

Life is not measured by the breaths we take, but by events that take our breath away.

Always responsible

Social report 2006 Ericsson Nikola Tesla d.d.

Stimulus to prosperity

Stakeholders

Ericsson Nikola Tesla has a clear strategy for business development and a leading position in its core activity, while taking continuous care of its stakeholders' interests. Understanding needs, nurturing dialogue, sharing and partnerships with all stakeholders is paramount in achieving operational objectives.

Company stakeholders are:

- **Owners** – we yield appropriate profit and increase the value of our owners' and interested investors' assets.
- **Customers** – we aim at satisfying customer needs and expectations and gaining their trust and loyalty.
- **Suppliers** – we try to build long-term relationships with suppliers who consider quality to be of the utmost importance. Whenever possible, we do business with local suppliers in order to encourage economic activities in Croatia.
- **Employees** – we appreciate the needs, interests and abilities of our employees. We have developed motivating training as well as reward and advancement systems because employees are an invaluable creative resource and the driving force for achieving Company objectives.
- **The community** – we have built a long-term and sustainable relationship with the community based on trust, dialogue and the mutual exchange of knowledge and information. We are adapting to arising needs and issues and striving to be proactively committed to social mobilization and sustainable development.
- **The Trade union** – we have forged a partnership with the Trade union and inform it on all major issues regarding Company operations and we support its work which involves safeguarding its members' best interests.
- **Business organizations** – as one of the leading players in the ICT industry we cooperate with others in formal and informal business organizations, in the areas of common interest, exchange experience with others and set a good example of ethical and responsible conduct.
- **Central and local government** – we develop dialogue with the central and local government and their agencies, such as citizen representatives, legislators, supervisory bodies and other figures involved in social development. The dialogue is based on sound ethical grounds.
- **NGOs and other civil society stakeholders** – we promote civil society group activities, heed them and foster a dialogue on issues important for the development of society.

Mutual impact of the Company and the community

Community

Market

Regulations and regulators



The Company's contribution to economic prosperity

Ericsson Nikola Tesla is a Croatian company which has been successfully operating in the Croatian and foreign markets for the last 57 years, actively contributing to economic prosperity primarily in Croatia, but also in the countries where it operates.

Ericsson Nikola Tesla – added value from operations

	2006 HRK '000	2005 HRK '000
Sales income	1,634,141	1,624,515
Other operating income	75,112	96,739
Financial income	93,505	64,506
Total income	1,802,758	1,785,760
Procurement cost and other operating cost	-1,134,768	-1,175,349
Depreciation and amortization	-73,286	-53,912
Added value	594,704	556,499
Distributed among:		
– employees	328,433	287,907
– state (income tax)	30,747	32,714
– financial institutions	1,751	190
– shareholders	233,773	235,688
	594,704	556,499
Added value increase	7%	

Direct and indirect contribution to economic prosperity

Contribution to economic prosperity can be viewed from the perspectives of direct and indirect impact. Direct impact is measured by traditional financial indicators shown in the financial part of this Report. Indicators of added value from operations, which is distributed among all stakeholders, including employees, investors and the community, indicate that, when compared to 2005, a 7% greater added value from operations was yielded in 2006.

Ericsson Nikola Tesla has, along with financial responsibility, a high awareness of its responsibility towards the community and sustainable development.

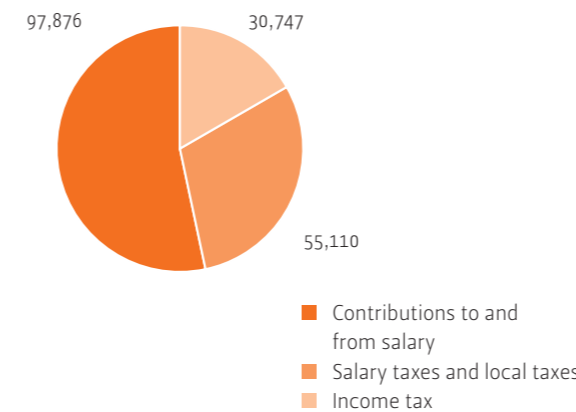
Recruitment

Ericsson Nikola Tesla is a large Croatian company and employs almost 1,400 university educated specialists. In the last three years alone, the Company recruited almost 500 young experts. With the assumption that every employee has two to three family members, we get a number of 4,200 to 5,600 Croatian citizens whose subsistence is tied to the development of the Company.

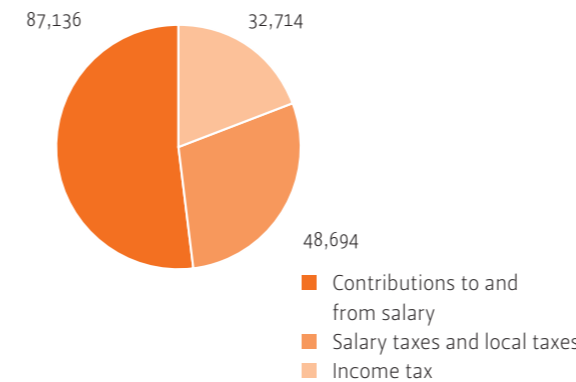
Procurement

Ericsson Nikola Tesla demands that its goods and services suppliers meet high quality standards and abide by a Code of Conduct which includes respecting human rights, occupational standards, environment management and the prevention of workplace corruption. By doing business primarily with local suppliers, Ericsson Nikola Tesla strongly supports the growth and development of the local community. In 2006 all trade payables were settled in the contracted period.

Contributions, taxes and local taxes in 2006 (HRK '000)



Contributions, taxes and local taxes in 2005 (HRK '000)



Taxes and contributions

By paying taxes and contributions into central and local government budgets, Ericsson Nikola Tesla and its employees finance the work and development of areas important for the functioning of society as a whole, including science, education, health and infrastructure development. In 2006 alone, the Company paid MHRK 183.7 in taxes and contributions.

Active role in the community

- Promotion and implementation of ICT is an integral part of the Company's operations. By doing this, the Company creates preconditions for economical and social development, and at the same time this kind of environment ensures future Company growth.
- The Company has been building a business chain in which all goods and service suppliers, importers, manufacturers as well as customers and users have to act in the same appropriate manner and must consider the impact of manufacturing processes and products on the environment and public health throughout the duration of the product's lifecycle. This builds trust among all participants in the business process and also creates preconditions for more rationalized and efficient operations for all entities involved in the process.
- Sharing knowledge about new technologies, business models, international standards and modern work methodology is the way in which the Company significantly contributes to social development. Company employees actively participate in the work of numerous professional associations, lecture at colleges and universities and publish specialist articles.
- The Company actively participates in the activities of the state and civil society by fostering dialogue and consultancy to help shape and bring about positive changes in society.

Liberated Creativity

The role of modern technologies in improving lives

Basic voice communications and two-way exchange of texts (SMS) from mobile to mobile phone, independent of time and distance, have already brought about a whole range of social and economic benefits for users. The network convergence and a major increase in the speed of fixed and mobile communications transfer enabled not only quick and simple Internet access, but the use of a wide range of applications such as e-health, e-education, e-business, etc.

Ericsson Nikola Tesla designs and delivers, independently or within the corporation or global task forces, total ICT solutions which improve the lives and time management of its users. In the rapidly growing and competitive ICT market, the Company is strengthening its market position in specific, complex areas where the knowledge and vast experience of its employees is put to the best use.

The implementation of the National Integrated Information System in primary healthcare is one of the best examples of an innovative approach to market and technology changes and the Company's positioning as a powerful system integrator.

In the project of introducing IT in primary health care (PHC) the Company has completed a demanding job of system integration, having delivered a solution for the central information system in primary health care which connects PHC surgeries and enables data and reports delivery to other entities in public healthcare institutions and health insurance. The central part of PHC information system is the key mechanism that creates ICT links among all other healthcare entities. Data on patients is sent from other entities into the central system thus enabling the free flow of appropriate documentation and the integration of financial, statistical and other processes with the medical process. At all levels, communication is in line with the highest data confidentiality and integrity standards.

The central PHC system includes the implementation of the central repository of e-files on patients, implementation of personal data repository for all health system beneficiaries, the central repository of human and material healthcare resources and the implementation of troubleshooting services for the other components of the national integrated information system in healthcare. It also includes computer and communications infrastructure and management of data transfer to other participants in the healthcare system, security monitoring, activity archiving, system integration and link management, system security and synchronization with a remote back-up location. This creates a single information area which enables full and timely access to medical and other data with optimal security and confidentiality as well as timely and high quality reporting to competent bodies as a precondition for efficient healthcare system management.

The system is beneficial to patients, physicians, health insurance institutions and other stakeholders in the complex healthcare system.

By implementing this project, the Company has created a competitive product which improves its end-users' quality of life, and provides Ericsson Nikola Tesla with a significant reference and a realistic potential for placing the product on the world market.

Visibly transparent

Applying corporate governance principles

Corporate governance is a term which describes the framework of operations and supervision of the Company. Its objective is to create long-term economic value for shareholders. Ericsson Nikola Tesla's managing director and supervisory board continuously support the observance of fundamental principles of corporate governance to ensure the protection of shareholders' rights and equality, business transparency and responsibility towards all stakeholders. Ericsson Nikola Tesla pays great attention to timely and objectively inform the community about its activities and business results and nurtures the positive image of the Company through a code of ethics.

Principles of corporate governance in Ericsson Nikola Tesla, which the Company adopted in April 2005, clearly define the rights and obligations of the managing director, the supervisory board and shareholders.

The role of the managing director in conducting Company business is regulated by the Croatian Company Law, the Charter of Ericsson Nikola Tesla and its internal bylaws. The managing director is obliged to perform his or her duty conscientiously, while looking after the best interests of the Company and its shareholders.

The supervisory board appoints the managing director of Ericsson Nikola Tesla for a 5-year term with the possibility of re-election. The managing director is obliged to report financial and business results, strategy and operative planning to the supervisory board. The managing director is also obliged to report to the general assembly on his or her work and to implement resolutions passed by the assembly.

Financial compensation for the managing director depends on Company performance and is determined by the supervisory board.

The fundamental task of the supervisory board is to supervise the managing director's business conduct. While doing that, the supervisory board must uphold high ethical standards and look after the best interests of the Company and its shareholders. The supervisory board consists of five members elected to a four-year mandate with the possibility of re-election.

The supervisory board reports at the general shareholder's meeting on the supervision conducted, expresses its views of the managing director's proposals on profit allocation and makes proposals to the general assembly on whom to appoint as the company auditor. During 2006, the supervisory board of Ericsson Nikola Tesla held six meetings to discuss financial performance, the Company's position in domestic and export markets, business plans and key projects. The supervisory board also reviewed and upheld the Company's business strategy for 2007-2009 as well as the focus areas for the successful implementation of the strategy.

With the aim of efficiently executing its obligation towards supervising the Company's business conduct, including the development of annual financial statements, the supervisory board established an audit committee during the meeting held on June 1, 2006.

In 2006, the audit committee held two meetings to oversee the audit of the annual financial statements and to execute other assignments arising from the Audit Act. The committee regularly informed the supervisory board on its conclusions and recommendations.

Company shareholders exercise their rights at the annual shareholder's meeting. The shareholder assembly makes decisions on profit allocation, charter amendments and the election and mandate completion of supervisory board members. Furthermore, the general assembly appraises the work of the managing director and supervisory board and decides on the matter of appointing independent auditors and other issues explicitly regulated by law and the company charter.

knowledge for export

Intellectual capital

Intellectual capital is vital for companies such as Ericsson Nikola Tesla which are oriented towards "brain ware" production.

One of our Company's strategic objectives is to be the employer of choice in the country and this is why great attention is paid to planning human resources, recruiting and retaining highly educated experts capable of facing complex challenges in the new world of telecommunications.

Employee structure:

- _ 1,363 employees as of December 31, 2006
- _ 87% college educated experts, the majority of whom are electrical engineers
- _ 8% hold a master's degree or a doctorate
- _ 567 (42%) employees under the age of 32
- _ Average age: 39
- _ Average duration of services in the company is 13 years
- _ Gender ratio (male vs. female): 72% : 28%
- _ Managerial positions account for 9.5% of workplaces (75% men and 25% women in managerial positions)

Our way of working:

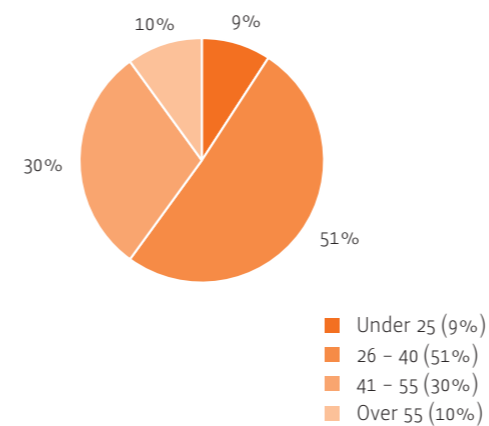
We offer our employees

- _ A motivating environment
- _ Investments in competence development
- _ Performance based career advancement
- _ Work in global teams
- _ Authority
- _ Clear expectations and objectives

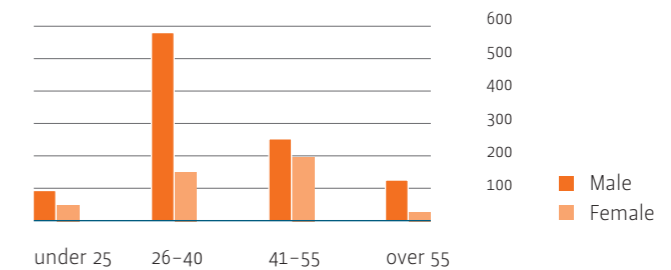
We expect our employees to

- _ Truly adopt our values
- _ Be business orientated
- _ Have a will to win
- _ Focus on customer needs
- _ Participate in team work
- _ Be responsible

Employees – 31 Dec, 2006
(by age)



Employees – 31 Dec, 2006
(by age and gender)



Innovativeness is boundless

An excellent place to work at

Work at the company is conducted under conditions based on respect for the fundamental principles of business ethics, equal opportunities and working conditions, equality and the protection of human rights.

A motivating working environment:

- _ Attractive job positions and a distinctive role in meeting common objectives
- _ Life-long learning and development
- _ Equal working conditions and development opportunities for all employees
- _ A performance-based salary system accompanied by various motivating reward schemes

_ A stimulating work environment

- _ Modern workplaces and work tools
- _ Flexible working hours, the possibility of working from home
- _ An efficient internal communication system
- _ Continuous healthcare and a high standard of employee health protection
- _ Recreational, sports and cultural activities

A company reconciliation committee exists which mediates in the process of peacefully resolving labor disputes and operates in line with the Reconciliation Rulebook.

Professional
competence

Individual
capacities

Human
competence

Business competence

Responsible care for the Company future

The Company takes continuous care of its employees. Keeping in line with Company strategic objectives, the focus in 2006 was on the following competence development programs:

- _ **Marketing and sales program** (training aimed at developing the sales and marketing competence of employees. 130 employees attended this Program during 2005 and 2006)
- _ **HR and business competence development program** (training in finances, communication and presentation skills, management, team work, change management, negotiation skills, conflict resolution, etc.).
- _ **Leadership program**
- _ **Professional competence development program** (training is selected on the basis of actual needs and target positions)

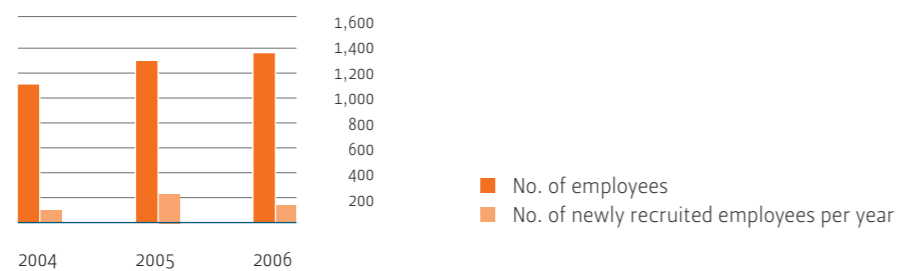
The Company has encouraged its employees to enroll into **graduate and MBA studies** for a number of years (in 2006 142 scholarship recipients took part in this program).

Necessary knowledge is acquired through internal courses and/or in domestic and international training centers, through e-education and internal software tools for the exchange of expertise, at seminars, conferences, by participating in international projects, etc.

Company growth

The Company is going through a period of new and intensive growth which is demonstrated in recruitment statistics. In 2006 the number of employees increased by 6.4% when compared to the previous year. The number of young employees also increased (23% of employees have less than two years of work experience). On one hand, this represents a strength – the incorporation of the knowledge of college-educated young professionals, their fresh ideas, enthusiasm... On the other hand, it represents a risk of increased fluctuation, because it is precisely young people who decide to change their jobs more easily.

Workforce turnover



Workforce turnover	2004	2005	2006
Inflow	96	230	145
Outflow	30	38	57
% increase of workforce	7.30%	17.10%	6.40%

Monitoring of employee satisfaction

Employee satisfaction is monitored through the “Dialog” survey which is conducted once a year and represents an important tool for measuring company dynamics and obtaining employee opinion on various topics. The survey is used for involving employees in the proposal and decision making processes and in improvements being made in various segments of activity.

The “Dialog” survey, conducted in Ericsson Nikola Tesla at the end of 2006, had a high response rate (93.8%) and indicated high employee satisfaction.

One speaks, two communicate.

Change

INITIATOR

Quality, environment and
employee health protection

Total quality management

Keeping in line with corporate guidelines, Ericsson Nikola Tesla has been systematically advancing its Total Quality Management (TQM), or rather its business excellence:

- _ The quality of administrative, operative and supporting processes, products and services is regularly measured, while the achievements and trends are monitored by means of a Balance Scorecard.
- _ Implementation of a self-assessment system – After several years of conducting self-assessment in accordance with EFQM models of business excellence, in 2003 the Company was awarded the Recognised for Excellence certificate by the European Foundation for Quality Management located in Brussels. This is the first and still the only certificate for Second Level of EFQM Excellence awarded to a Croatian company.
- _ Risk Based Assessment is considered an essential precondition for Total Quality Management
- _ Regular external evaluation of supplier, partner and contractor quality
- _ Continuous advancement of the management system by measures which are published on the Intranet along with graphs and charts. The system meets the standards of quality, environment protection, occupational safety and employee health protection.

The environment

Ericsson Nikola Tesla supports sustainable development as the foundation for the future. Environment protection is one of the Company's priorities and is implemented by observing the principles of sustainable development:

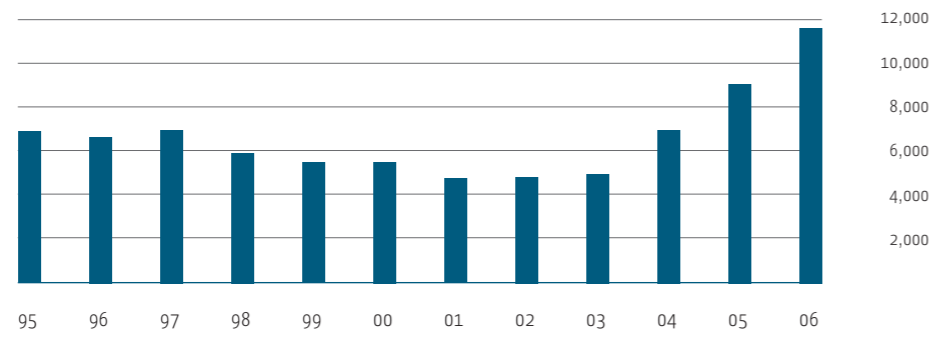
- _ All Company activities are aligned with international standards and domestic regulations on environment protection.
- _ Systematic work is conducted for optimizing and reducing the consumption of energy. By using a centralized system of monitoring consumption from all energy sources, we have met the preconditions for quality management and maintenance of power installation systems, which have led to reduced consumption of energy (water and steam) and optimised qualitative parameters of consumed electrical power (non-productive power, power factor, peak load, unit cost).
 - _ Monitoring of the overall pipeline system has resulted in timely troubleshooting, saved potential water loss, and resulted in multiple reduction of water consumption.
 - _ The introduction of technological improvements in the heating system has led to a significant reduction in steam consumption.
 - _ Technological improvement of the Company's electric power system and continuous monitoring of the system's functions have led to continuous reductions in the unit cost of electric power (HRK/KWh).
- _ Systematic care of waste management (removing useable waste) is conducted.
- _ Use of e-applications in business saves an estimated MHRK 1.1 a year.
- _ Company specialists actively participate in the process of aligning Croatian regulations with EU regulations.
- _ Employees are continuously trained, motivated and made aware of the environment protection cause. Every organisational unit has an Environment Coordinator who reviews and manages the environment impact of the unit. There is continuous education, awareness raising and motivation building.

Employee health protection

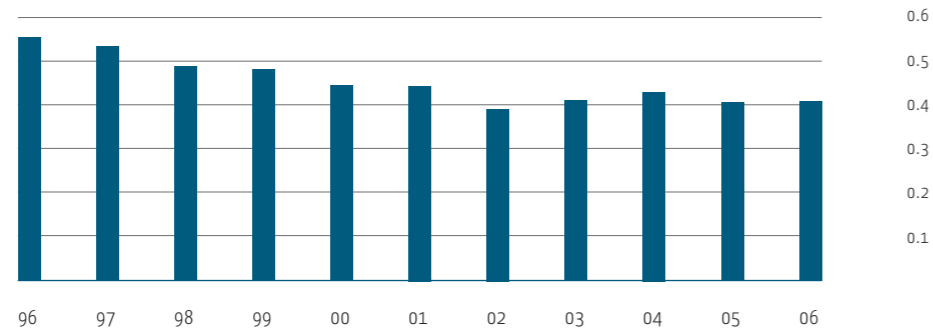
Ericsson Nikola Tesla takes care of its employees' health and systematically improves workplace conditions.

- _ All employees are provided with an annual medical check-up (80% turnout).
- _ Renowned professionals from different fields of expertise give lectures on health protection. In 2006 there were 10 presentations on various topics; the bird flu, mobbing, stressor survey results, medical check-up results, proper dieting, sleep disorders, etc.
- _ Recreational activities for various age groups and physical fitness levels were organized. 200 employees attend the „In House Fitness” program. The Company financially supports the activities of 17 sports and cultural clubs which include 753 members.
- _ Regular workshops on various topics are conducted (stress management, parenting, etc.).
- _ Team building is regularly organized to improve interpersonal dynamics, reduce job related stress and increase employee operational efficiency. Every organisational unit has one team building program a year.
- _ Prescribed training is organised into:
 - _ Work safety for all employees (100% turnout)
 - _ First aid for some employees (100% turnout)
 - _ Additional training for work safety coordinators (90% turnout), job stress management for all interested employees (50% turnout) and computer work safety (100% turnout).

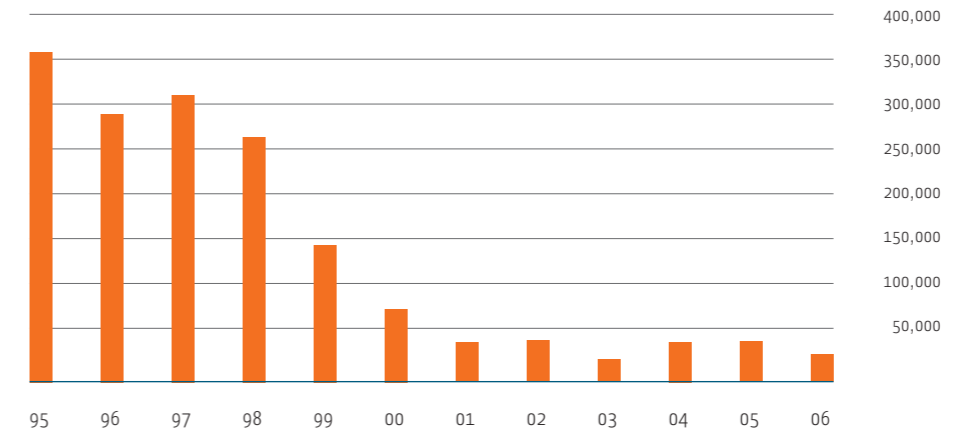
Electrical energy consumption 1995 - 2006 (MWh)



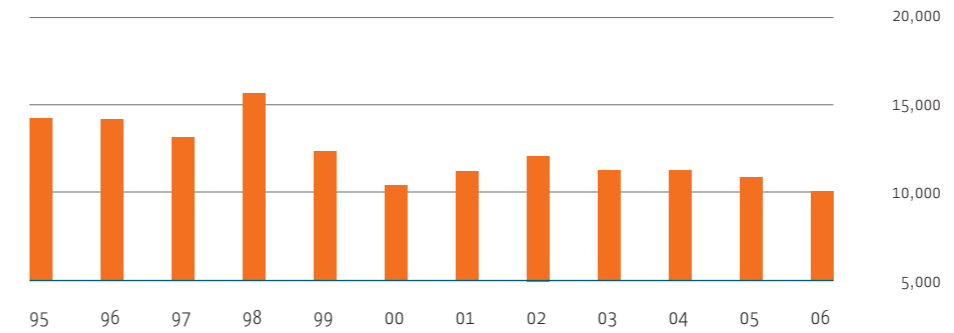
Average cost of 1 kWh 1996 - 2006 (in HRK)



Fresh water consumption 1995 - 2006 (m³)



Steam consumption (heating) 1995 - 2006 (t)



New perspectives

Helping the community

Following the principles of responsibility in all segments of its operations and towards all stakeholders, Ericsson Nikola Tesla believes that social responsibility helps the Company develop esteem, ensures employee motivation and satisfaction as well as wider social acceptance, strengthens competitiveness, facilitates faster business development and contributes to the sustainable development of society as a whole in the long run.

Having adopted a proactive attitude towards identifying needs, providing support, and developing community partnerships, the Company strives at harmonizing national and local programs with the best international practice.

The company donation and sponsorship policy defines tools and methods for recognizing and supporting the best socially beneficial projects. Priority is given to projects in which company products, services, technology and exchange of knowledge and information play active roles. Apart from that, the Company strives at not only financing projects but offering its resources, knowledge, skills and time to support social development of the community.

In 2006 the Company implemented valuable socially beneficial projects in the fields of education, health, culture, sports, and humanitarian activities, and dedicated several million HRK to these causes. Here is a selection of the most significant projects:

_ The 150th anniversary of Nikola Tesla's birth was marked by initiating numerous developmental and socially beneficial projects primarily dedicated to

creating a knowledge-based society. Let us mention the co-organization of the "Life and Work of Nikola Tesla" conference and the renovation of the Nikola Tesla Cabinet in the Zagreb Technical Museum.

_ Traditionally successful, long-lasting cooperation with schools of electrical engineering in Zagreb, Split and neighboring countries Bosnia and Herzegovina and Montenegro, expanded. Annual contracts amount to over MHRK 4.

_ The project of financing the professional development of one junior researcher outside the Ministry of Education's quota was launched since the Company wishes to improve education conditions for students of electrical engineering.

_ A donation towards boosting scientific research at the Mediterranean Institute for Life Sciences in Split was made.

_ The Company donated a valuable interactive ultrasound presentation board to Nikola Tesla Elementary School in Rijeka, thus ensuring the use of contemporary ICT in education. Computer workshops were donated to the pupils of the elementary schools "Nikola Tesla" in Mirkovci and "Kralj Tomislav" in the Company's vicinity.

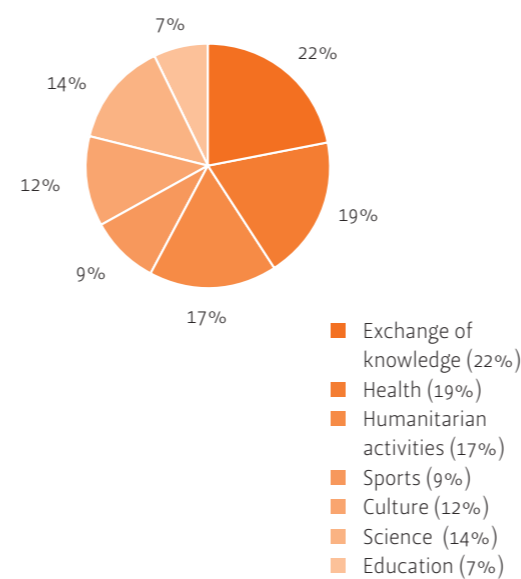
_ Sponsoring and participating in conferences like MIPRO, Contel, Softcom, Infoarena, The International Conference on Business Processes, etc.

_ Participation in a humanitarian action "Clear a Square Meter of Minefield". The Company funded the demining of 10,000 square meters of houseplots in Vinkovci, Vukovar-Srijem County.

_ Donations towards The Klaićeva Children's Hospital, The Croatian Association of Deafblind Persons Dodir, SOS Children's Village Croatia, The Croatian League Against Cancer, The Association of Parents of Children with Visual and Multiple Impairments Oko, The Drama Studio of Blind and Visually Impaired Persons Novi život, The Croatian Forum Against Breast Cancer Europa Donna, The Rehabilitation Centre Down Syndrome in Pula, etc.

_ Donations towards employee sports and cultural clubs.

Donation and sponsorship structure in 2005



Donation and sponsorship structure in 2006

