesla applies an e-sourcing system that offers the highest levels of professionalism, transparency, efficiency and collaboration.



PERFORMANCE WITH
A STRICT SENSE OF
FAIRNESS IS ESSENTIAL
TO BE CREDIBLE AND
RETAIN THE TRUST
OF OUR CUSTOMERS,
PARTNERS, EMPLOYEES,
SHAREHOLDERS AND
OTHER STAKEHOLDERS.

CORPORATE GOVERNANCE

Corporate governance is the framework for business operations and supervision of the Company. Its objective is to create a long-term economic value for shareholders. To ensure equality and protection of shareholders' rights, business transparency and responsibility towards all stakeholders, Ericsson Nikola Tesla's Management Board and Supervisory Board strictly observe fundamental principles of corporate governance. Ericsson Nikola Tesla endeavors to inform the community about its activities and business results in timely and objective manner. In this way, it keeps the reputation of the company that fully implements the code of ethical conduct.

The principles of corporate governance in Ericsson Nikola Tesla, which the Company adopted in April 2005, have been based on laws of the Republic of Croatia and OECD recommendations on Principles of Corporate Governance, which clearly define the rights and obligations of the Management Board, Supervisory Board and shareholders (http://www.ericsson.hr/investors/corporate_governance.shtml).

MANAGEMENT BOARD

The role of the Management Board is regulated by the Croatian Company Act, the Statute of Ericsson Nikola Tesla and the Company internal bylaws. The Management Board has to conscientiously perform its duties, taking into account the best interests of the Company and shareholders.

Ericsson Nikola Tesla Management Board has one member, appointed by the Supervisory Board to a five-year term with the possibility of reappointment. The Management Board has to report on financial and business results, strategy and operational planning to the Supervisory Board. It has also to report on its performance to the Annual Meeting of Shareholders and to implement decisions made by the Annual Meeting of Shareholders. The remuneration of the Management Board depends on the Company's business results and the Supervisory Board determines it.

SUPERVISORY BOARD

The basic 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 reports about its supervision of business conduct, and gives its opinion on the Management Board's proposal for allocation of profit. It also presents a proposal to the Annual Meeting of Shareholders on the appointment of the Company auditor.

In 2011, Ericsson Nikola Tesla's Supervisory Board held four regular and two extraordinary meetings to discuss financial performance and business plans, market conditions and trends in ICT industry. Furthermore, the topics of the said meetings were strategic programs, investment management, human resources and business risks. In addition, the Supervisory Board monitored business development and responsibilities of the Research and Development Center, the Service Delivery Center and ITTE unit. The Supervisory Board reviewed and supported the Company strategy for the period from 2011 to 2015 as well as focus areas and strategic programs necessary for further business development.

At extraordinary meetings, the Supervisory Board discussed payment of dividend, annual financial statements for 2010 and goals for 2011.

In 2011, the Supervisory Board experienced no membership changes. At the Annual Meeting of Shareholders held on May 31, 2011, Ignac Lovrek, DSc, was re-elected to the Supervisory Board for another four-year period.

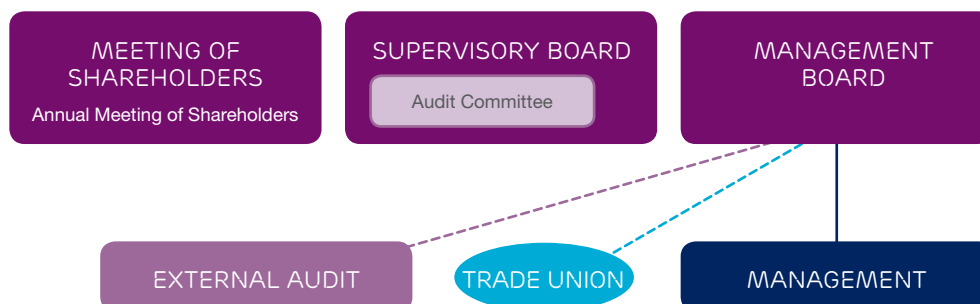
AUDIT COMMITTEE

In 2011, the Audit Committee held four meetings to discuss financial performance during the year and annual financial statements, audit plan for 2011, internal control and risk management systems. It also performed other tasks pursuant to the Audit Act. The Audit Committee regularly reported on its conclusions and recommendations to other members of the Supervisory Board. At the date of this Report's issue, the Audit Committee members were Ignac Lovrek, the Chairman, and Carita Jönsson, member.

ANNUAL MEETING OF SHAREHOLDERS

The Company shareholders exercise their rights during the Annual Meeting of Shareholders. The Annual Meeting of Shareholders makes decisions about allocation of profit, changes/amendments of the Company Statute and appointment or suspension of members of the Supervisory Board. The Annual Meeting of Shareholders evaluates performance of the Management Board and Supervisory Board, makes a decision to hire an 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.

Management structure



ENVIRONMENTAL PROTECTION

Responsible environmental relations are an integral part of Ericson Nikola Tesla's operations and culture. Key documents that define environmental relations are Environmental Management Policy and Code of Business Ethics.

The Environmental Management System has been implemented into the integrated Company Management System. It is closely related to Operational Excellence/Operational Development and Quality activities.

We carry our regular and systematic checking of both internal and external system functionality in order to retain the acquired ISO 14001 Certificate. The Company's approach to environmental protection has been verified through various questionnaires by institutions specialized in sustainability research.

DEVELOPING PRODUCTS AND SERVICES THAT IMPROVE QUALITY OF LIFE AND HAVE POSITIVE IMPACT ON THE ENVIRONMENT

Through its ICT solutions, products and services, the Company has been recognized for creating new opportunities in "green technology" that has a positive impact on operations, human lives and the environment, as well as on climate changes. Ericsson Nikola Tesla has developed and participated in the implementation of a variety of e-products and services, such as e-Health, e-Cadastre, digital cities, Intelligent Transport Systems, radar and communications systems for maritime surveillance, and many others.

The results of studies show that ICT industry is responsible for 2 percent of global CO₂ emissions and is focused on further reductions. Simultaneously, the implementation of ICT solutions in other industries can reduce emissions by 20 percent.

IMPLEMENTING REGULATIONS AND NORMS

All Company's activities are in line with international standards and current national regulations regarding the environmental protection. Company professionals actively participate in the process of aligning Croatian regulations with EU standards. Regulation demands on individual segments of the environment are duly followed, and their implementation is regularly monitored.

SYSTEMATICALLY OPTIMIZING AND REDUCING ENERGY CONSUMPTION

By implementing a central monitoring system for consumption of all energy sources, the preconditions for quality management and maintenance of the energy installation system were established, which resulted in a reduction of energy consumption (water and steam) and in the optimization of all quality parameters of electric energy consumption. By monitoring the entire pipe system, repair work was conducted timely, unnecessary loss of water was eliminated and great savings in water consumption were achieved.

WASTE MANAGEMENT

We conduct a comprehensive and systematic training on all types of waste and modes of its disposal. The rulebook on electric and electronic waste regulates the commitment of producers and direct importers to report their business to the Environment Protection Fund and to pay the corresponding fee for imported and produced equipment, respectively, on a kilogram basis.

Furthermore, the Company has organized collection, separation and ecological management of paper, glass, metal, plastic and wooden waste, cables, batteries, printing toners, fluorescent tubes and municipal waste.

In 2011, the total waste produced in the Company reached 223 tonnes, which is by 26 percent more than in 2010. Such an increase was due to our commitment that when implementing new, modern equipment we have to take over the old, out-of-date and worn-out telecom equipment from our customers and dispose it ecologically. The collected equipment is then classified into basic types and given to waste collectors and processors.

RELATIONS WITH SUPPLIERS

We can positively impact the environment only through our product/service/solution life cycle management. To be able to achieve this, we regularly audit our supply chain participants. In our performance, we use Ericsson's Supplier Code of Conduct. It covers requirements on basic human rights, standards of work, environmental management and prevention of corruption in the workplace. Furthermore, the Code of Conduct regulates the Environmental Management System, eco-friendly product design, necessary information on products and transport. All our suppliers are familiar with a list of harmful materials and those limited or banned for usage, and shall prove that no such material is contained in their products.

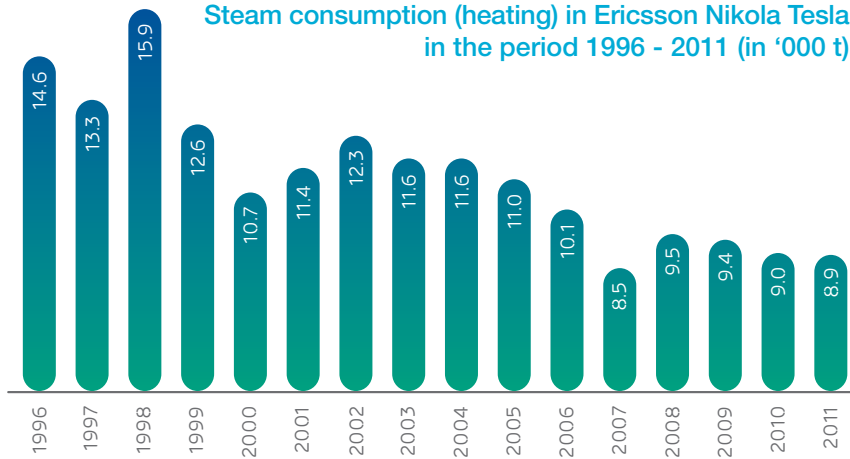
Total quantity of waste produced at Ericsson Nikola Tesla in 2010 and 2011

Waste name	2010 (in tonnes)	2011 (in tonnes)	INDEX 2011/2010
Waste printing toners	0.36	0.56	157
Packing	122.28	125.27	102
Castaway equipment-electronic waste	19.66	42.57	216
Various storage batteries	0.88	2.80	318
Glass	1.65	1.80	109
Aluminum	0.00	7.61	-
Iron and steel	32.07	41.28	129
Cable conductors	0.2	0.53	241
Fluorescent tubes	0.20	0.43	215
Small-size batteries	0.25	0.25	100
TOTAL:	177.57	223.10	126

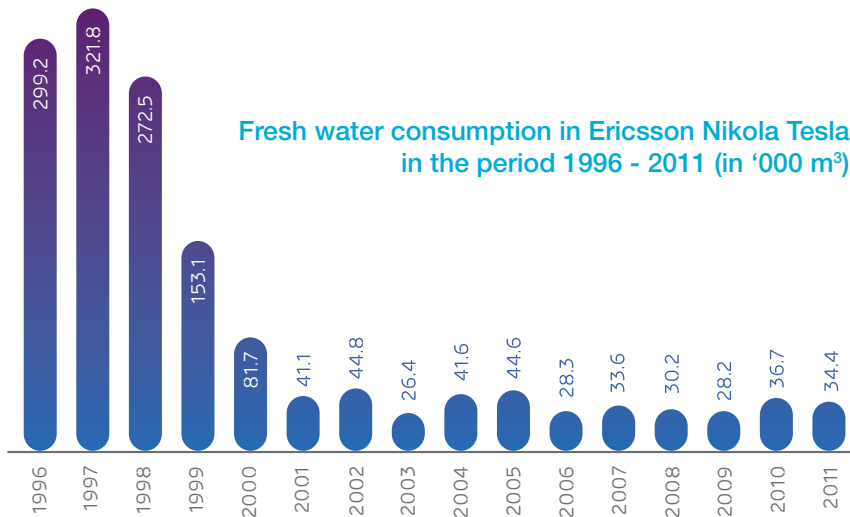
Electric energy consumption in Ericsson Nikola Tesla
in the period from 1996 - 2011 (in GWh)



Steam consumption (heating) in Ericsson Nikola Tesla
in the period 1996 - 2011 (in '000 t)



Fresh water consumption in Ericsson Nikola Tesla
in the period 1996 - 2011 (in '000 m³)



E-APPLICATIONS

The Company's engagement in the high-technology segment, and its leading role in research activities, was the main reason for implementation of e-applications in our operations. Thus, we significantly improve and speed up business processes, save resources, time and money. Moreover, we promote a wider application of ICT technology as a prerequisite for business development and strengthening the competitiveness.

As regards business travel, we have implemented smart solutions that save money and reduce CO₂ emissions, especially by using virtual solutions like videoconferencing, online meetings, etc.

In the area of network design, optimization, integration and upgrade, as well as wherever applicable, we provide remote service delivery, thus reducing business travel. Furthermore, by using these intelligent tools, we provide the same level of customer satisfaction, regardless of the remote delivery.

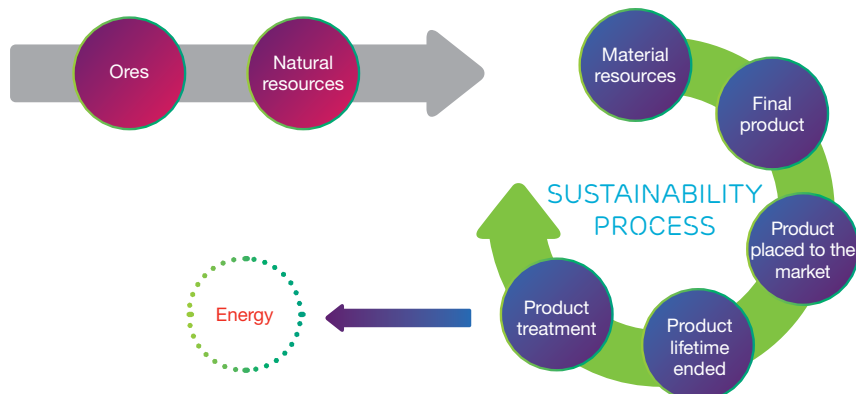
EDUCATION IN ENVIRONMENTAL PROTECTION

Environmental protection specialists, who are a part of the team in charge of business excellence and quality in Ericsson Nikola Tesla, contribute to improvement of business process within the organization. We would like our employees to be environmentally aware and motivated for developing positive approach towards the environment. Moreover, the Company has been organizing specialized trainings on environmental management, tailored for employees of different profiles.

We willingly convey our competence and experience to our suppliers, partners and contractors. In line with that, a team of various experts perform management system audits on annual basis and make improvement proposals.

We have set up excellent cooperation with specialized institutions, thus contributing, through dialog, consultations and exchange of opinions, to a positive environmental impact and raising awareness of the importance of correct approach towards the environment.

Sustainability process



COMMUNITY RELATIONS

Ericsson Nikola Tesla's awareness of social responsibility towards its shareholders and employees as well as the wider community has been incorporated into its business policy. Ericsson Nikola Tesla believes that social responsibility awareness helps the company to build reputation, ensure employee motivation and satisfaction and gain community acceptance, thus strengthening the competitiveness and, in the long run, enabling faster business development of the company and contributing to the sustainable development of the whole society.

By proactive approach in recognizing needs, support and partnership development with the community, the Company strives to coordinate its programs with international best practices. Its strategy of corporate social responsibility, as well as sponsorship and donation policy, are very helpful in priority setting, as well as in defining the tools and methods for recognizing and realizing socially beneficial projects. With regard to our strategic orientation that is focused on up-to-date technology, we prioritize projects in which our products, solutions, services and technology as well as knowledge and skills of our experts play a key role.

In 2011, the Company invested considerably into realization of selected humanitarian, educational, healthcare, cultural, sports and similar socially beneficial projects, such as:

- > Sponsorship and participation in various scientific and professional conferences, workshops and similar gatherings;
- > Expanding scientific, research, development and educational cooperation with the Faculty of Electrical Engineering and Computing, University of Zagreb, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split;
- > Continuation of financing the project on scientific development of a junior researcher not included in the Ministry of Science, Education and Sports financing quota;
- > Support to the project Theater to Fight Corruption, organized by Transparency International Croatia;
- > Donation of the hospital equipment to the Department of Obstetrics and Gynecology, Clinical Hospital Center Zagreb;
- > Volunteering and socially beneficial work of employees;
- > Employee participation in voluntary blood donations organized on the Company's premises.



BEING SOCIALLY
ENGAGED,
WE CONTRIBUTE
TO OUR
COMMUNITY
WELFARE.

AWARDS AND RECOGNITIONS IN 2011

- > Ericsson Nikola Tesla was awarded the recognition by the National Foundation for Supporting the Pupil and Student Standard for its outstanding contribution to promoting pupil and student standard in Croatia.
- > Ericsson Nikola Tesla's "Alpha M" team, its members being Andrea Budin Posavec, Marko Hočever, Josip Valent, Sanja Bojko, Stjepan Golubić, Dean Dech and Igor Vršlag, achieved the best results in the competition held within Ericsson's RWCE Sales Process workshop.
- > Ericsson Nikola Tesla was awarded the Corporate Social Responsibility Index by the Croatian Chamber of Economy and the Croatian Business Committee for Sustainable Development for its positive practice towards key stakeholders in the category of large companies.
- > Ericsson Nikola Tesla was granted two awards by eStudent, a student association, in cooperation with the Student Council of the University of Zagreb, i.e. the Grand Prix award for 2010 Summer Camp project and the Golden Index award for the best practice and perception in the category of large private companies.
- > In Sarajevo, Gordana Kovačević, the President of Ericsson Nikola Tesla, was granted a recognition entitled The Top Manager of the Southeast and Central Europe.
- > A business weekly Lider, VERN Polytechnic and Sense Consulting declared Ericsson Nikola Tesla a winner of the Croatian Innovation Quotient survey in the category of large companies.
- > Ericsson Nikola Tesla was awarded by the Zagreb Stock Exchange and *Poslovni dnevnik*, a Croatian business daily, for the best relations with investors.
- > Ericsson Nikola Tesla was granted a Key Difference award by the Croatian Government's Office for Human Rights in partnership with the Association for Help and Education of Mobbing Victims and the Institute for Labor Market Development for promoting equality in employment practice.
- > Ericsson Nikola Tesla's share was listed in 2011 CEERIUS Sustainability Index of the Vienna Stock Exchange. The index covers shares of leading companies in terms of social and ecological awareness, which are listed on stock exchanges in Central, Eastern and South-Eastern Europe.

