



Vipnet Sustainability Report 2009/2010 PDF Version

I. 1. Statement by Mladen Pejković, Vipnet CEO



At Vipnet we believe that business success and sustainable development are inseparable, and this is why responsibility and ethics are at the core of our business strategy. From the very beginning, it has been our goal to be a reliable and trustworthy partner to our employees, customers, business associates, suppliers and the community at large, including environmental protection. We accept responsibility for our operations and the impact we have on our stakeholders, both of which allow and motivate us to be a driving force of a positive change in society and to improve the quality of life. This is also reflected in our commitment to the principles of the United Nations Global Compact initiative, which we joined in 2007.



This Sustainability Report is further evidence of Vipnet's commitment to Corporate Social Responsibility, in which we wish to present our business operations in a comprehensive and transparent manner. Likewise, we have undertaken the obligation to regularly report on the progress and changes that influence our operations. As a member of the UN Global Compact, in the preparation of this report we adhered to its principles as well as to the Global Reporting Initiative guidelines for reporting.

Our Report describes the economic, environmental and social dimensions of our performance and business challenges in 2009 and 2010. Overall, the telecom market in Croatia has once again demonstrated its maturity and intense competition in the mobile segment, which presented a number of new products and services to customers throughout 2009 and 2010.

Nevertheless, it was certainly a challenging period for the whole economy, but several external factors have drastically influenced the telecom sector. Besides a difficult economic situation, mobile operators faced Government-imposed 6-percent tax on mobile services which had a negative impact on the industry. However, we managed to establish a strong balance between cost management and investments, enabling us to maintain and even strengthen our competitive edge. This is why we are proud to have been able to start introducing the HSPA+ technology at the end of 2009 to provide customers with the fastest and safest wireless surfing technology in the country. This also includes 2010 advances with a successful testing of 4G LTE technology in a live network, continued implementation of the HSPA+ technology and the Dual Carrier HSDPA technology, introduction of HD voice technology as well as a confirmation that Vipnet is the best network in Croatia.

At Vipnet we respond to economic and market challenges with a positive driving force and investments in customers, technology – innovations and our employees. Innovations present our strategic focus and we are proud to be able to maintain the same level of investment as in the previous year.

We would like this report to be a platform for innovation and a new way of thinking, demonstrating that our operations, products and services were conceived to bring a positive change to the community in which we operate. We have only just begun this journey but are confident that we will be able to show further progress with each new report.

1.2. Vipnet's Profile



1. 2.1. Vipnet in the ICT industry

As in other sectors, **2009 and 2010** were also **very challenging for telecommunications** in Croatia, primarily due to a number of new regulations which directly affected the operations of mobile operators.

The Croatian Government's decision to introduce a **6-percent tax on mobile communication services** in August 2009 was among the regulations affecting investment dynamics in the telecom industry, and Vipnet had to revise its investment plans accordingly.

Furthermore, the Croatian Post and Electronic Communications Agency (HAKOM) – national regulatory agency – issued a **decision on equalizing the national and international mobile termination rates**, despite the conclusions delivered with the Market Analysis results completed in July 2009 as the basis for the market regulation imposed by the Electronic Communications Act.

The common position of the mobile industry was that the decision would have a negative financial impact on not only all both mobile and fixed operators but also on the entire electronic communications market in Croatia and, consequently, on Croatia's GDP and state budget execution. Without any positive effect on customers, this decision could reduce the level of future foreign investments. Based on such an industry position, the telecom regulator's Council overruled the decision.

Despite such challenges, Vipnet did not halt **investment**, especially **in the area of data transfer technologies and wireless broadband products**, where we see great opportunities for future growth. As expected, we saw continued growth in the popularity of mobile technologies as a dominant component of the voice segment in 2010 and consequent **fixed to mobile substitution**. Moreover, mobile technologies are becoming even more significant in data transfer, so a **continued robust development of wireless broadband** is likely.

That is, the prospects for growth in the wireless broadband segment remain great, especially if Croatia's progress is compared to more developed countries.

Mobile operators, including Vipnet as a leader, are currently **rolling out 3G+ high speed mobile broadband networks**, and further investment in this area is crucial to reaching the extremely high objectives set by the European Union. The **next investment cycle into 4G (LTE) networks** is even more important to future ultra high-speed broadband goals in the coming years. This advanced mobile technology will facilitate new services and boost economic development in Croatia further. In October 2010, Vipnet performed successful testing of the 4G LTE technology in a live network and achieved download speed of 136.6 Mbit/s. In view of the fact that the commercial launch of LTE is expected after 2012, Vipnet will bridge that time by investing in the remaining potential of the technology based on the third generation in order to satisfy the increasing needs of mobile operators for capacity and speed. Therefore, Vipnet presses on with the introduction of the HSPA+ technology with speeds of up to 21 Mbit/s, which is available to the customers in all the major cities of Croatia. The Dual Carrier HSDPA technology with speeds of up to 42 Mbit/s also available to Vip's customers with available hardware.

Vipnet also offered its business customers Vip ADSL technology, an integrated service consisting of fast ADSL Internet, already available fixed line and new team tariffs. Additionally, Vipnet is the first operator in Croatia and among the first telecom companies in the world to have introduced the HD voice technology, which enables customers to have crystal clear sound during conversations in the 3G network. Independent measurements conducted by German company P3 Communications, which specializes in measurements, analysis and optimization of mobile networks and services, confirmed Vipnet to be the best network in Croatia in voice communication and fast Internet surfing categories.

Even though the 6 percent tax, introduced on August 1 2009, had a negative impact on investment, wireless broadband is not only a question of investments in telecommunications infrastructure and services, for it has significantly wider importance to the development of the knowledge and innovation-based economy, promoting a more resource-efficient, greener and more competitive economy. A wider deployment along with a more effective use of digital technologies, especially fast and ultra-fast Internet and interoperable applications, will foster a high-employment economy by delivering social and territorial cohesion. The use of digital technologies to their full potential will result in increased productivity and economic growth by attracting investment, creating new jobs, improving the quality of life and health care, enabling safer and more efficient transport solutions, a cleaner environment, opening up new media opportunities and giving easier access to public services, cultural and educational content, but especially enhancing the widespread use of equipment as well as digital content and tools in schooling and education.



Vipnet will therefore continue to **focus strongly on providing the best possible service and care to its customers**, providing them with **high-quality products and services** in line with their specific communication needs and expectations. We will pursue our **innovative approach** and **maintain our competitive edge**.

I. 2.2. Vision, values, objectives

Vision

Our vision: We are the customer's first choice in communication!

"Everything because of you" is our message to customers, for we consolidate all our daily efforts in **the goal of making our customers happy**. Vipnet's pledge to its customers is that it will provide quality service and solutions, geared specifically to their needs.

Corporate social responsibility is also **one of our strategic objectives**, as being socially responsible means that we reinvest in our community. We strive to understand community needs so that we can be truly responsible.

Our vision in this respect is to be a leader in Corporate Social Responsibility in Croatia by instituting positive changes and serving as an example in society.



Brand value

The essence of the Vip brand is defined by core brand values. This means that, when we think of Vip, the first association is: **customers come first, quality, responsibility and value for money.**

Customers come first.

Understanding. Trust. Welcome.

Customers and their wishes are our priority, in order for us to meet their wishes and dreams. We always keep our promises and go the extra mile for our customers. All of them are part of a large Vip family and that is how we treat them 24/7.



Quality

Innovative. Reliable. Aspirational.

Being the first and different means that you are better. Therefore, we set new challenges for ourselves on a daily basis in order to achieve more. We continually improve our network and coverage so we can proudly say that Vip is present wherever there are people. Vip is not only a brand, it is a lifestyle.

Responsibility

Employee focused. Community focused.

Our employees are our greatest asset and they are the brand itself. We motivate and encourage them to be the best in what they do. Community... that is us: we live, feel, participate, help... we care.

Value for money

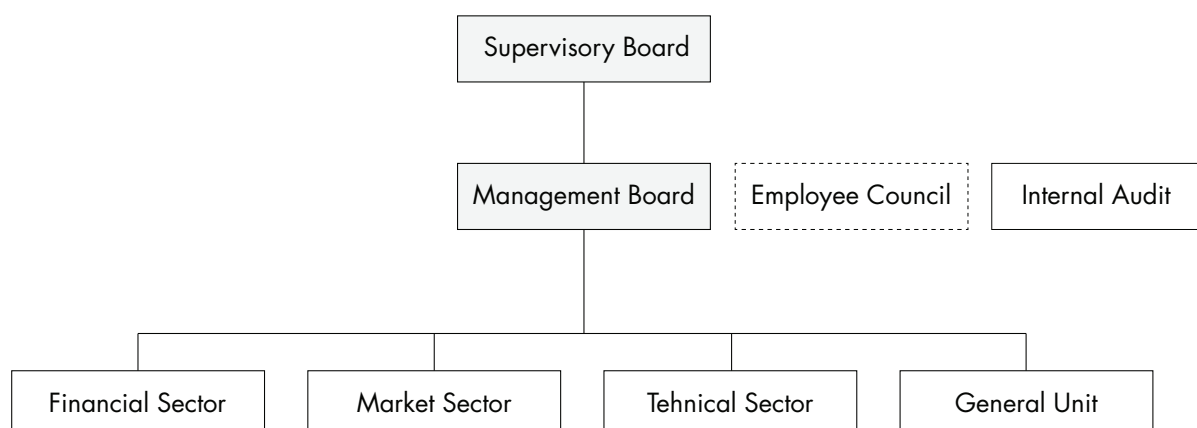
We promise to deliver an added value to our customers in all our products and services at a fair price. And we always keep our promises.



I. 2.3. Organizational profile

Vipnet is fully (100%) owned by Telekom Austria Group, whose members include A1 Telekom Austria (Austria), Vipnet (Croatia), Si.mobil (Slovenia), mobilkom liechtenstein (Liechtenstein), Mobiltel (Bulgaria), Vip mobile (Serbia), Vip operator (Macedonia) and Velcom (Belarus). Vipnet was the first private GSM operator in Croatia, operating since July 1999. Early in 2003, Telekom Austria Group and Vodafone signed an exclusive partnership agreement named 'Best of Two Worlds', based on the partnership concept under which both groups operate independently of each other but offer joint services to their customers.

Organizational structure



I. 2.4. Management Board

The members of Vipnet's Management Board are:

Mladen Pejković, CEO, CTO



Mladen joined Vipnet team in 1999, taking over the position of Radio Network Optimization Manager. A year later, he became the Head of Radio Frequency Engineering Department charged with the task of planning and optimizing the GSM network. In 2002, he was appointed Project Manager of UMTS implementation and commercial launch.

Mladen became Member of the Management Board and Vipnet CTO in 2003, and has chaired the Telekom Austria Group Technology Board since 2006, taking over the responsibility of strategic planning, supporting group expansion and technology integration of new Telekom Austria Group members.



In 2007, Mladen was appointed CEO of the newly founded Vip Operator, member of Telekom Austria Group in the Republic of Macedonia. Under his leadership Vip operator launched commercial operations six months after obtaining the license. Following his return from Macedonia, Mladen became Vipnet CEO on January 1 2008.

He was born in Zagreb in 1969, and graduated at the Faculty of Electrical Engineering of the Zagreb University. Before joining Vipnet, he had worked at HPT.



Bernd Schmutterer, CFO



Bernd joined Vipnet from mobilkom austria, where he began his career in 1999 in Controlling as a junior area controller in marketing and sales. From July 2003 until September 2005, he was the head of Group Companies Controlling and continued his career in Mobiltel, Bulgaria as Financial Controlling Director. In July 2007, he returned to Vienna and mobilkom austria as Deputy Head of Group Purchasing. He chaired the Strategy Committee for Purchasing in mobilkom austria group. Since August 1, he has been member of the Vipnet Management Board and CFO.

Bernd Schmutterer was born in 1970 in Vienna. He has degrees from the University of Economics and Business Administration in Vienna and the University of Sports science/Sports management, Vienna.

Reinhard Zuba, CMO



Reinhard joined Vipnet from his position of marketing director in mobilkom austria, where he was responsible for the entire core business including pricing, promotions and product development as well as CRM, innovations and m-commerce.

Reinhard began his career in 1994 as assistant professor and lecturer in the Marketing Department of the Faculty of Economics and Business Administration in Vienna. Four years later, he joined a leading global FMCG company. In 2000, he came to the marketing department of mobilkom austria. He was appointed marketing director of mobilkom austria in 2007.

Born in Austria, Reinhard studied Business Administration and Psychology in Vienna. He obtained a Master's degree and a Ph.D. in Business Administration at the Vienna University of Economics and Business Administration. He is still a lecturer in the Marketing Department of the Vienna University of Economics and Business Administration.

I. 2.5. Supervisory Board

Members of Vipnet's Supervisory Board are as follows:

Hannes Ametsreiter
Hans Tschuden
Silvia Buchinger
Johann Pichler
Claudia Winkler
Marijan Kostrenčić
Silvestar Andrić



I. 2.6. Vipnet's stakeholders and types of dialogue

Stakeholder	Types of dialogue
Employees and employee representatives	
All employees	<p>As a team, Vipnet is always based on a two-way communication.</p> <p>The Management Board visits regional centers at least once a year to present the company's strategy and business goals, and engage regional employees in a dialogue on pressing topics (Regional Roadshow).</p> <p>Key Players Meetings are meetings of the Management Board and key employees.</p> <p>Strategy Hour is a meeting at which the Management Board presents the company's business strategy to all Vipnet employees and also answers their questions.</p> <p>vip team is an interactive digital internal magazine, which is published four times a year.</p> <p>Vipit is the Intranet, which keeps employees informed on all internal issues but also allows employees to comment and openly express their opinion about current issues.</p> <p>There is also a CEO blog for employees to post comments.</p> <p>Other regular employee meetings, as well as employee surveys and team building exercises, serve to develop communication.</p>
Unions	Regular meetings
Employee Council	<p>Obligatory meetings once a year (in accordance with the Labor Act) and once a month in compliance with the Standing Orders of the Employee Council. The Council meets more frequently if and when necessary in order to fulfill its legally-prescribed role.</p>

Relevant state authorities/ministries

Ministry of the Sea, Transport and Infrastructure	Briefings, consulting, public consultations
Central State Administrative Office for e-Croatia	Cooperation on topics of mutual interest
Croatian Post and Electronic Communications Agency	Briefings, consulting, public consultations, regular and special reports, requests for information or statements or comment
Ministry of Environmental Protection, Physical Planning and Construction	Cooperation on network deployment
Ministry of Health and Social Welfare	Cooperation with the occupational health department, cooperation with the Occupational Safety Board, measurement of electromagnetic field levels
Ministry of the Interior	Cooperation on security measures – occasional dialogue mostly based on written request by the subscriber (harassment, etc.)

Market

Customers	Customer Service, employees in Vip centers, marketing and PR activities and campaigns, CSR activities
Business partners / suppliers	Meetings, marketing and PR activities and campaigns, CSR activities
Mobile Communication Association of Croatia	Meetings, reports, public announcements on behalf of the telecom industry, mutual activities concerning site development and coordination with relevant ministries
Croatian Chamber of Economy	Member of the telecom association at the Chamber – association meetings, mutual projects (e-school), public announcements on behalf of the association
Croatian Association of Employers	Cooperation on the implementation of new regulations related to employment and the national economy

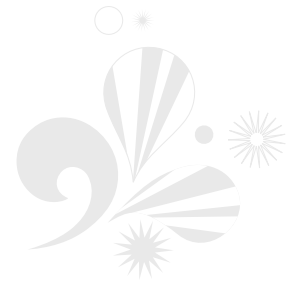
Science and Education Institutions

CARNet (Croatian Academic and Research Network)	Long term Cooperation on CIX (Croatian Internet eXchange)
Faculty of Electrical Engineering and Computer Science	Student visits to Vipnet, sharing know-how, studies
Students	HR activities, marketing and PR activities and campaigns, CSR activities

Media and the public

National electronic and print media	Marketing and PR activities and campaigns, CSR activities, meetings, reports
Citizens	Marketing and PR activities and campaigns, CSR activities
Owners	Annual report, COP, regular meetings and reporting

I. 3 Business Indicators



I. 3.1. Financial performance

Despite a challenging macro-economic and competitive environment, Vipnet expanded its mobile subscriber base by 5.6% to 2.7 million customers in 2010 and bolstered its contract share to 25.0%. Market share rose to 43.1% by the end of December 2010, compared to 42.6% in the same period a year earlier. Furthermore, Vipnet's mobile broadband subscriber base increased by 30.5% to almost 180,000 customers.

In 2009, Vipnet recorded revenues of EUR 476.9 million while revenues came in at EUR 451.9 million in 2010. Revenues shrank due to customers' savings on telecommunication services driven by a challenging economic environment in Croatia. While roaming revenues dropped as a result of lower inter-operator tariffs, interconnection revenues rose as an increase in interconnection relevant minutes overcompensated for declining interconnection rates.

Average revenue per user (ARPU) fell to EUR 10.7 in the fourth quarter of 2010, compared to EUR 12.0 in the same period of the previous year mainly due to lower monthly fee and traffic revenues.

While standing at EUR 170.8 million in 2009, the 2010 EBITDA amounted to EUR 150.5 million. Operating income (EBIT) was EUR 100.8 million in 2009. In the course of 2009, Vipnet invested EUR 57.6 million into its long-term strategic goal of ensuring the quality of service and Vip network coverage, as well as into innovative products and services tailored to meet customer needs. EBIT in 2010 amounted to EUR 82.9 million.

I. 3.2. Community Investment

Donations in 2009 and 2010 included **investments in health care** and providing regular assistance to hospitals in cities where Vipnet has its regional centers. In 2009, Vipnet donated **HRK 100,000 each to hospitals in Rijeka, Vukovar and Dubrovnik** while, in 2010, the same amount went to hospitals in **Knin, Slavonski Brod and Pula each**.

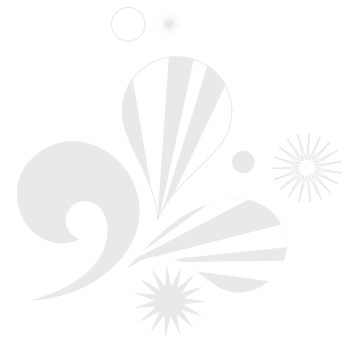
Moreover, Vipnet is the major private donor for landmine clearing as part of its project "**Movement.Communication.Life**". In over 10 years of operations, as a long-standing partner of the Croatian Mine Action Center, Vipnet has invested **HRK 9.2 million in clearing land from mines** in seven Croatian counties, enabling children to grow up in greater freedom and facilitating faster economic development in those regions. In 2009, Vipnet donated its traditional HRK 1 million to clear the mine fields adjacent to the playground of Hrastovica School in **the village of Hrastovica near Petrinja**. The total value of the demining project in 2010 was HRK 700,000, which was donated for demining of a part of the Velebit Nature Park Area, including tourist walking paths and mountain trails, as well as fire-protection trails in the Paklenica National Park, annually visited by over 100,000 people and representing an important area for the development of mountain tourism. The overall project of demining a part of Vaganski peak is to be conducted in several stages and the removal of mines from the area will help preserve the biological diversity of Velebit, a unique Biosphere Reserve protected by UNESCO.

In 2009, together with its partners in the fight against breast cancer Samsung and the Europa Donna Association, Vipnet joined the "**Pink Ribbon**" Project. The humanitarian campaign included the sale of exclusive Samsung Pink Ribbon cell phones in the Vip selection, and each partner donated proceeds from every cell phone sold. These funds were used for educational seminars on the psychosocial support to women facing breast cancer. Vipnet continued supporting this cause in 2010 as well by joining the project "Everything for Her" in cooperation with the "All for Her" Association together with other partners. For the third year in a row, Vipnet and Samsung supported the cause by selling Samsung Pink Ribbon mobile phones exclusively in Vip centers, with the proceeds going to the Center for psychological help to women fighting breast cancer.



Vipnet performance

II. 1. Market



II. 1. 1. Innovation – the driving force

Vipnet is **the first private GSM operator in Croatia** which has been active since July 1999. By arriving in the local telecommunications market, Vipnet **introduced competition in mobile telephony in Croatia**. Prices have been cut by half, with the quality of services raised to the highest possible level. At the time, **the penetration rate** in Croatia was only 4.6% but, by the end of 2009, it reached 138.4%, while in 2010 the penetration was 144.5%. Due to its great success in comparison to the market monopolist back then, Vipnet is known for **the best ever market entry of a second GSM operator in Europe**.

1999

- Vipnet was the first on the Croatian market to offer **Vipme prepaid** (with no monthly fee) to customers in order to facilitate better cost control.
- Vipnet introduced **the first Customer Service** available 24 hours a day, 7 days a week, raising customer service standards on the market.

2001

- Vipnet launched the first payment via cell phone in Croatia – **Vip parking**. This service was created entirely by Vipnet experts only a few months following the international presentation of GPRS, as the platform for this service. This model of paying for parking was later adopted by numerous mobile operators throughout the world.

2003

- With its third-generation mobile communications network, Vipnet established a link with four major Croatian cities (Zagreb, Rijeka, Osijek and Split) and made **the first UMTS long distance call** – presenting the first trial UMTS network in Croatia; data transfer at a speed of 384 Kb/sec was also demonstrated as well as the use of new applications using UMTS technology.

2004

- Vipnet also presented **the first Vodafone Mobile Connect Card for mobile Internet access** as well as **the Vodafone live! mobile portal** for access to the information and entertainment content via cell phone.
- **EDGE** was introduced in October, and Vipnet was granted a **UMTS license for the next 20 years**.

2005

- Vipnet offered the first commercial UMTS service: **Mobile Broadband** for mobile internet access, and also presented **the first video call service**; it is still the **only operator on the market** offering this service.
- Vipnet was **the first in Croatia** to present **Vodafone BlackBerry**, a new service for business e-mail communication.

2006

- **Integrated Telecom Solutions** for business customers was presented – in this way Vipnet was the first to adopt the individualized approach to each business customer by creating tailor-made voice and Internet service packages.
- Vipnet offered its residential customers **Homebox** as a simple alternative to their fixed line.
- Thanks to the **HSDPA** technology, the Vip network became **the fastest network in Croatia**.
- In June 2006, an entirely new prepaid brand using the Vip network named **Tomato** was introduced, offering **no-frills basic mobile services at the best prices in the market**. The main target group are the customers seeking simple, low-cost mobile services.

2007

- Vipnet was **the first in Europe** to **demonstrate the HSPA network**, thus offering mobile Internet access faster than ADSL.
- **Vip Over IP**, a service combining mobile and internet telephony, was presented.
- **Vipme Broadband** was launched as **the first prepaid Internet mobile access service**.
- Vipnet offered its business customers **Officebox** as a simple alternative to their fixed line and faster Homebox to its residential customers.

2008

- Vipnet launched **the first prepaid fixed network service in Croatia – Vipme Homebox and Vipme Homebox Call.**

2009

- In February 2009, Vipnet was among **the first to successfully test** the new mobile broadband technology **HSPA+** with **downlink speeds of up to 21 Mbps.**
- It also presented **the test phase of the DVB-H standard** (Digital Video Broadcast-Handheld) for mobile TV.
- Vipnet is **the first and only operator in the Croatian market** to begin **introducing HSPA+ technology for data transfer** late in 2009.
- At the moment, **HSPA+ technology** is completely available in Osijek and on selected locations in Split, Rijeka and Zagreb. Today, Vipnet offers extremely rapid data transmission via new generation technology and is **the market leader** in terms of **the number of wireless broadband customers.**
- **Tomato** introduced **the most favorable international calls** for its customers.
- That same year, **Tomato** underwent a **successful rebranding**, simplifying its product even more by launching **a single, lowest market rate** together with SMS parking and m-prijevoz, a service that enables payment of public transport fares.

2010

- Vipnet has **2.7 million customers** and it is **a strategic partner** of the world's leading mobile operator **Vodafone.**
- Vipnet enriched the best smartphone portfolio on the market with **Apple** computers, including the thinnest laptop in the world **MacBook Air** as well as iPod shuffle, iPod nano and iPod touch, also launching **iPhone4** with a range of tariff plans tailored for iPhone.
- In October, Vipnet was **the first operator in Croatia**, and among the first in the world, **to introduce HD voice technology.**
- Vipnet was **the first in Europe and Croatia to offer SMS Customer service** to customers.
- Vipnet started **testing 4G technology on a live system in Zagreb** in a bid to provide customers in Croatia with considerably higher data transfer speeds than those currently available. The LTE (Long Term Evolution) technology supports speeds of **up to 100 Mbit/s in download and 50 Mbit/s in upload**, which is more than twice the surfing speed compared to the Dual Carrier HSDPA technology of 42 Mbit/s.
- In 2010, Vipnet pressed on with the introduction of the **HSPA+ technology** with speeds of up to 21 Mbit/s, which is **available to the customers in all the**

major cities of Croatia, and the Dual Carrier HSDPA technology with speeds of **up to 42 Mbit/s, with Osijek being the first city** in which, thanks to further development of the system, 4G performance speeds of 42 Mbit/s are already available.

· All Vipnet investments into the network very much paid off since the quality of the Vip network was confirmed by independent measurements of German company P3 Communications, which presented Vipnet with **four certificates in voice communication, data transmission and fast Internet surfing categories.**

II. 1.2. Customer satisfaction

In order to continually increase customer satisfaction, Vipnet regularly conducts a **number of customer satisfaction surveys.**

· The general satisfaction and loyalty of Vip's customers are gauged by the **CUSTOMER SATISFACTION MEASUREMENT (CSM).** We use GfK's Loyalty plus© model to compute Satisfaction and Loyalty indices. The following characteristics are measured in this survey: Prices, Rates, Network Quality, POS, CS, Account Management and Relationship. This survey is conducted three times a year by the telephone interview method. Along with our customers, satisfaction of our competitors' customers is measured as well. Sample size per wave: Vip=500, T-Mobile=500, Tele2=250, Tomato=150.

· We also measure the satisfaction of our customers after their contact with the customer service (**SERVICE QUALITY MEASUREMENT, SQM**). In this study satisfaction with the customer service is measured in greater detail. So far, it was conducted twice a year but, as of this year, it is going to be done once a year (by the telephone interview method). The sample size so far has been: Vip residential customers=700, business customers=450, T-Mobile customers=200

· Service quality measurement POS (points of sale): **SQM Exit Shop Interviews** are conducted in front of Vip's shops. This survey is conducted once a year, N=800

The results of general satisfaction and loyalty in the Customer Satisfaction Measurement survey conducted in 2009 indicate that **Vip customers were most satisfied with points of sale and the Customer Service.** When it comes to the network quality, Vip customers were also highly satisfied. Survey data for 2010 confirmed once again that Vip customers were most satisfied with points of sale (88%), the network quality (85%) as well as with the Customer Service (82%).

II. 1.3. Vipnet in the community

Vipnet understands the needs of the local community and makes an active contribution to the improvement of the quality of life of all the members of our society. Through our social engagement, we want to contribute to the welfare and development of our community.

One of Vipnet's biggest projects is helping in **demining efforts** in Croatia through the "**Movement.Communication.Life**" program, which was initiated in 2002 **in partnership with the Croatian Mine Action Center**. Having identified the landmines as a major problem impeding a balanced development of all Croatian regions, we joined the program to clear Croatia from mines. Vipnet is **the largest private donor for demining in Croatia**. So far, we have **donated HRK 9.2 million**, which helped clear mines from agricultural land, water-pumping sites and areas near elementary schools **in seven Croatian counties**. This way we were able to contribute to the free and safe movement of all the citizens of this country.





Vipnet has also systematically **invested in health care** since 2002 by providing regular assistance to hospitals in Zagreb, Rijeka, Osijek and Split, where Vipnet has its regional centers. In 2008, Vipnet gave donations to hospitals in Vukovar and Zadar as well while 2009 donations were also designated to improving healthcare in Dubrovnik and Vukovar. Donations in 2010 helped general hospitals in Slavonski Brod, Knin and Pula. Every year we make donations of HRK 100,000 each to regional hospital centers and have **invested HRK 5.4 million in the regional health care sector** to date.

In 2008, Vipnet joined the fight against breast cancer through the humanitarian sale of exclusive Samsung **Pink Ribbon** cell phones in Vip centers. The collected funds were donated to the **Šibenik General Hospital** for the purchase of an ultrasound device. As this project moved into 2009, it was meant to secure the **education of medical teams** with regard to the psychosocial assistance provided to the women treated for breast cancer. Participation in the "Everything for Her" project in cooperation with partner Samsung was aimed at supporting the work of the Center for psychological help to women fighting breast cancer.



As the leading innovator on the Croatian telecommunications market, Vipnet invests in the **development of the knowledge society** as well. We were the first to launch deliberations on the development of the telecommunications sector in 2002, and have gathered numerous Croatian and European telecommunications industry experts from as well as representatives of the political and economic scene at the symposium on **“The Future of Communication”**.

The Symposium presented the issues crucial to the future economic development of Croatia: regulation of telecommunications, adjustment to EU standards and the impact of new technologies on economic and social development.

In 2004, leading contemporary economic gurus and the authors of the books "Funky Business" and "Karaoke Capitalism" - Jonas Ridderstråle and Kjell Nordström - gave a lecture on "**How to Become Sexy**", which presented new business trends to Croatian managers. The central topic of "The Future of Communication" in 2006 was **the domination of speed and multitasking**. Multitasking advocate Bertrand Piccard, a psychiatrist and adventurer, and Ernst Pöppel examined the need to perform as many tasks as possible at the same time, and the impact of this on both the modern individual's work and private life.

On **Vipnet's 10th birthday** on July 1, 2009, Irish rock musician **Bob Geldof** shared his experiences on how humanity, nobility and the ideals of a better world can be incorporated into everyday life and business. The topic of the symposium was **responsible business operations** as a guiding light, while Geldof, in his lecture on "**Commitment to a Goal**", spoke about his enthusiasm and examples from his humanitarian work. In 2010, the Croatian Public Relations Association awarded the Grand Prix to Vipnet in the category of corporate social responsibility for the '10 Years of Vipnet' project.







II.2. Employees

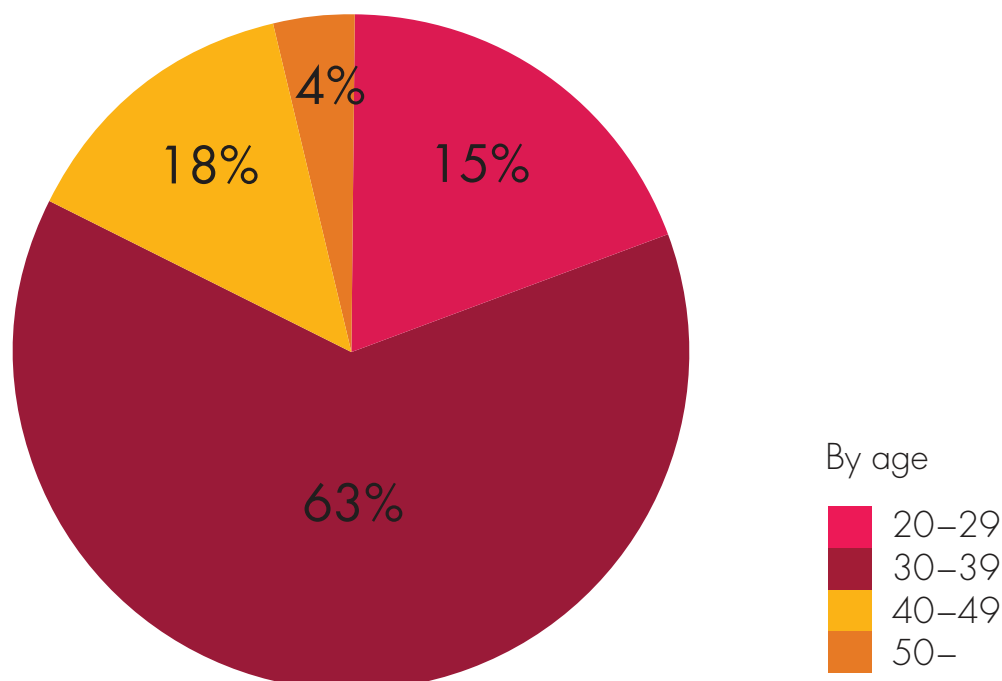
II.2.1. Vipnet as a desirable employer

In 2010, the Vipnet team consisted of **1,137 employees**, mostly experts with university education in the fields ranging from technical sciences to human resources, communications, economy, law etc.

More than half of Vipnet's employees are between the ages of 30 and 39, (63 percent), and **99.3 percent** are **full-time employees**.

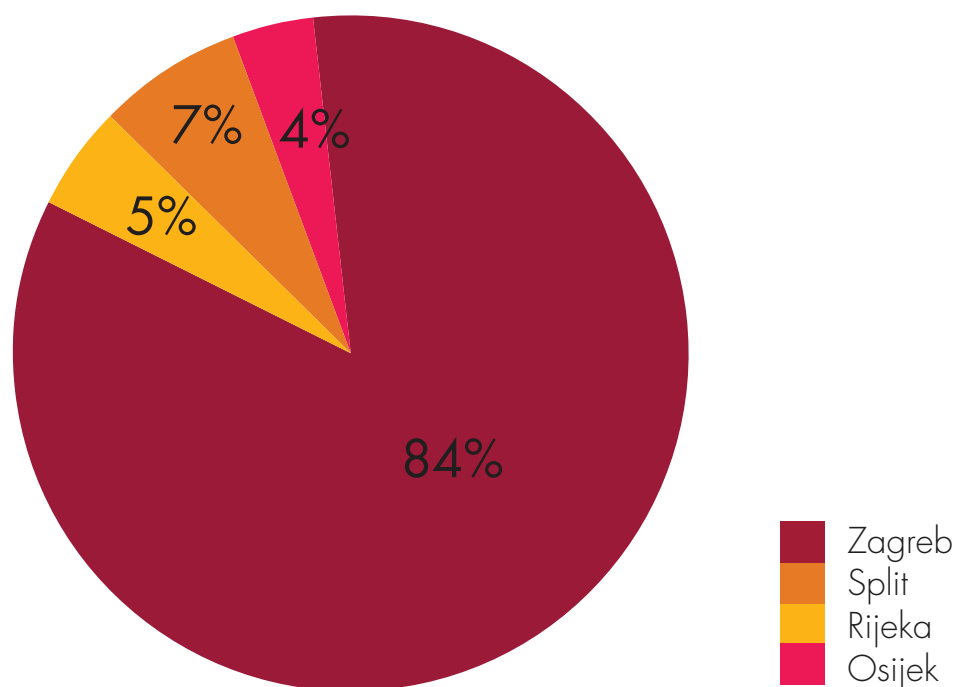
45 percent of our employees **are women**. In 2009, women accounted for 39.9 percent of the total management positions, with this percentage inching up in 2010 to 43.7 percent of women in management positions.

Number of employees by age, 2010



Besides the **business complex in Zagreb**, which is also the company headquarters, the company operates through **regional offices in Rijeka, Split and Osijek**, employing 16 percent of our staff.

Employees by region, 2010



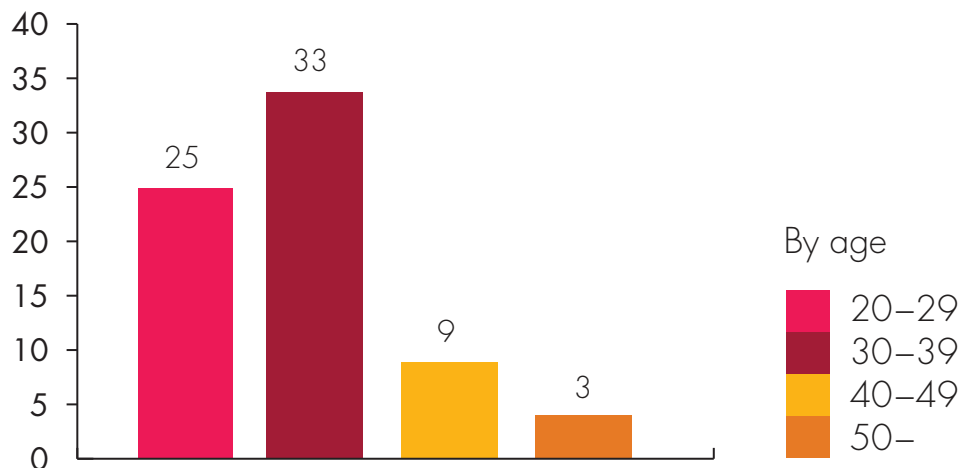
II. 2.2. Employee turnover

Vipnet recorded the **overall employee turnover rate of 6.16 percent through 2010**, i.e. 70 employees, 40 men and 30 women, left the company. The overall employee turnover rate fell somewhat compared to 2009, when 6,7 percent, i.e. 76 employees, 40 men and 36 women, left the company.

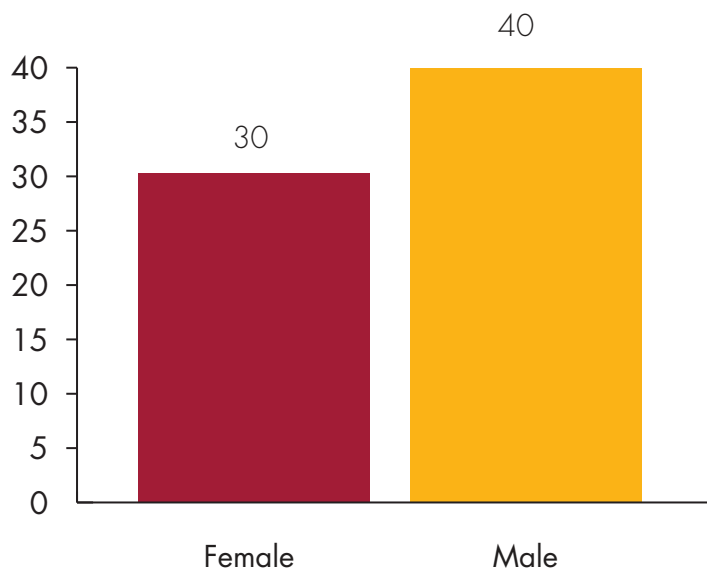
The largest number of employees who left the company in 2010 was between 30 and 39 years old (33 employees) and between 20 and 29 years old (25 employees). Since the 30–39 age group encompasses the majority of Vipnet's employees, most employees who left the company fall in this particular age group.

The reasons for leaving may have included the individual need for further professional growth and/or a new job which did not always correspond to company needs, so our colleagues decided to look for new career opportunities outside Vipnet.

Number of employees who left Vipnet by age, 2010

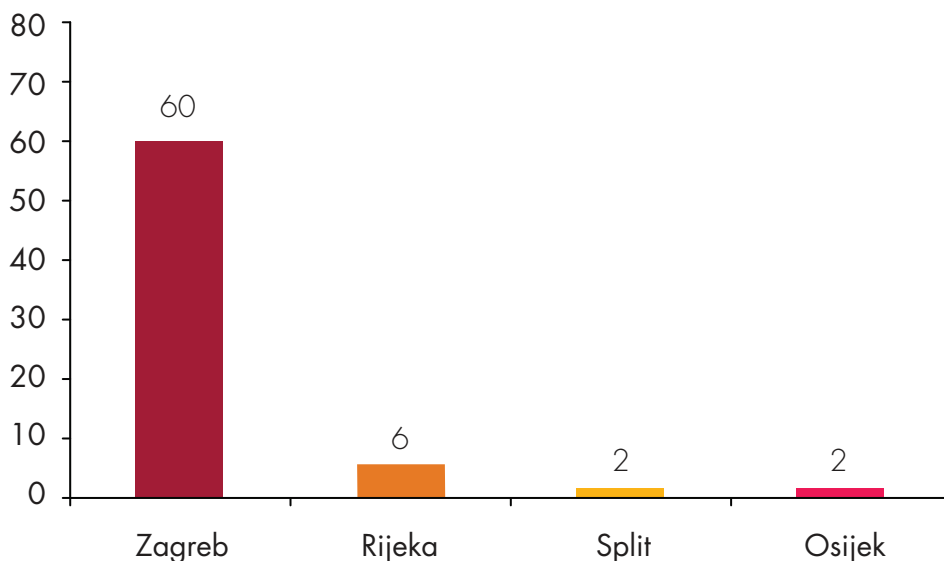


Number of employees who left Vipnet by gender, 2010



Out of the total of 70 employees who left the company, 30 were female and 40 male, of whom 60 were in the Zagreb region. The workplace of the majority of Vipnet's employees is in Zagreb. On the Croatian labor market, Zagreb offers most opportunities for employment, job change and/or career advancement.

Number of employees who left Vipnet by region, 2010



II. 2.3. Employee benefits

All employees are **paid more than the Croatian average**, with performance-oriented remuneration. The standard entry level wage in 2010 at Vipnet was 24.3 percent higher than the local minimum wage, in comparison to the 2009 standard entry wage which was 56.3 percent higher. The reason for a lower entry level wage at Vipnet in 2010 was that Vipnet became more focused on employing young people, offering them the opportunity for a first work experience right after high school and/or college.

Vipnet offers **equal employment and career advancement opportunities** to ensure that it attracts the best employees in the market. Salaries are defined according to the job level and regardless of gender.

Vipnet also offers **a number of benefits**, which provide added value to our employees and as well as a better balance between their professional and private lives.

Our employees are provided with a number of benefits.

Employee benefits include:

Benefits	Full time employees	All employees
Specific functional and several long-term training programs	●	●
Additional health insurance – annual physicals and specialist medical examinations, according to the level of competence		●
Closed-end pension fund (AZ VIP fond) – annual subsidy for pension fund members once a year		●
Bonus – bonus system based on on the competence level and accomplishment		●
Christmas bonus		●
Top performance program – reward system for top-performing employees		●
Special mobile rates for employees		●
Private in-house kindergarten		●
Gym & fitness center (also on company premises) – subsidized gym & fitness costs		●
Better conditions for employee loans – lower interest rates on bank loans (banks differentiate between permanent/temporary employment))		●
Cell phones – every two years, each employee gets a cell phone according to the level held within the company		●
Company car – for key positions		●
Jubilee award, 10 years (permanent contract)	●	
Cash gift for each newborn child		●
Cash grant for death of close family member		●
Payment for sick leave exceeding 90 days		●

II. 2.4. Employee Education – a strategic objective

Investing in the education and professional development of our employees is **one of our strategic objectives**.

We particularly reward the employees who stand out in customer relations, those who propose innovative ideas and **“top performers”** - the employees who exceed set objectives.

From this perspective, we are planning and implementing a variety of educational and training programs. A **personal development plan** is drafted for the employees in order to encourage their further personal and professional development within the company.

This is particularly important to us because telecommunications is one of the most dynamic and fast-changing industries, where novelties and advancements emerge almost every day. Therefore, ongoing, **constant investment in employee education** is an imperative of further growth and development of the company while also building and strengthening our competitive edge. In this vein, Vipnet formulates and implements various educational and training programs for its employees.



Apart from the usual training and development methods, Vipnet offers alternative learning tools, such as job shadowing, e-learning and internal programs. Vipnet's **development@vipnet initiative** is an educational system that includes the following programs:

Competency Development – training for all employees related to Vipnet key competency development

Leadership Development – managerial skills training for managers (all employees responsible for other people)

Project Management – a program dedicated to members of PM pool (Project Managers and Project members)

Team Development – tailor-made training (external and internal) for specific teams or groups

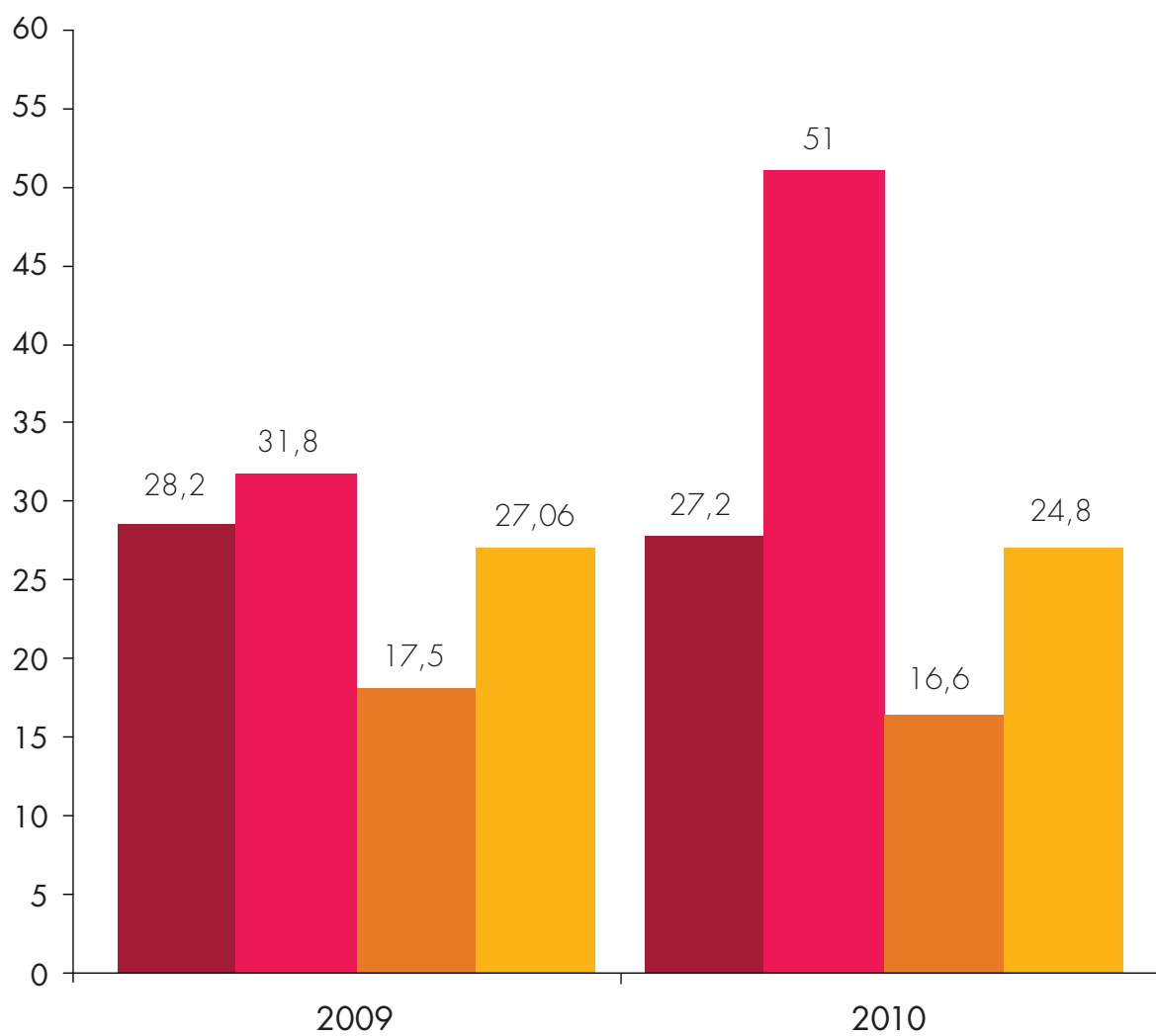
Talent Development – comprehensive education programs for members of a talent pool (including mentoring/coaching, on-the-job assignments and targeted programs for developing functional knowledge, leadership and soft skills)

Functional (internal and external) training for specific functional development in different areas.

Furthermore, Vipnet has development programs, such as the **exchange program** and **job shadowing** in order to ensure broader professional experience within a group and the company as a whole. In Vipnet's training catalogue, employees can find foreign languages and basic IT courses. Every employee has the opportunity to take **10 (working) days per year for education**. In some cases employees may receive financial support, e.g. for earning an MBA.

In the course of 2009, Vipnet invested an average 38.4 hours of training per employee in all employment categories, and the average for 2010 stood at 26.1 training hours per employee. In 2010, there was a considerable increase in the number of training hours per employee in the Middle Management category while in other employee categories these values decreased slightly. The 2010 increase in average hours of training per year per employee in the Middle Management category was due to the "Influential leaders for tomorrow" program, which was introduced for those who are about to take over managerial positions for the first time. It is a mandatory one-year program.

Average hours of training per year per employee by employee category, 2009 and 2010



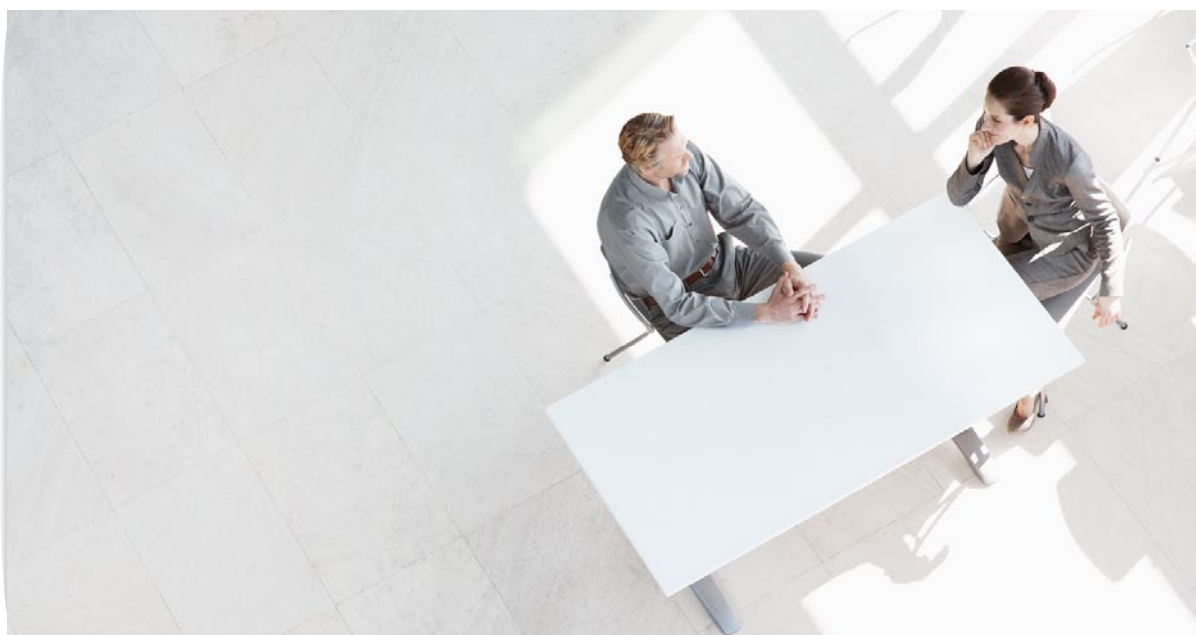
- Senior Management
- Middle Management
- Line Management
- Employees with no people responsibilities

II. 2.5. Regular performance and career development reviews

All employees participate in the **performance management process**, which is regulated by a clear and transparent set of rules set by the Management Board. In 2009, **90.2 percent of the employees participated in the MbO** (Management by Objectives) **system**. It means that they have defined performance goals, which are appraised regularly twice a year through performance reviews between managers and employees. The percentage of employees who participated in the MbO in 2010 was 89.5. Successful achievement of performance goals results in **bonus payments**, in accordance with established rules and the company's business performance.

Another type of performance management is the **Performance-based Bonus**, which is applied **to our own sales network**, with 9.3 percent of all shop staff engaged in this performance scheme in 2009 and 9.2 percent in 2010. The Performance-based Bonus scheme includes a defined set of sales KPIs, divided into individual performance plans, where the realization of KPIs is assessed on a quarterly basis and individual bonuses are paid accordingly.

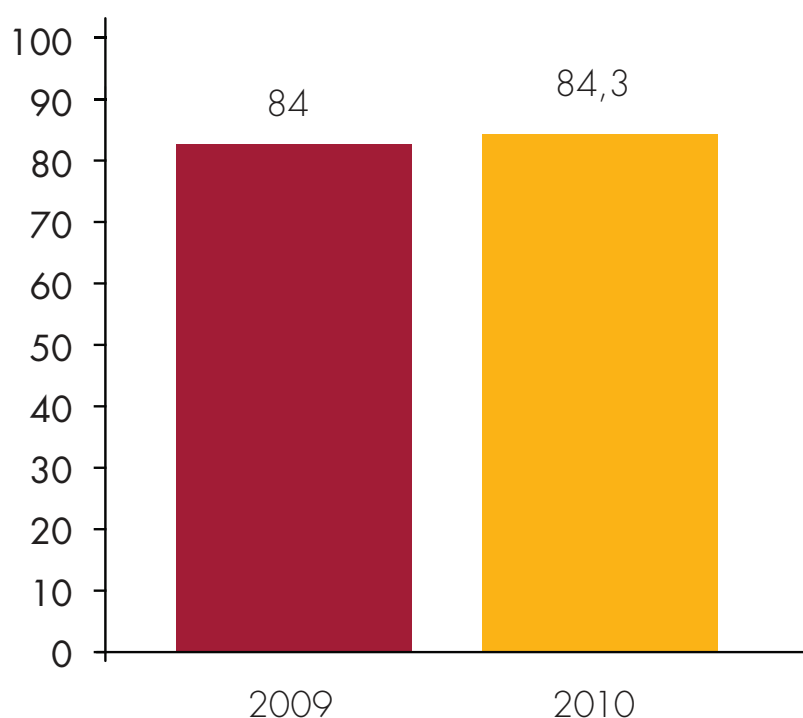
The Individual **development review** is part of the performance management dialogue for all employees. Individual development plans can be defined for each employee in accordance with individual competencies and business potential. In addition, the individual development plan is made obligatory for all managerial positions. A **360-degree feedback**, or measuring the **leadership competencies of managers**, is closely connected to the individual development plans of managers.



II. 2.6. Employee satisfaction

Since employees are Vipnet's most valuable asset, the internal climate is very important to our teamwork. Vipnet regularly conducts **internal organizational climate surveys** among its employees and seeks feedback on employee satisfaction and engagement.

Employee response, 2009 and 2010



In **2009**, a total of **84 percent of employees participated in the survey**. In **2010**, this percentage inched up to **84.3**, keeping the employee response at a high level.

Organizational climate

In 2009 and 2010, **the growth trend in all areas** of Vipnet's organizational climate continued. In 2010, only "General satisfaction" of employees remained at the same level as in 2009, but still **above the Croatian average**, even in times of the economic crisis – which did take its toll. Despite the protracted economic crisis and challenging market conditions in 2010, employees express their positive attitude and dedication to the company.

Results on all dimensions of the organizational climate in 2010 are higher than in 2009. In comparison to the Croatian average, all dimensions of the organizational climate at Vipnet scored higher. The dimensions of Organization and Knowledge of the mission, vision improved the most, reflecting the perception among the employees that the changes we made in the past year helped us to be better organized and more focused on the strategy realization.

Job satisfaction at Vipnet is at exactly the same level as in the previous year. Satisfaction with leadership of the Organization improved the most.

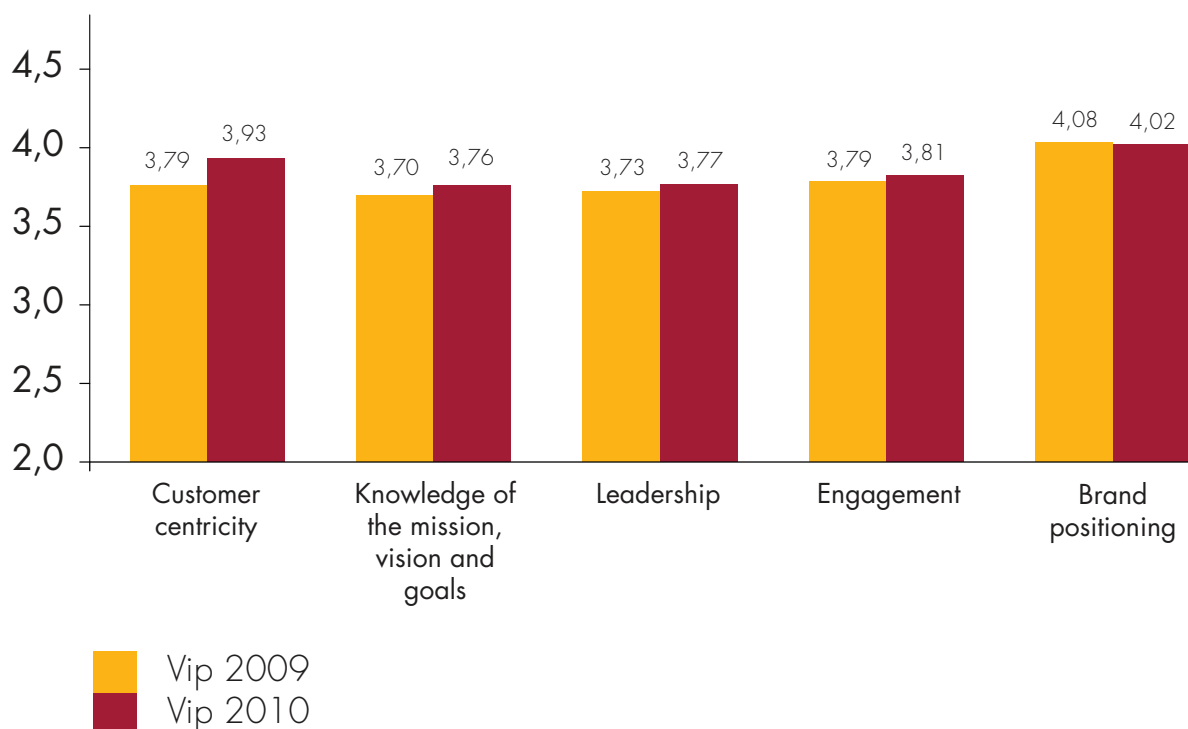
Satisfaction and dimensions of organizational climate



Vipnet's strategy-focused dimensions

During 2009, Brand positioning made the greatest improvement in comparison to the preceding year, as the best evaluated strategic aspect of the organizational climate.

Vipnet's strategy-focused dimensions, 2009 and 2010



In 2010, all Vipnet's strategic areas of the organizational climate improved, except for Brand positioning, which scored somewhat lower than in 2009. However, this area still remains the best of all. Focus on customers made the greatest improvement in 2010.

Additionally, and for the purpose of a more comprehensive analysis, employees were also divided into three groups based on their responses in the survey:

- Very satisfied – those who are satisfied with all eleven workplace areas
- Satisfied – those who are satisfied with more than 50 percent of workplace areas
- Dissatisfied – those who are satisfied with less than 50 percent of workplace areas.

Employee satisfaction, 2008, 2009 and 2010



In 2009, the percentage of satisfied employees decreased slightly while the percentage of dissatisfied employees shrank 3.7 percentage points in comparison to 2008. Additionally, the 2010 survey data indicate a slight decrease in the percentage of very satisfied and satisfied employees while the dissatisfied employees category expanded by 2.8 percentage points. Overall, over the last three years, Vipnet managed to keep approximately the same level of satisfied employees.

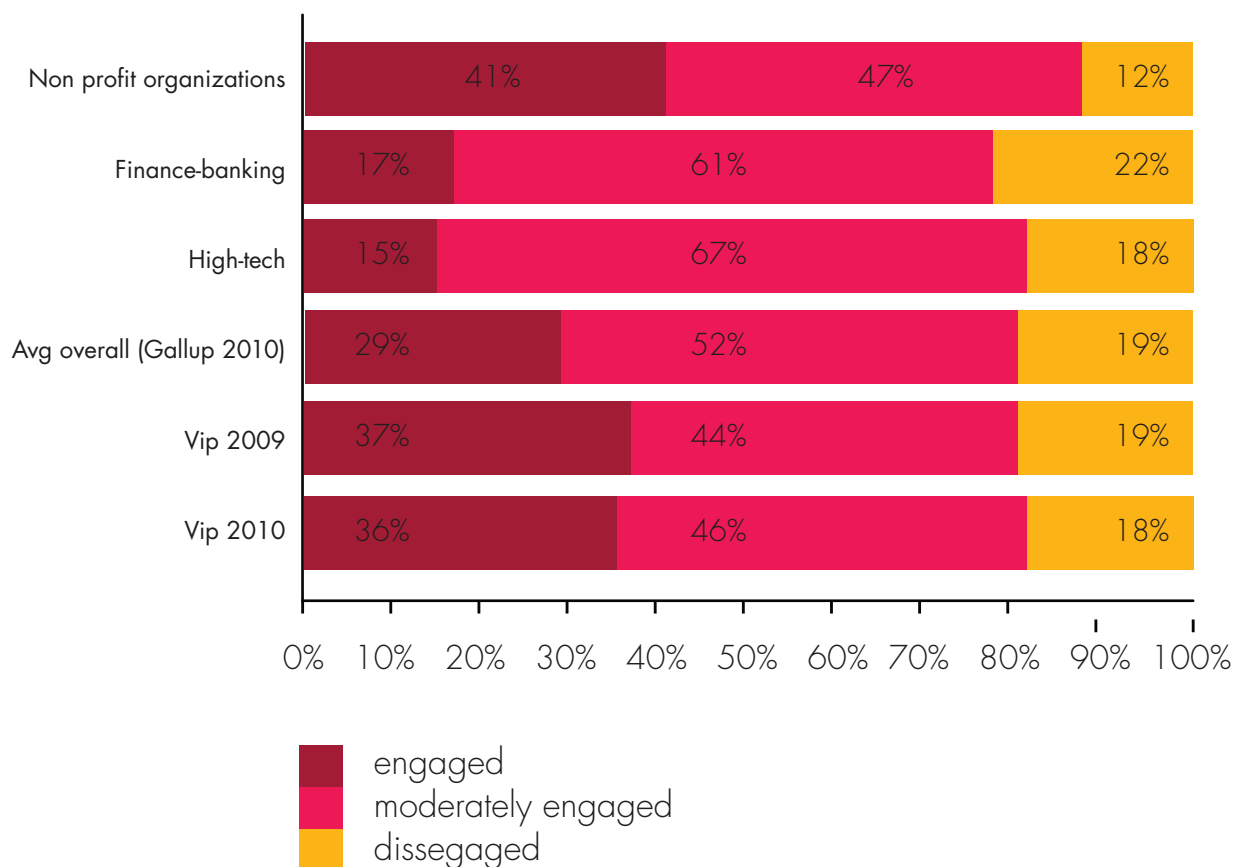
In 2009, Vipnet was **awarded the Employer-Partner Certificate for 2008** and then again in 2010 for the second year running. Vipnet was also the only company to obtain **the highest score in the certification process for two consecutive years**. Thanks to this recognition, Vipnet confirmed its status as the **most desirable employer**, continually raising the standards on the Croatian labor market in terms of working conditions and benefits for its employees.

Employee engagement¹ at Vipnet

In 2009, the percentage of engaged employees rose to 37 percent while the trend of actively disengaged employees continued to decline at the same time. The greatest improvement was recorded in the familiarization with the organization's vision.

The percentage of actively disengaged employees has declined for the third consecutive year.

Employee engagement at Vipnet, 2009 and 2010



In 2010, the percentage of engaged employees shrank slightly to 36 percent. Even though the share of engaged employees has not increased for the first time in five years of this survey, it is important to mention that the percentage of actively disengaged employees continued on a declining trend to reach its lowest point ever – 18 percent in 2010.

It is our common goal to continue reducing disengagement and keep up with the initiatives and activities aimed at enabling disengaged employees to improve their competence and efficiency so as to contribute to the overall success of the company. In order to do this, we need to continue implementing a positive approach to employees: rewarding top efficiency, supporting the processes of efficiency improvement and clearly communicating the company's values.

¹**Engagement** is an “apparent force” that motivates employees towards a higher (or lower) level of effectiveness. It is primarily set off by the “immediate superior – employee” relationship. It is characterized by three elements: passion, dedication and additional effort. While we cannot say that satisfaction with work is directly connected to results, it has been proven that engagement is strongly connected to results.

II. 2.7. Treating our people with respect

In providing a quality working environment, Vipnet not only complies with all labor and workforce requirements stipulated by the current labor legislation and regulations – but exceeds them.

From the day the company was founded, we have pursued **an active policy to ensure respect and compliance with internationally declared human rights**. This is formally reflected in the **Telekom Austria Code of Conduct**, adopted in May 2008, which has been instituted in all companies of the Telekom Austria Group. The Code sets clear rules on fair treatment of colleagues, customers, suppliers and competitors. Employees are also encouraged to report violations anonymously or according to the group whistle-blower policy. During 2009, **no reports were filed** concerning violations at Vipnet.

Two notifications on possible malfeasance were received during 2010. One was investigated by the end of the year, with disciplinary action taken against two employees. One case did not represent an issue which might seriously threaten the company. The second case is scheduled for investigation in 2011.



Honoring the principle of equal opportunities and protection against all forms of discrimination, Vipnet established the **Protection of Employee Dignity Committee** with two members in 2004.

The Committee is responsible for objectively identifying and sanctioning any possible violations of employee dignity. It receives written employee reports of any type of discrimination and is obliged to establish all relevant facts within eight days. If the Committee finds that any report on the violations of dignity has proper grounds and merit, it may propose measures to the MB to eliminate any further instance of such violations.

The Committee received no reports on violations of employee dignity in 2009. In 2010, a total of two incidents of discrimination were recorded and appropriate action taken. It involved a letter to the responsible employee for not preventing discrimination and a public rebuke to the department where discrimination incidents took place, all in accordance with the Labour Act which forbids direct or indirect discrimination.

II. 2.8. Ensuring a healthy and safe working environment

Vipnet devotes a great deal of attention to preventing employee health hazards. Besides complying with the Occupational Safety Act, we implemented **Workplace Safety Regulations** and **Computer Work Health and Safety Regulations**.

There is one person responsible for overseeing the protection and health of employees at Vipnet. Additionally, the **Safety Committee** consisting of 6 employees from different departments was established in 2003. The Committee meets every three months to review the safety situation within the company and propose improvement measures. The percentage of total workforce represented in formal joint management-employee health and safety committees that help monitor and consult on occupational health and safety programs stands at 0.16 percent or a total of 7 employees.

The company evaluates the hazards in all workplaces and offers **a number of programs and initiatives aimed at providing a pleasant and healthy working environment**. Employees have ergonomic chairs and modern IT equipment, and those who wish may work out in **the fitness center in Vipnet's business premises**.



Each year, **preventive physical examinations** as well as hearing and vision tests are organized for all employees. Those who want to avoid the usual winter ailments such as influenza may receive vaccinations while the employees who want to learn more about protecting and saving lives may participate in **first aid training courses**.

The employees working on network maintenance and deployment undergo special training and are obliged to wear personal protective gear. They also undergo regular physical examinations due to their work under special conditions.

During 2009, we recorded 110 lost days as a result of 3 work-related injuries, while recording 308 days lost in 2010 as a result of two work-related injuries.

Days lost due to work-related injuries, 2009 and 2010

Place of work-related injury	Time lost in 2009 (work days)	Time lost in 2010 (work days)
In the place of work or performance of job-related tasks	308	110
On the way from home to the regular place of work and vice versa	644	140
During business travel	141	47
Elsewhere, in the performance of job-related tasks	0	0
Total:	1093	297

For the first time, one father opted to go on paternity leave in 2009 and we had a total of **60 employees on maternity/paternity leave during 2009**. In 2010, there were 58 women on maternity and 5 men on paternity leave on average.

II. 2.9. Freedom of association and diversity

We fully respect all employee rights to collective bargaining and freedom of association. In order to protect and promote the economic and social interests of employees, the **Vip Sind trade union** is active at Vipnet. The union has 124 members, whose identity is protected in accordance with the institution of anonymity for the members who wish to keep their membership private.

Vipnet also has the **Workers Council**, which consists of 11 members elected by the employees. The Workers Council has a consultative role in the area of employee well-being and benefits as well as a role in active contacts with the Management Board, the Human Resources and Legal Department and employees. The Workers Council meets several times a year, if and when necessary. The respect for human rights and fair labor standards have always been part of the corporate culture that Vipnet lives on a daily basis. Moreover, all organizational

changes are regulated by Board decisions. Organizational / operational changes are regularly announced one month before each change is due to actually take place. For all organizational changes there is consensus / confirmation of the Workers Council.

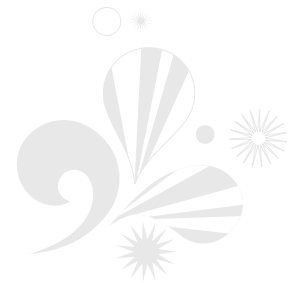
We also respect all Croatian work-related laws and regulations, which prohibit child labor. This excludes any activities related to child labor or forced labor and discrimination. To ensure that all our suppliers and sub-contractors respect human rights and prohibit child labor, we screen their business operations before signing any contracts.

At Vipnet there is no specific policy/procedure or "practice" pertaining to hiring local ahead of non-local employees. Hiring criteria depend entirely on job and/or position requirements and candidate qualifications, regardless of whether the position is managerial or not.

As a component of an international company, we do **encourage diversity** and **exchange programs**, which provide the opportunities to our experts and managers for **international development/career growth** while also being the **host company** for development of potential from other operating companies.

Senior management (Board members, directors of business units and department heads) included **17.6 percent of non-local employees both in 2009 and in 2010.**

II. 3. Environment



II. 3.1. Responsible energy use

Vipnet fully supports the precautionary approach to environmental challenges, so we have taken a number of measures to **reduce energy consumption**.

Our new business premises in Zagreb run on a smart system which enables energy saving by adapting indoor temperatures and lighting to outdoor climatic conditions. The buildings are thermally insulated, and thermo-insulation materials are built into all openings. Daylight is utilized fully thanks to the ceiling lamps connected to a luxometer while the shades installed on the external side of the business complex keep out excessive sunlight. At night, from 10 p.m. to 8 a.m., all the lights are turned off and only the absolutely necessary lighting remains on. There is also automatic switching off and dimming of lighting at 8 p.m. and 10 p.m.

We have also purchased 1,000 flat-screens, which contribute to electrical energy savings. A power compensator is built into the main electrical hook-up to prevent the billing of unproductive electricity. Air-conditioning devices use reversible air as an energy source so the energy used by air-conditioning (ventilators, pumps etc.), under normal climatic conditions, is minimal.



Materials used by weight or volume

In 2009, Vipnet purchased a total of 14,883 kilograms of paper, which cost EUR 12,046. This amount was **reduced by 8.3 percent** in 2010 to 13,650 kilograms and the amount paid to EUR 11,100. In 2009, 259 kg of toner were purchased for EUR 28,700, with 208 kg of toner purchased for EUR 23,000 in 2010, representing a 19.3 percent reduction in comparison to 2009.

Moreover, Vipnet spent 28,067,152 kWh of electricity worth EUR 2,373,379 and 6,050 m³ of natural gas worth EUR 2,300 in 2010. It also spent 356,000 liters of oil, which cost EUR 409,000, which was a 20-percent reduction in comparison to 2009.

Additionally, over 2009 and 2010 Vipnet launched **a number of energy saving and higher efficiency measures**. The list of **energy saving measures taken over the reporting period** and their **expected results** are as follows:

Measure	Expected results
"Trokut" ("Triangle") Project – design for new air-conditioning equipment with a free cooling feature	Planned power consumption savings during autumn and winter months. In comparison to the existing air-conditioning cabinets, a 20-percent decrease in power consumption is planned thanks to the free-cooling system, which uses low external air temperatures (during autumn and winter) for air conditioning.
"Trokut" Project - design of new uninterrupted power supply sources with energy saving features	Planned savings of power consumption due to equipment use in the energy saving mode. Savings are planned following the completion of the building in Trokut - plan for 2011-2012.
Project to switch existing air-conditioning cabinets in the System rooms to cabinets with energy saving features	About a 20-percent decrease in power consumption is planned in the System rooms.

Measure	Expected results
Site surveillance and project preparation for optimization of the air-conditioning system in the System rooms	Energy consumption savings for air-conditioning chillers in the System rooms by 3 percent due to better allocation of all cold and warm zones.
Installation of new air-conditioning systems with energy saving features at green-field and roof-top BTS	40% investment reduction for new equipment installation. OPEX reduction due to energy savings, based on advanced technical performance of installed systems.
Installation of new uninterruptible power supply cabinets with energy saving features	OPEX reduction by 5 percent due to energy savings, based on advanced technical performance of installed systems.
Adjustment of sun shades during summer-time operations	Saving energy used for air-conditioning.
"Trokut" Project - new transformer stations with energy-efficient transformers	Savings after the completion of Trokut - 25-30 percent decrease in losses in comparison to classic transformers.

*Trokut (Triangle) Project – new business premises being built next to the existing one

II. 3.2. Base stations: reducing environmental impact

Vipnet accords particular consideration to the **environmental protection** and **conservation of the natural heritage** when installing its base stations. One of the criteria for the selection of a base station location is that there is no endangered plant or animal species in the area in question.

In planning and executing network deployment activities, Vipnet **fully complies with the relevant Croatian legislation and regulations** as well as **international norms and standards**. When deploying our network, we try to minimize the environmental impact and after erecting each base station, the surrounding area is restored to its original state, with minor modifications necessary because of the installed infrastructure. In a number of BTS set in the locations with difficult access, Vipnet uses **solar and wind power instead of electricity** so as to further reduce its impact on the environment.

In **2009**, there were **six more telecom infrastructure facilities switched to alternative energy sources**, i.e. solar and a combination of solar and wind turbines. In **2010**, **six additional sites** were switched to **alternative energy sources** - one of those is powered by a combination of solar energy and the force of the wind while the remaining five are powered by solar energy.







Wherever possible, we share sites with other mobile operators and radio and television networks. Likewise, as a Vodafone partner, the entire Telekom Austria Group is committed to implementing the Vodafone EMF Policy in order to ensure a group-wide standard for electromagnetic fields, base stations, handsets and internal corporate processes.

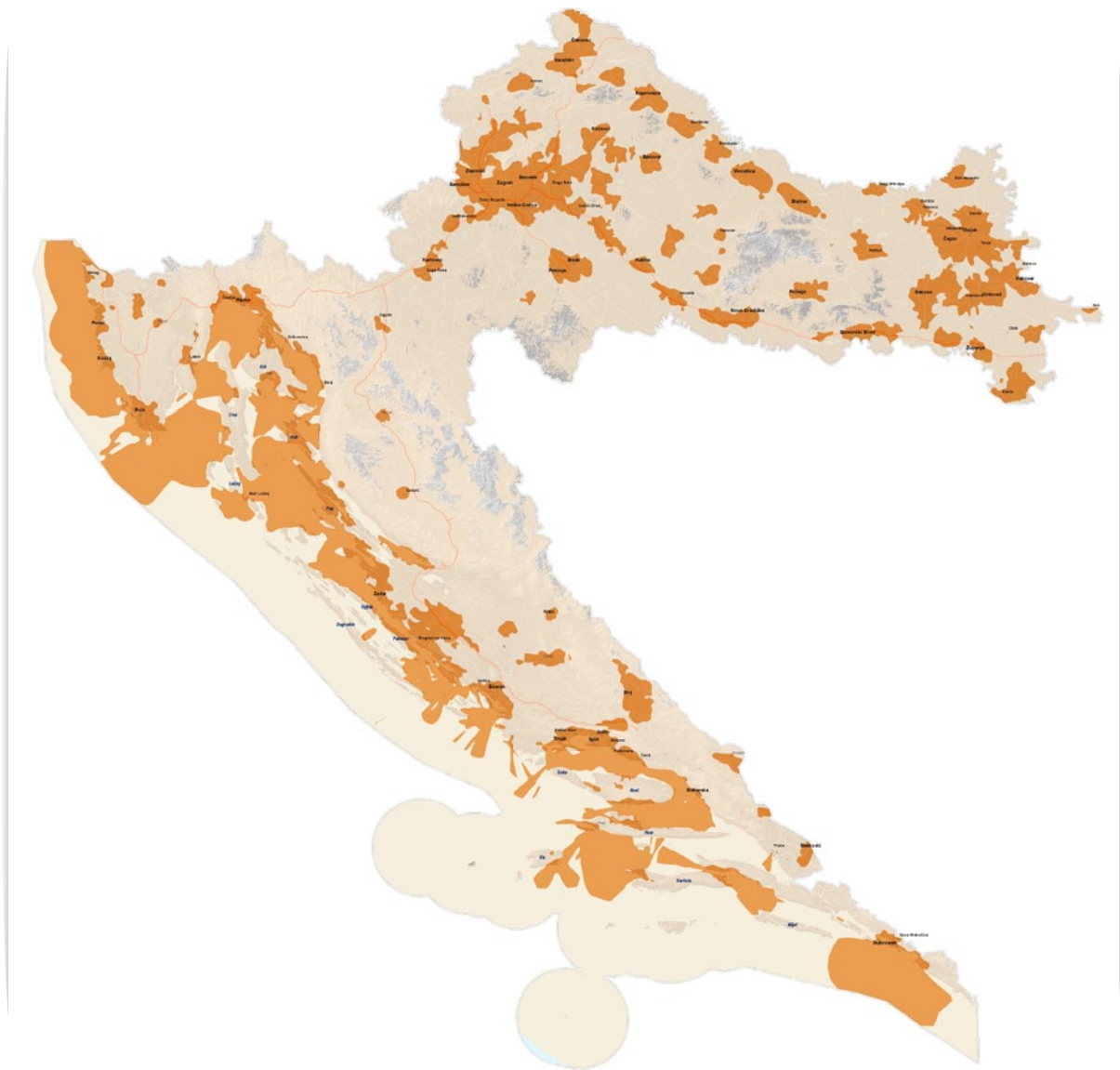
In **cooperation with the Istria County Fire Department**, the Istrian fire fighter associations and the Croatian Forest Management Company, Vipnet has also made it possible to install surveillance cameras on its antennas in Istria as part of **the fire fighting video surveillance pilot project**, the first of its kind in Croatia. Vipnet has enabled the installation of surveillance cameras at about 10 locations.



Coverage map – **voice**



-  Good coverage indoors
-  Good coverage outdoors

Coverage map – data



-  Speed of data transfer to 21 Mbit/s (HSPA/UMTS)
-  Speed of data transfer to 220 Kbit/s (EDGE/GPRS)

II. 3.3. Educating customers about mobile communication technology

The mobile communication network infrastructure has raised public concerns for a number of years. The reason underlying public perceptions is a lack of proper information that would address their concern. Therefore, Vipnet has released an **informative brochure** to answer the most common public questions about cell phones, base stations and health issues. The brochure is used by Vipnet's field personnel as an aid in dialogue with local residents; its user-friendly format and FAQs section engender a greater understanding and better education of local residents.

It is important to stress that the permitted threshold values for electromagnetic radiation in Croatia are much more rigorous than those stipulated by internationally accepted standards, published by the International Commission on Non-ionizing Radiation Protection (ICNIRP) and recommended by the World Health Organization (WHO). It is important to mention that **standards 2.5 to 5 times more rigorous** than those accepted in the EU are currently in force in Croatia.

The electromagnetic radiation produced by Vipnet's base stations complies with these limits, and our experts continuously keep abreast of all reports, research and expert opinions by reputable independent institutions, both Croatian and international.

Vipnet has also received the opinion of the Ministry of Health stating that **our network has no detrimental impact on human health and the environment.**



II. 3.4. Reduce, recycle, reuse

Reducing the environmental impact of business trips

Vipnet has a set of measures which **reduce the environmental impact of business trips**. We subsidize commutes to and from work by public transportation, and provide **training on low fuel driving** for those who prefer traveling by car. We had 182 company vehicles in 2009 and a total of 178 vehicles in 2010.

Fuel consumption in 2009

Fuel	Total / year	Vehicle / year	Vehicle / month
Liters	445,567	2,448	204
km	5,197,290	28,556	2,379
HRK	3,407,218	18,721	1,560
Average fuel price in 2009			HRK 7.7

Fuel consumption in 2010

Fuel	Total / year	Vehicle / year	Vehicle / month
Liters	365,249	2,001	204.01
km	6,047,216	33,973	2,379.71
HRK	3,028,115	17,011	1,560.08
Average fuel price in 2010			HRK 8.5

In addition, we make use of telephone and video conferencing, and of online collaboration tools as an efficient vehicle for gathering employees from various parts of the country at meetings.

Additionally, compared to 2009, we managed to **reduce the total mileage accumulated via air transport by 13.4%** in 2010. Moreover, in comparison to 2009, there was a 7.7-percent reduction in short flights in 2010, the mileage on long flights shrank 27.1 percent while medium flights recorded a slight increase by 1.2 percent.

Air transport, 2009 and 2010

	mileage(km)	short flights	medium flights	long flights
2009	455,176	119,528	375,966	199,930
2010	394,373	110,243	380,470	145,684
%	-13.4%	-7.8%	1.20%	-27.1%

Emissions are the highest during takeoff and landing of an airplane which is why such data is recorded separately for short, medium and long flights.

Recycling and reusing whatever we can

Vipnet considers environmental concerns in its business. As a company employing more than a thousand people, we are aware of the amount of waste our business produces every day. We comply with relevant legislation and the EU Directive adopted by the Republic of Croatia (WEEE Directive and Packaging Waste Directive).

Minimizing the amount of waste is one of our primary goals. Therefore, we have organized a **separate waste collection** to ensure recycling and responsible waste disposal. We separate paper, cardboard, batteries, plastic and wood and electronic waste. All separated waste is collected by contracted partners authorized by competent authorities. Furthermore, biological waste from the kitchen is collected separately and disposed of by certified companies.

Total weight of waste and waste disposal by type and weight in kg:

	2009	2010
	Weight in kg	Weight in kg
Paper waste	16,040	23,220
Toner waste	259	208
Battery waste	15,710	7,216
IT waste (PC, laptop, monitor)	8,960	7,402
GSM waste	395	3,458
Server waste	7,365	3,550
Electrical equipment waste	650	1,614
Antennas waste	10,482	16,440
Air conditioning waste	18,600	5,340
Wooden packaging waste	7,000	18,020
Plastic packaging waste	532	1,200
Metal waste	3,800	7,400
Bulky municipal waste	229,510	163,210
Sludges from separator oil/water	628	0
Oily water from separator oil/water	6,840	0
Mixture – fats & separator oils	5,511	3,572

Note: all waste was weighed except for toner waste, which was estimated.

Our employees care for the environment

Vipnet's employees are enthusiastic about environmental protection, and the company continuously works on educating and sensitizing them on this issue. At the core of "green" operations are Vipnet's employees with their ideas and participation in internal environmental campaigns, aimed at reducing and recycling the materials used in our daily operations. Therefore, we digitalized our internal and external processes to reduce paper consumption. For four consecutive years, we have organized **internal drives to collect old cell phones, batteries and chargers** and organized their recycling. These recycling drives were successful, and the majority of our employees brought their old cell phones and supporting devices to be appropriately disposed.

Vipnet celebrated the **2010 Earth Day with an internal “Half an Hour for the Earth” campaign**. The objective was to clean the premises by collecting and recycling paper, mobile phones, chargers and batteries, old CDs, electronic equipment and office supplies, and waste was planned to be recycled separately.

Moreover, in the course of **2010**, Vipnet organized **“green” team build-ings** for employees who readily accepted the invitation to clean protected nature parks. So, Vipnet's employees from Zagreb and Rijeka took part in the campaign to clean and tidy the **Medvednica Nature Park** and the **Risnjak National Park** while the employees from other two regions - Osijek and Split - also during those days, participated in cleaning and tidying the **Kopački Rit Nature Park** and the botanical garden in the **Marjan Forest Park**.

Vipnet started cleaning and tidying the most beautiful nature parks in four Croatian regions as early as April 23, 2010. Each of Vipnet's one thousand employees spent approximately one day by June 18 of the same year cleaning the environment instead of being in their workplace. Vipnet employees proved their **care for the environment** as an essential component of the company's corporate social responsibility, which has confirmed once more its status as the environmental leader in the telecommunications industry.



Environmentally friendly alternatives for our customers

In an attempt to reduce paper consumption and thus actively contribute to the preservation of forests, we implemented the **e-billing system in 2005** which allows our customers to access their bills at a protected web site. Billing on CD for our business customers was introduced in 2003. Additionally, Vip uses the "environmentally friendly" label and all the photo-copying paper is FSC certified.

Due to e-billing, we managed to save **21 tons of paper in 2009**. Thanks to our residential customers who selected e-billing in 2009, we saved: 2,097,755 sheets of paper and 720,417 envelopes. This translates to more than 14 tons of paper. Our business customers selecting bills on CD helped us save 1,456,664 sheets of paper, which is an additional 7 tons of paper.

In **2010**, we managed to **save as much as 30.1 tons of paper** thanks to e-billing, which is a 69.8-percent increase in comparison to the previous year. Our residential customers who opted for e-billing helped us save: 3,243,359 sheets of paper and 1,117,381 envelopes or 21.8 tons of paper. Thanks to our business customers, we saved 1,651,673 sheets or another 8.3 tons of paper.

In **2007**, we also met the legal requirement with respect to **leaving damaged or defective cell phones in Vip stores and recycled them**. Likewise, all manufacturers we cooperate with provide one- or two-year guarantees on their devices.

Responsibility to the environment is also apparent in Vipnet's product line, for we offer practical **solar chargers**, which save energy, and **environmentally friendly cell phones**. Also, in cooperation with Sony Ericsson and the Croatian Forest Management Company, Vipnet launched a **joint environmental campaign**, in which a tree has been planted in the Velika Gorica forest for every Sony Ericsson C901 sold by Vipnet. Our offer of 'green' cell phones has been expanded to devices made by other manufacturers as well.

Moreover, on the occasion of the 2010 Earth Day, Vipnet granted a discount of up to 100 kuna on the purchase of a new mobile phone to its subscribers who brought their old functional mobile phone to Vip Center. This campaign lasted from April 22nd until the end of May. Additionally, in April 2010, Vipnet was rewarded for its long-term investments in environmental protection as it **won the 2010 creativity and innovation reward** in the category of **Creative and Innovative Project of Sustainable Development for Environmental Protection**.

Moreover, in 2010, Vipnet's initiatives to provide energy efficient or renewable energy-based products and services included **Vip car surveillance** and **Vip boat surveillance services**. **Vip car services** is a fleet management system for companies to be used in various types of vehicles. More than **3,000**

field installations have proven an **average decrease in fuel consumption of 20 percent**. **Vip boat surveillance** is a monitoring solution for charter companies with all types of vessels which **optimizes usage on boats and reduces fuel consumption**.

II. 4.1. Corporate Governance

Vipnet complies with the highest corporate management standards, which are a prerequisite for quality long-term relations with our customers, partners and relevant state administration bodies.

Even though there is no legal obligation to report in accordance with the **Sarbanes-Oxley Act (SOX)**, which defines the requirements on internal control over financial reporting, Telekom Austria Group to which Vipnet belongs recognized the benefits of such reporting and voluntarily kept the internal control system (ICS) compliant with the guidelines set by the Sarbanes-Oxley Act. As a part of the Group, Vipnet implemented the same internal control system over financial reporting. The effectiveness of the reporting is confirmed annually by an external auditor.

Likewise, Vipnet operates in accordance with all laws and regulations effective in the Republic of Croatia as well as with the principles of business ethics. It is committed to full transparency in business reporting.

Vipnet is **a member of the Global Compact**, the UN initiative which connects the business sector to UN agencies, governments and non-governmental organizations. By joining the Global Compact, Vipnet became part of the world's largest CSR network and once again confirmed its position in the field of CSR in Croatia. The decision to join this initiative complies with Vipnet's business principles, and as a socially responsible company and one of the best employers in Croatia, we already adhere to the values of this initiative.

Vipnet complies with the Global Compact's ten principles encompassing human rights, labor standards, the environment and anti-corruption, and reports on these in the Communication on Progress.

II. 4.2. Anti-corruption practices and public positions

Vipnet fully abides by Croatia's legal and regulatory framework. We represent and advocate our business interests in compliance with moral and ethical norms, respecting the interests of all market participants.

In 2006, as a member of Telekom Austria Group, Vipnet adopted the **Telekom Austria Group Code of Ethics** as a framework for responsible and sustainable business operations. It includes anti-corruption rules and guidelines for dealing with potential abuse, striving to foster a culture of honesty and accountability. It also includes the rules of conduct for all employees, directors and Supervisory Board members with regard to relations with suppliers, customers and the competition, taking into consideration the respect for confidential information and conflicts of interest. We are strongly committed to conducting our business affairs with honesty and integrity and in full compliance with all applicable laws, rules and regulations. Moreover, **Whistle-Blower Protection** enables all employees to turn to their supervisor or the general counsel in confidence for advice and assistance in the event that they observe any legally dubious incidents in their fields of work.

Vipnet also abides by the **Business Principles of Telekom Austria**, which guide the business activities of TA Group members and forms the core of its corporate culture. It includes guidelines on fair treatment of customers, suppliers, competitors and employees, confidential information, conflicts of interest, gifts and personal benefits, use and protection of company assets, and violations and reporting of any activity which appears to be contrary to this Policy.

In 2008, Vipnet adopted the **Whistleblower Function Guideline** in order to define the process of receiving, retention and treatment of information received from Vipnet employees regarding any violation of valid policies, procedures and laws.

The Guideline covers all types of business malfeasance, such as criminal offenses, misappropriation of company funds and assets, conflicts of interest involving senior management and employees, violations of accepted business practices, fraud or deliberate misrepresentation in the preparation, evaluation, review or audit of any financial statement (including accounting or auditing matters) etc.

The **Internal Auditor** is the individual responsible for receiving all information and initiating further proceedings.

No information on possible malfeasance was received during 2009. Two notifications on possible malfeasance were received during 2010. One was investigated by the end of the year and disciplinary action was taken against two employees. The first case did not represent an issue which might seriously threaten the company. The second case is scheduled for investigation in 2011.

II. 4.3. Public policy positions and participation in public policy development and lobbying

In 2009, Vipnet took firm positions on the following issues pertaining to its business operations in order to influence governmental decisions and formulations of policy.

1. Mobile tax

The fees on mobile services imposed by the Mobile Electronic Communication Network Delivery Service Fee Act, introduced on August 1, 2009, violate Article 85 of the Stabilization and Association Agreement under which Croatia undertook to establish a favorable climate for foreign investment, as it is detrimental to mobile operators and their future investments. This act and the related enabling regulations run contrary to the EU framework Directive (2002/21/EC) and Authorization Directive (2002/20/EC) which defines the content of administrative charges that should be paid by businesses providing services or networks under general authorization as Croatian operators. The revenues raised from these fees are allocated to Croatia's national budget without being earmarked for dedicated purposes, such as efficient distribution of scarce resources (e.g. existing deficits in radio frequencies) or the operation of a competent regulatory authority. The mobile tax will have a far-reaching negative impact on the entire economy which will more than offset the short-term tax revenues collected by the government. Lobbying with the European Commission, the European Commission Delegation in Croatia, the Croatian Government and Parliament have not resulted in the abolishment of these fees imposed on the mobile industry.

The actions against the fees on mobile industry and for the abolishment of the Act continued via the Mobile Communications Association and Croatian Employers' Association toward the European Commission, Croatian Government and related Ministries. The position remained firm on basic claims that the fees are contrary to the EU regulatory framework and would bring about negative effects for the country's GDP and the level of foreign investments.

2. Prepaid registration

Since the Croatian mobile market is predominantly a prepaid market (75%) and most neighboring countries have not implemented the obligation to register all anonymous prepaid users, the proposed idea to introduce mandatory anonymous prepaid registration could have an immense negative impact on the mobile industry, which contributes 2.6% of the national GDP, as well as on customer data protection and constitutional rights, and will not yield the desired "anti-criminal" effects. Additionally, the Croatian legal system does not consistently cover such regulation, for it has not been imposed in the EU regulatory framework either. Lobbying with the Government, the national telecom regulator and relevant ministries resulted in the postponement of final decisions and provisions.

The expected result is a cancellation or further postponement of the introduction of such a measure.

3. Investment in FTTH (Fiber to the Home)

In July 2009, the national telecom regulator issued a decision to oblige the former telecom monopolist to offer related wholesale services on the FTTH infrastructure before its commercial use by themselves, but particular intentions by the regulator to consider a regulatory holiday to this operator to foster its FTTH investment were recognized. The other major fixed operators recognized that this regulatory decision carried an inherent danger of re-establishing a monopoly, and we joined the group of alternative carriers in lobbying the national regulator and the relevant ministry. It led to a decision to establish an inter-operator task force that will find the best solution to facilitate investment and fair market regulation.

The inter-operator task force delivered the goals to be achieved through further negotiations with the regulator and the incumbent. So far, FTTH investment has been put on hold by the incumbent's own decision, and the regulator opened a new round of discussions between all relevant operators.

4. International mobile termination rate

The national telecom regulator passed a decision to equalize national and international mobile termination rates, despite the conclusions delivered by lawful Market analysis. The mobile industry position was clear in pointing out a negative financial impact for all mobile operators and fixed operators too which would have a negative impact on the entire electronic communications market in Croatia, in turn negatively affecting the national GDP, State budget execution and reducing the level of future foreign investments without producing positive effects for the customers. Based on such a position, the telecom regulator council accepted the industry arguments and abolished its own decision, leaving the international mobile termination rates out of the usual MTR regulation.

5. New Electronic Communications Act

The Republic of Croatia assumed an obligation to align its telecom regulatory framework by May 2011 with the EU Telecom Framework delivered by the European Commission in November 2009. Basically, it means adopting amendments to the existing Electronic Communications Act. Previously, the industry and operators have never been proactively involved in the activities of the Ministry and the regulator while preparing draft new legislation. Vipnet's representative in the telecom operators association at the Croatian Chamber of Economy became the deputy chairman of the association and, together with the newly established association council which consists of 10 delegates, invited the Ministry to fully involve the industry in the process of initial drafting of amendments to the Act before the draft is sent to the European Commission for a review. A task force including the Ministry, the regulator and the telecom association was established and enabled the operators to actively participate in preparing the amendments to the current Act based on their experiences and proven interests.

Such proactive participation of the telecom operators association at the Croatian Chamber of Economy continued. Public consultations were expected to be initiated in February 2011, and the association should have an active role in delivering the final comments on the draft Act. As the public consultation process has not opened yet, it is very likely that the amendments to the current Act have been delayed by decision of the relevant ministry.

6. Broadband Strategy 2011-2015

The Croatian Government initiated public consultations on the draft document of the National Broadband strategy for the 2011-2015 period, which delivers the main strategic directions to be followed in the following period in order to achieve the ambitious goals of Broadband penetration set by Digital Agenda Europe to ensure all necessary action plans for a successful implementation of the Strategy. We introduced comments and proposed concrete changes to the Strategy draft via the Croatian mobile operators association and the Croatian Employers' Association, primarily based on our needs for enabling the network construction rollout and Mobile Tax abolishment. So far, the relevant ministry and the government have not produced the final strategy document and related action plans.



Indicator index

III. Indicator index



This is the first Sustainability Report prepared by Vipnet. The report covers the 2009 and 2010 reporting period. In the preparation of this report, Vipnet applied the Global Reporting Initiative (GRI) G3 sustainability reporting guidelines as the basis for defining report content and to provide a balanced and reasonable representation of Vipnet’s performance in its economic, social and environmental dimensions. In addition, as a signatory to the UN Global Compact initiative, Vipnet also reported on selected Global Compact principles. This way Vipnet linked the GRI G3 Guidelines to the ten principles of the Global Compact. In addition, this report also describes the specific commitments, actions and outcomes of these actions with regard to implementation of UN Global Compact principles.

Contact person for questions pertaining to the report:
Martina Rizman Matić

		UN Global Compact	Place in text
Standard Disclosure: Profile			
1.1.	Strategy and Analysis: Statement by the CEO	Statement of continued support	1.1.
1.2.	Description of key impacts, risks and opportunities		different
Organizational Profile			
2.1.	Name of organization		1.1., 1.2.
2.2.	Primary services		1.1., 1.2.
2.3.	Operational structure of the organization, including main operating companies		1.2.3.
2.4.	Location of organization’s headquarters		11.2.1.
2.5.	Number of countries in which the organization operates, and names of the countries with either major operations or that are specifically relevant to the sustainability issues covered in the report		1.2.3.

2.6.	Nature of ownership and legal form		I.2.3.
2.7.	Markets served		II.1.
2.8.	Number of employees Net sales		I.3.1., II.2.
2.10.	Awards received in the reporting period		II.1.3., II.2.6., II.3.4.

Governance, Commitments and Engagement

4.1.	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as strategy setting or organizational oversight		I.2.3., I.2.4., I.2.5.
4.4.	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body		I.2.6.
4.8.	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation		I.2.2., II.2.7., II.4.1.
4.14.	List of stakeholder groups engaged by the organization		I.2.6.

Report Parameters

3.1.	Reporting period (e.g. fiscal/calendar year) for the information provided		I.1., III.
3.2.	Date of the most recent previous report (if any).		I.1.
3.3.	Reporting cycle (annual, biennial etc.).		III.
3.4.	Contact point for questions regarding the report or its contents		III.

Report Scope and Boundary			
3.6.	Boundary of the report		1.1.
G3 Indicators	Description	UN Global Compact	Place in text
Economic			
EC5	Range of ratios of standard entry level wages compared to local minimum wages at significant locations of operation. (Additional)	Principle 1	II.2.3.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. (Core)	Principle 6	II.2.9.
Environment			
EN1	Materials used by weight or volume	Principle 8	II.3.1.
EN3/EN4	Direct/Indirect energy consumption by primary source	Principle 8	II.3.1.
EN5	Energy saved due to conservation and efficiency improvement	Principle 8, Principle 9	II.3.1.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Principle 8, Principle 9	II.3.1.
EN22	Total weight of waste by type and disposal method. (Core)	Principle 8	II.3.4.
Labour Practices and Decent Work			
LA1	Total workforce by employment type, employment contract and region		II.2.1.
LA2	Total number and rate of employee turnover by age group, gender and region	Principle 6	II.2.2.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations		II.2.3.

LA4	Percentage of employees covered by collective bargaining agreements		II.2.9.
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Principle 1	II.2.8.
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	Principle 1	II.2.8.
LA10	Average hours of training per year per employee by employee category		II.2.4.
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings – note: reporting on life-long learning and employee training only		II.2.4.
LA12	Percentage of employees receiving regular performance and career development reviews		II.2.5.

Society

Aspect: Public Policy

SO5	Public policy positions and participation in public policy development and lobbying		II.4.2.
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Society

Aspect: Anti-competitive behaviour

SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes		II.4.1.
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Product Responsibility
Aspect: Customer Health and Safety

PR1	Life cycle stages in which health and safety impact of product and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Principle 1	different
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Product Responsibility
Aspect: Product and Service Labelling

PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.		II.1.2.
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Goals for 2011



IV. 1. Goals for 2011



Customers

- Maintain a high level of overall customer satisfaction with the Customer Service matching that of the competition
- Focus on First Call Resolution (do it right first time for the customer)
- In each contact, provide a customized offer in line with cross-/up-sell strategy
- Maintain operational excellence by providing efficient contact management (balance call volume and service quality)



Employees

- Continue providing targeted, specific training such as the leadership development program, talent development and, in particular, foster team development programs with a focus on further departmental development
- Continue a one-year in-house program called Influential Leaders for Tomorrow for new managers, aimed at nurturing managerial competencies
- Continue the Marketing Academy program focusing on functional competencies required for marketing professionals
- Strong support to changes in the organization and flattening project (decreasing the number of managers to be a more effective organization) with assessments and developmental actions
- Maintain the same level/reduce the number of work-related injuries
- Educate all new employees in occupational safety, fire protection and electromagnetic radiation
- Improve occupational safety measures in order to reduce the risk of work-related injury
- Continue motivating employees and managers to actively contribute to defining and reaching the goals that enable strategy implementation

- With the help of existing work efficiency management tools support better differentiation of low and top performers in order to additionally improve the culture of top achievement
- Continue improving employees' knowledge on brand values as the basis for providing the highest quality service to Vipnet's customers
- By focusing on positive aspects, especially on improving opportunities for employee professional development, encourage improvement in the category of employee engagement



Environment

- Adopt an environmental management system (EMS)
- Further develop and improve the waste management policy
- Establish Sustainable Procurement Standards



Anticorruption

- Press on with the activities related to the abolishment of fees imposed on the mobile industry through the Mobile Communications Association and the Croatian Employers' Association, lobbying the European Commission, the Croatian Government and relevant ministries, resting on the basic claim that such fees are contrary to the EU regulatory framework and will lead to negative consequences on the national GDP and foreign investment level
- **Continue lobbying** against the introduction of mandatory anonymous prepaid registration with the Croatian Government, relevant ministries and the national telecom regulator due to its negative impact on the mobile industry, customer data protection and constitutional rights and because it will not yield the desired "anti-criminal" results