

Ericsson Nikola Tesla d.d.

ANNUAL REPORT

2009

SOCIAL REPORT

ERICSSON NIKOLA TESLA – A SOCIALLY RESPONSIBLE COMPANY

The concept of corporate social responsibility implies integrating social and environmental care into a company's business strategy, thus creating the prerequisites for successful business as well as sustainable development. Ericsson Nikola Tesla follows global corporate social responsibility standards and Ericsson's example as a technology leader and global creator of positive influences on the development of technology and society. We have integrated the principles of corporate social responsibility into our long-term business development strategy - in each segment of business and in relationships with all stakeholders.

Today, Ericsson Nikola Tesla is Croatia's leading exporter of knowledge, and its 1,650 experts, of whom most are highly-educated, actively participate in creating global ICT industry trends. Our role and responsibility in social development are the greatest in the area in which we are the strongest and can contribute the most, which is information and communication technology. In this sense, Ericsson Nikola Tesla, as a member of the global Ericsson corporation, has the role of an initiator of change since we actively participate in global topics such as sustainable development (effects on resources, energy and security), and combine all cumulative knowledge in the telecommunications industry, thus even better defining our role in creating future trends. Even now it is evident that our industry is a catalyst for developing all social structures, thus positive impacts of implementing ICT technology are evident in this sense as well. The Company creates added value through these activities, and has a very positive impact on the development of society as a whole. In short, our innovative solutions are not the aim themselves, what they do is empower people, business and society with the goal of having a positive impact on people and communities by providing higher quality of life and better results, utilizing resources and protecting the environment.

Ericsson Nikola Tesla's organizational unit, Communication, along with associates from other organizational units, are responsible for managing activities from the area of corporate social responsibility. The area of social responsibility is determined by three key policies: The Code of Business Ethics, Ericsson's Suppliers Code and the Environmental Management Policy - based on international doctrines. The aforementioned policies are integral parts of the Company's management system and are applied equally to the Company and our suppliers.

At the end of 2009, the Croatian Chamber of Economy (HGK) and the Croatian Business Council for Sustainable Development (HR PSOR) awarded Ericsson Nikola Tesla with the Corporate Social Responsibility Index Award in the category of large companies for its positive practice towards key stakeholders.

KEY STAKEHOLDERS

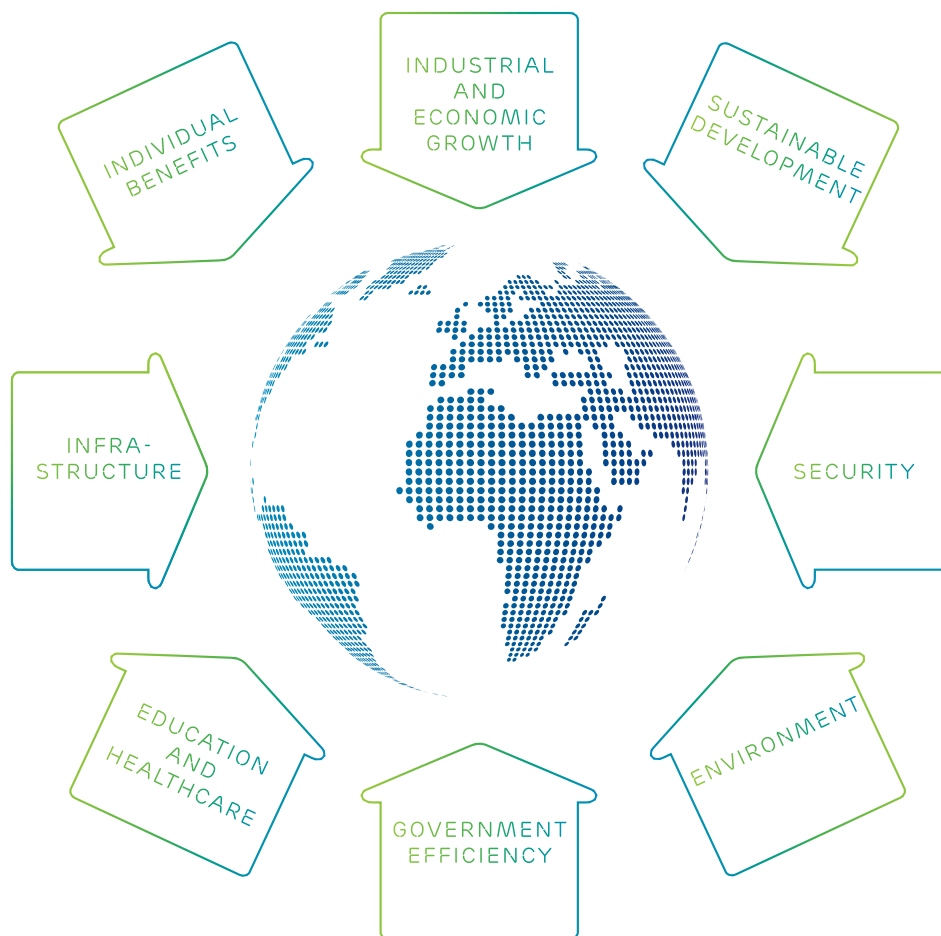
Ericsson Nikola Tesla has a two-way, partner-based cooperation with all key stakeholders: customers, employees, shareholders and investors, suppliers and partners, the trade union, business and professional associations, government bodies, educational institutions and the community. Thus, Ericsson Nikola Tesla not only makes a responsible impact on its future operations, realization of its objectives and the achievement of desired positions, but also greatly contributes to the further development of its partners, community prosperity and better lives.

KEY STAKEHOLDERS > OUR WAY OF WORKING

CUSTOMERS	>	Professionalism Partnership in finding the best solutions Innovativeness in the provision of total ICT solutions, which have a positive impact on business, people's lives and the environment, as well as climate change Monitoring of customer satisfaction
EMPLOYEES	>	Lifelong learning and training Attractive jobs in the ICT field Equal development and work opportunities for all employees Performance-based salary system Motivational working environment Modernly equipped workplaces
SHAREHOLDERS AND INVESTORS	>	Application of corporate governance principles Timely and objective information on all important Company activities and business results
SUPPLIERS AND INVESTORS	>	Joint improvement and enhancement of the supplier chain Exchange of knowledge Regular assessment of quality and environment control systems
TRADE UNION	>	Partnership Consulting and participatory decision making Support to TU activities which includes safeguarding the interests of its members
BUSINESS AND PROFESSIONAL ASSOCIATIONS	>	Involvement in activities
GOVERNMENT BODIES	>	Participation in passing legislation Exchange of ideas Promoting an environment conducive to business development
EDUCATIONAL INSTITUTIONS	>	Support to educational initiatives Conveying knowledge regarding cutting-edge technologies Financial aid
COMMUNITY	>	Exchange of ideas Support and cooperation regarding local initiatives Financial aid

AREAS OF CORPORATE SOCIAL RESPONSIBILITY

Ericsson is a leading global corporation in the field of corporate social responsibility. Ericsson's contribution towards corporate social responsibility at the global level is achieved by implementing and improving modern technologies which make communication accessible to all. Ericsson enhances the social-economic situation of the more than 175 countries in which it operates - not only by increasing their gross domestic product (GDP) but by offering green technologies which have a positive impact on human lives and the environment as well as climate change. Broadband access technology is expected to greatly help fulfill this goal, because this technology serves people and their welfare. Various studies indicate that mobile broadband services can lower CO₂ emissions, increase employee productivity and enhance quality of life.



TELECOM'S VALUES FOR SOCIETY

Studies conducted over the last few years indicate that information and communication technologies play a key role in accelerating productivity growth. These studies also offer interesting insight regarding Croatia, e.g., the ICT sector will create around six thousand new jobs by 2013 and ICT consumption will rise at the rate of 4.8 percent annually.

During the turbulent times we find ourselves in, it is important to point out the fact that implementing and investing in information and communication technology creates conditions for more efficient business operations as the basis of economical growth and development.

In accordance with the guidelines of the Global Report Initiative (GRI), which represents the leading global framework for reporting on sustainable and responsible company operations, Ericsson Nikola Tesla reports on the effects it has on its surroundings through economical, social and environmental dimensions.

Areas in which the Company expresses its social responsibility are:

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

ECONOMIC SUSTAINABILITY

THE COMPANY'S CONTRIBUTION TO ECONOMIC PROSPERITY

Ericsson Nikola Tesla is a Croatian company which has been operating successfully and, according to its results, has been at the very top of the Croatian economy for more than six decades. During the last decade it has been among the most successful companies in Croatia, and during the last few years it has been the largest knowledge exporter and among the largest Croatian exporters.

Being responsible towards all stakeholders as well as our own long-term development is the main foundation and indicator of our entire social responsibility in terms of ensuring successful operations as well as sustainable social development.

At Ericsson Nikola Tesla, economic sustainability, i.e. financial stability and strategic development, is monitored with the help of the Balanced Scorecard (BSC) and the Key Performance Indicator (KPI).

DIRECT AND INDIRECT CONTRIBUTION TO ECONOMIC PROSPERITY

Since economic sustainability is not only a concept within a company itself, Ericsson Nikola Tesla views its contribution in terms of the direct and indirect impact on the economic prosperity of the country as a whole. Direct impact is measured by traditional financial indicators which are also shown in this annual report - in the Financial statements section. Indicators of added value from operations, which is distributed among all stakeholders, show that the Company yielded MHRK 571.1 added value from operations in 2009.

ERICSSON NIKOLA TESLA – ADDED VALUE FROM OPERATIONS

	2009
	HRK '000
Sales revenue	1,400,011
Other operating income	17,325
Financial income	61,894
Total income	1,479,230
Procurement and other operating expenses	-843,312
Amortization and depreciation	-64,787
Value added	571,131
distributed among:	
- Employees	441,927
- Government (income tax)	0
- Financial institutions	757
- Shareholders	128,447

RECRUITMENT

Ericsson Nikola Tesla employs more than 1,650 people, mainly university graduates, making it a large Croatian company in terms of employment. In the last five years, the Company has recruited more than 870 young professionals, the majority of whom are electrical engineers. Employees actively create and promote innovative solutions which contribute to sustainable development of the Company, all our customers and business partners, as well as society as a whole. It is our employees' innovative ideas which are integrated into solutions which firmly prove the positive impact ICT has on the environment and resource management. Our employees, through innovativeness and expertise, create added value for all stakeholders, including the wider community.

Ericsson Nikola Tesla offers its employees good working conditions and motivates them to develop their careers within a challenging and global business environment.

For the second consecutive year, the Company awarded scholarships for students attending their final years of the Faculty of Electrical Engineering and Computing at the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture at the University of Split. By offering young experts scholarships, Ericsson Nikola Tesla creates new incentives towards developing a knowledge-based society in Croatia.

TAXES AND CONTRIBUTIONS

By paying taxes and contributions into central and local government budgets, Ericsson Nikola Tesla and its employees contribute to the work and development of areas important for the functioning of society as a whole - including science, education, health and infrastructure development.

PROCUREMENT

Ericsson Nikola Tesla demands that its goods and service suppliers meet high quality standards and abide by the Code of Conduct which includes respecting basic human rights, occupational standards, environment management and the prevention of corruption. Suppliers are also familiar with a list of harmful materials, as well as those banned or with a limited usage, and they must prove that such materials are not present in their products.

By conducting business with local suppliers, Ericsson Nikola Tesla strongly supports the growth and development of the local community.

PROMOTION AND IMPLEMENTATION OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGY

Ericsson Nikola Tesla developed and participates in the implementation of a long list of so-called e-products, such as e-health, e-cadastre, digital cities, intelligent transport systems, radar and communication control systems for naval traffic, and many others. These products enable better utilization of natural resources, time management and quality of life as well as faster access to information.

STANDARDIZING THE BUSINESS CHAIN

We consider standardizing the business chain, in which all participants operate in a uniform manner from production to the economical management of products and solutions, to be of high importance. This builds trust among all participants in the business process and also creates preconditions for all entities involved in the process to operate rationally and efficiently.

SHARING KNOWLEDGE

Ericsson Nikola Tesla's experts actively convey and share knowledge regarding new technologies, business models, global standards and modern work methodology. Company employees actively participate in numerous professional associations, lecture at colleges and universities and publish specialist articles.

DIALOGUE AND CONSULTANCY

We encourage dialogue, open feedback and a consultancy way of working and believe that the exchange of opinions contributes to shaping beneficial changes and initiatives within the community in which we operate.

BENEFITS OF MODERN COMMUNICATIONS TECHNOLOGIES

By constantly introducing innovative information and communication products and services, the ICT sector is changing the way we live, work, learn and entertain. Ericsson creates innovations to allow people, companies and society to shape their own lives and worlds. Ericsson Nikola Tesla provides innovative ICT solutions which improve lives and create added values, and which can be categorized into five basic fields: health care, transport, public administration, municipal services and media.

HEALTH CARE

Health care is strategically a very important field for the further development of information and communication technology and is also the segment which has the most direct impact on the quality of life.

Ericsson Nikola Tesla provides several solutions in this segment, including upgrading the existing national primary health care IT system for the Republic of Croatia's Ministry of Health and Social Care. The new functionalities include a messaging system for the Ministry of Health and Social Care, the Croatian National Institute of Public Health, Croatian Institute for Health Insurance, and the Croatian Institute for Health Insurance of Health Protection at Work as well as connect pharmacies with electronic guidelines for prescription processing, and primary health care laboratories with a central system entitled CEZIH PZZ. The central system will also connect all specialist and consulting activities, gynecologists, pediatricians, school medical offices, dentists and units for centralized ordering within sixty-six Croatian hospitals.

Improving the quality of health care and enabling equal access to health care services for all citizens, as well as a better balance in using such, are the main reasons for introducing e-health. E-health systems provide instant and continuous access to high-quality information and significantly increase savings along with increasing health care systems' organizational efficiency while upholding strict information protection regulations. Although this system creates numerous benefits for doctors, nurses, health care and public health care institutions as well as other health care professionals, its greatest value is that it will lower unnecessary administrative barriers and patient waiting time, while increasing the quality and speed of medical services. Ericsson Nikola Tesla's experts enabled the development and delivery of this complex system by implementing their knowledge, experience and innovativeness. Thus, the Company contributed to Ericsson's leadership in technology and the Republic of Croatia's development as well as to the quality of the majority of its citizens' lives.

Within the Ericsson corporation, Ericsson Nikola Tesla also develops solutions in the area of mobile health care, through which it is present in the global market. Innovative solutions for mobile health care are characterized by advanced technology and a contribution towards the development of countries which decide to implement such. These systems implement mobile communications which are far-reaching and provide access to a wide range of users. They also drastically decrease the amount of waiting time for access to medical services while optimizing the number of health care employees required depending on present needs, and also provide controlled access to patient information and other medical data. In short, implementation of mobile health care provides better quality of life and lowers health care costs as well as carbon dioxide emissions.

Numerous international studies deal with this segment's development potential. According to last year's study conducted by the Manhattan Research agency and quoted in The Washington Post, 64 percent of their local doctors use smartphones while making diagnoses, e.g. medical students at Georgetown University have recently been required to use similar devices during their schooling, which is in fact what students themselves lobbied for.

TRANSPORT

Implemented for optimizing transport, innovative Intelligent Transport Systems (ITS) meet one of the developed world's most important challenges – developing sustainable transport solutions. ICT technologies are of great significance in this sense because their implementation fosters economic development along with sustainable climate effects, and available physical transport capacities are optimally utilized, minimizing at the same time damaging effects to the environment. Specific challenges in this segment relate to safety as well as connectivity between vehicles and with transport network infrastructure. Thus, in part, ITS solutions depend on public mobile communication networks. According to many experts, the framework for the further development of ITS is the synergy between global navigation satellite systems and positioning and navigation systems based on mobile networks.

Ericsson is a global leader in this area and is recognized within the transport industry as a company whose support for sustainable development and knowledge in the field of communications are a driving force behind the development of intelligent transport systems.

Ericsson Nikola Tesla, a significant factor in Ericsson's ITS strategy, recognized the importance of ITS early on, and thus actively participates in shaping corporate solutions in this field. While developing its portfolio, the Company cooperates with the Faculty of Transport and Traffic Sciences at the University of Zagreb and the Institute of Transport and Communications. The prototype of the Zagreb Traffic Information System, developed by Ericsson Nikola Tesla's experts, successfully demonstrates new generation ITS business and technology solutions and was developed based on location intelligence embedded in existing mobile communication networks, proven Ericsson products, and the knowledge and competence of domestic experts. These innovative ITS solutions provide optimization of transport and energy efficiency while

reducing the negative impact transport has on the environment. In urban areas, active citizen involvement in transport systems is achieved by connecting transport systems and mobile communication. Thus the effectiveness of the system itself is increased – reducing both stress as well as time spent in traffic.

The implementation of advanced transport solutions for intelligent cities facilitates transport system development, and providing citizens or city visitors with timely traffic information is one of the most important elements of modern transport systems.

ITS solutions widen their implementation by connecting different systems while at the same time gathering and processing data. The development of modern mobile communications is one of the key factors enabling it.

DIGITAL CITIES

Cutting-edge ICT technology is a significant segment for the future of cities and a necessary prerequisite for development, especially for large cities which are pillars for growth in every country. Cities and other units of government are already facing problems with maintaining and updating existing municipal service systems and with improving public administration efficiency. The maximum effects of ICT projects can be achieved in a wider sense by fulfilling the needs of so-called intelligent cities through planning, financing and implementation. According to the "key in your hand" principle, Ericsson develops total solutions and system integration services within city networks, referred to as digital cities. Such networks initially provide a link between educational and medical institution buildings and municipal services and city administrations. In this way, public infrastructure, accessible to citizens is strengthened, and fast, cutting-edge broadband services of the highest quality foster the development of numerous innovative services. By implementing the latest GPON fiber-to-the-home technology, advanced multimedia services are enabled, such as IP telephony, movies upon demand, personalized TV programs and exceptionally fast internet access. Last year Ericsson performed the world's first demonstration of a VDSL2-based technology (Very-High-Bit-Rate Digital Subscriber Line2), achieving data transfer rates of more than 0.5 Gbps. This will allow operators higher cost efficiency along with high performance which is especially aimed at enterprise users and residential customers and provides necessary transmission capacities in radio access networks.

VDSL2-based technology offers unlevelled speeds in existing city infrastructures, i.e. copper lines, and opens up new opportunities for operators to deliver broadband services such as IPTV. More customers will also be able to use attractive broadband services such as HDTV or video-on-demand.

This new technology also makes it possible to use copper networks as a backhaul for radio base stations, accelerating future rollout of HSPA and LTE-based high-speed mobile broadband services.

Ericsson Nikola Tesla provides a wide range of solutions which bring cities closer to the concept of interactive intelligent communities through e-government solutions. Investments in city broadband networks and innovative solutions for key city projects in the areas of transport, public safety and health care, which implement cutting-edge technology, are the foundation for developing digital cities and for improving the quality of life in e-communities.

MEDIA AND SOCIAL NETWORKS

Multimedia is one of Ericsson's publicly recognized strategic focus areas. In this area an emphasis is placed on end-user personalization and interactivity as well as innovative, technologically integral solutions which are the foundation for service providers' successful business development.

This approach requires continual advancement of IMS (IP Multimedia Subsystem) platform which provides multimedia communications, i.e. allows data convergence, speech and network technology through IP-based infrastructure.

During 2009, Ericsson was the first in the world to launch a solution which integrates HSPA mobile broadband access with existing cable TV network. This will allow telecommunications and home entertainment service providers to add mobile broadband access to their offer of TV, internet and fixed telephony services. Ericsson also offers the Pixl8r initiative and the Social Media Portal, intended for increasingly popular social networking. The aforementioned solutions allow friends from diverse networks to easily share user-generated content.

The Pixl8r initiative is an open-standard solution that allows photo-sharing sites to interact in real time. With Pixl8r, mobile subscribers can easily share social media across different operator portals and receive SMS notification of friends' activities regardless of network.

The Social Media Portal gives operators the required tools to become part of the social web. The white-labeled portal solution offers significant advertising revenues from both mobile and fixed portals, reduces churn and improves brand positioning. It also increases data traffic such as MMS, video calling and web portal traffic.

MOBILITY

In mid-December 2009, a new era of mobile broadband access began after Telia Sonera, in cooperation with Ericsson, launched the world's first commercial LTE (Long Term Evolution) network in Stockholm. Customers can already enjoy the benefits of wireless access to interactive services with a large capacity demand such as internet, online games, networking and media content sharing as well as video conferences in real time.

There are a growing number of operators who favor LTE. According to data gathered by GSA (Global mobile Suppliers Association) at the end of 2009, 51 international networks will be integrating LTE in the near future.

Today, exceptionally fast data transfer rates of up to 100 Mbps, provided by LTE, give rise to the integration of new, as well as additional development of existing mobile telecommunications services. New friend and networking functionalities are only a click away. Reading on-line multimedia newspapers, hassle-free, as well as watching TV programs in HD (high definition) resolution upon demand will become a reality for these network users. New 4G networks will provide mobile users with broadband services similar to the way mobile telephony provided

voice services. Along with real time performance and 10 times faster data transfer speeds compared to today's mobile broadband networks, users will be able to always stay connected, even while on the move.

The implementations of LTE technology are diverse, yet estimates show that the focus of the industry will mainly concern mobile services which require high speed data transfer for their functionalities, such as higher quality video and voice-over-IP services using IMS technology, interactive mobile and internet television as well as various distribution platforms for rich interactive content.

Today, mobile operator networks transfer significantly higher amounts of data than conversation, thus the system is continually used less for the purpose it was designed - conversation. Due to high data transfer speeds provided by LTE technology, interactive mobile television will experience further development. Interactive mobile television will allow viewers to actively participate in programs they are currently viewing on their mobile devices by voting, sending greetings, purchasing products, etc., and will provide other interactive television services such as podcast, video on demand, and so on. Users will be allowed to transfer and share multimedia content recorded using mobile devices with viewers anywhere in the world through websites or on live television. Sharing personal video content with friends through various internet social networks will also be easier.

Thanks to attractive data transfer speeds, internet traffic via mobile devices will dominate and foster significant development of various mobile applications including P2P content sharing, film and music downloading, etc. The fastest growing mobile applications for data transfer are those most widespread within the young consumer segment, such as access to social networks like YouTube, Facebook or Twitter, which foster some significant forms of socialization throughout individual social groups.

Ericsson has a pioneering role in the area of wireless technology and open standards, and is a leader in the development of LTE. Ericsson also possesses 25% of the most essential LTE patents, making it the largest patent owner in this area. HSPA-based mobile broadband access is continuing to be developed since leading operators wish to upgrade these networks as well. In December 2009, Ericsson demonstrated the newest mobile broadband access technology, HSPA Evolution. This was the first time in the world that a speed of 42 Mbps was achieved with HSPA technology using commercially available products.

New dual carrier technology may only be implemented by software upgrade. It doubles the speed for users in the cell of the mobile network, even for users at the edge of the cell, where performance is generally low. This will also increase capacities and allow operators to deliver more Gbps per base station, thus lowering the costs of delivering mobile broadband access to users. Commercially available hardware and software were used with the first commercial chipset for 42 Mbps dual carrier technology.

Today, the innovativeness of mobile solutions allows their implementation in completely new and recently unanticipated areas. According to GS1, a global non-profit standards organization, retailers, as well as food and household goods producers, are eager to start using mobile solutions to interact with customers. Their MobileCom initiative will enable businesses the opportunity to offer users global access to product information via mobile phones. Barcode scanning via mobile phones has been proven to offer new opportunities for product providers and users. Japan and South Korea have developed local standards, and have the most advanced markets for mobile barcodes. This is proven by the fact that more than 70 percent of consumers in Japan have used their mobile phone to scan a barcode. Europe is beginning to pick up on that trend as well. Recently, wine producers and manufacturers in France collaborated to run a mobile barcode campaign to help customers improve their knowledge of wine. The campaign ran in 750 supermarkets and was available on 47 different mobile phone models. A survey showed that 23 percent of consumers were willing to download an application to their mobile phones based on which they could receive information about the wine from mobile internet sites. The METRO group allowed customers the opportunity to prepare an electronic shopping list by scanning barcodes, to receive more product information or to pay for their purchases with their mobile phones.

We can expect that the development of mobile communications will also stimulate the emergence of similar creative solutions in numerous other segments of human activity.

ENVIRONMENTAL PROTECTION

According to the SMART 2020 report, published in late 2009, Ericsson Nikola Tesla's e-Health Croatia solution is ranked among the 25 best solutions which foster progressive changes in the quality of life by implementing modern ICT technology. The report was published by the independent non-profit organizations, the Climate Group and the Global e-Sustainability Initiative. The report encourages implementing modern business processes which would decrease unwanted global greenhouse gas emissions by 15 percent by 2020 and result in energy efficiency savings of over EUR 500 billion for global businesses.

The SMART 2020 report also lists the results of other studies which indicate that the ICT sector systematically increases productivity and supports economic growth - both in developed and developing countries, while reducing pollution and increasing energy efficiency.

The SMART 2020 report was presented on the eve of the Sustainable Development and Climate Change Conference in Copenhagen. It gives a survey of the selected projects, which are already today among the best sustainable solutions, and can be used as guidelines for future development by governments and the business sector. By joining this list, Ericsson Nikola Tesla, as a member of the Ericsson corporation, has proved itself as an innovative ICT leader and a socially responsible company while the Republic of Croatia confirmed its position among the world's best in the application of ICT solutions in healthcare.

There are numerous other examples of how the implementation of modern ICT solutions has a positive impact on the quality of life, business advancement and environmental protection. The development of green solutions for constructing and supplying mobile networks, such as the Ericsson Tower Tube solution, is the key for making communication services accessible to billions of people while lowering energy consumption and protecting the environment. Through various projects, Ericsson and the Earth Institute have shown how mobile communications significantly improve quality of life. Connectivity helps compensate for a lack of resources, especially in rural areas, and provides access to a range of beneficial services. The latest research indicates that an increase in the penetration of mobile communications increases economic activity, i.e. it may lead up to a 6 percent increase in BDP growth at an annual level. Mobile telephony represents a key tool in economic transformation and is one of the fastest ways for an impoverished country to catch up, technologically, to the developed world.

Telecommunications play a key role in providing developing countries with connectivity and access to services such as health care and education, which help break the vicious cycle of poverty, empower communities and improve their social and economic situations.

CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

Ericsson Nikola Tesla's business development strategy incorporates the principles of socially responsible conduct. These principles are integrated into each segment of Company operations and in relations with all stakeholders.

Ericsson Nikola Tesla wishes to achieve the following through its business operations:

- > Bridge the digital divide by making communication accessible to all;
- > Enable infrastructure development significant for social development and enhancement of quality of life;
- > Reduce the negative effects on our environment;
- > Stimulate gross domestic product growth.

TOTAL QUALITY MANAGEMENT

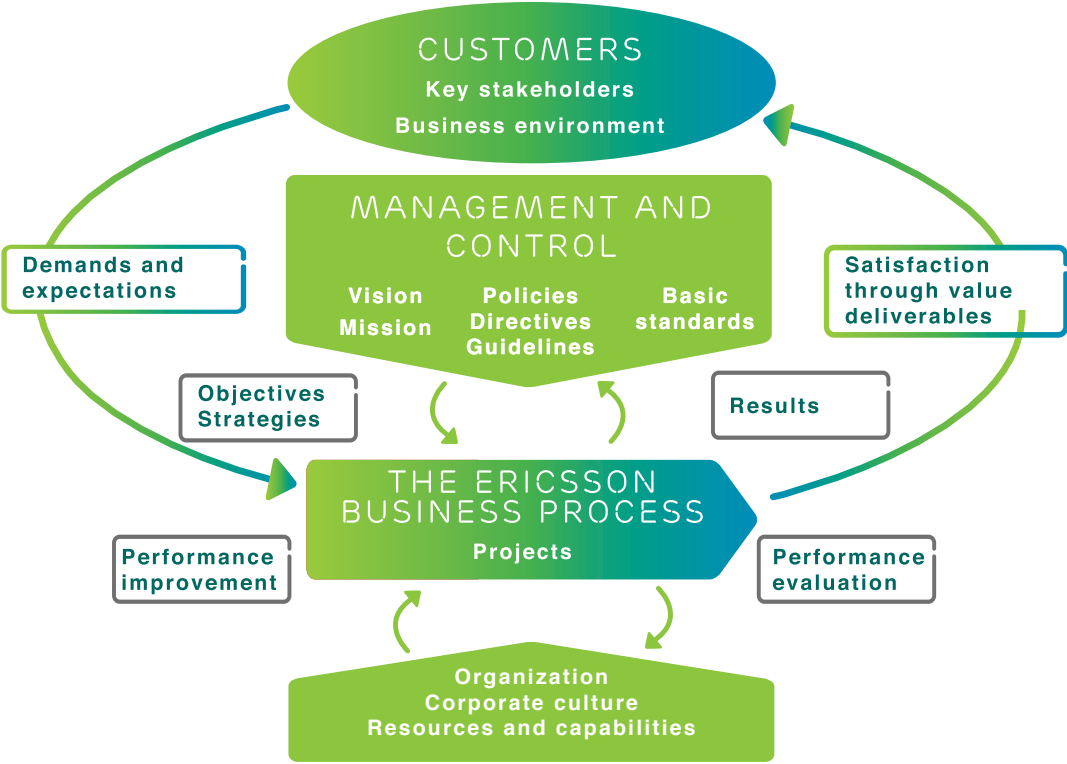
Ericsson Nikola Tesla manages product and service quality by determining roles and responsibilities, organization, processes and other factors significant for operational excellence within its management system. The management system supports the fulfillment of business goals and is updated and adapted to current business focuses as well as changes in organization and management. Business goals are published in the intranet site and their achievement is monitored with the help of a Balanced Scorecard. The management system is regularly reviewed internally in order to ensure that it efficiently supports the achievement of business goals. Feedback following management system reviews is used to further enhance operations and to help ensure that product and service deliveries consistently meet demands and expectations of our customers.

Ericsson Nikola Tesla possesses the following certificates:

- > ISO 14001:2004 Certificate for Environment Management Systems;
- > ISO 9001:2000 Certificate from Det Norske Veritas for Marketing, Sales and Delivery of Telecommunications Products, Solutions and Services;
- > ISO 9001:2000 Certificate from SIQ for Research and Development in Information and Communication Software Technology.

Along with Total Quality Management, a system of internal risk-based assessment has been introduced, which operates preventively and indicates areas for improvement. It is important to point out that the operational management system is constantly being enhanced and employees can get all relevant information on the matter at the Company's intranet site.

ERICSSON NIKOLA TESLA
MANAGEMENT SYSTEM



WORKING ENVIRONMENT

OUR EMPLOYEES

Ericsson Nikola Tesla's employees are highly educated, competent people who follow the Company's strategic objectives with full responsibility and professionalism, and are able to create added value through innovativeness and expertise.

In the Company, special attention is paid to human resource planning and development as well as attracting and retaining highly educated specialists who are able to execute complex tasks in the dynamic world of telecommunications.

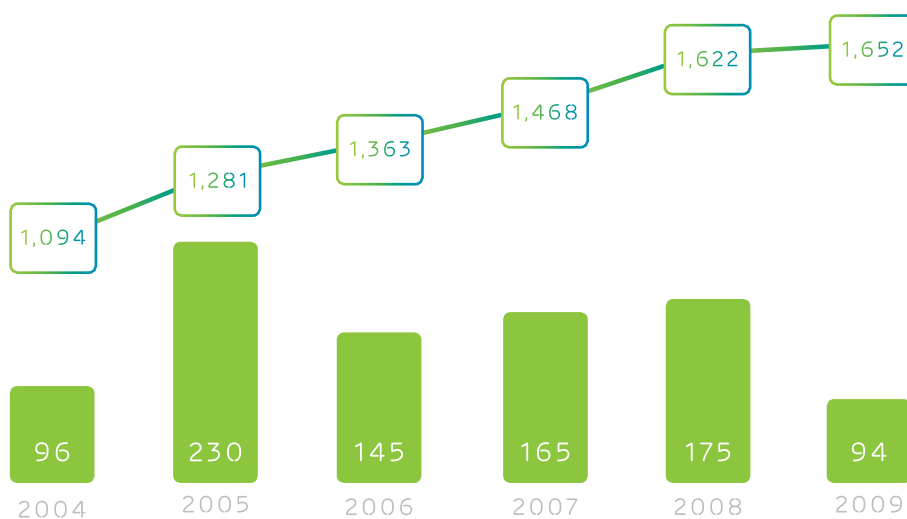
While conducting business, we are governed by the following fundamental principles:

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

EMPLOYEE MOVEMENT IN 2009

The number of employees in 2009 was 1.8% higher compared to the previous year.

EMPLOYEE MOVEMENT IN ERICSSON NIKOLA TESLA IN THE PERIOD 2004 - 2009

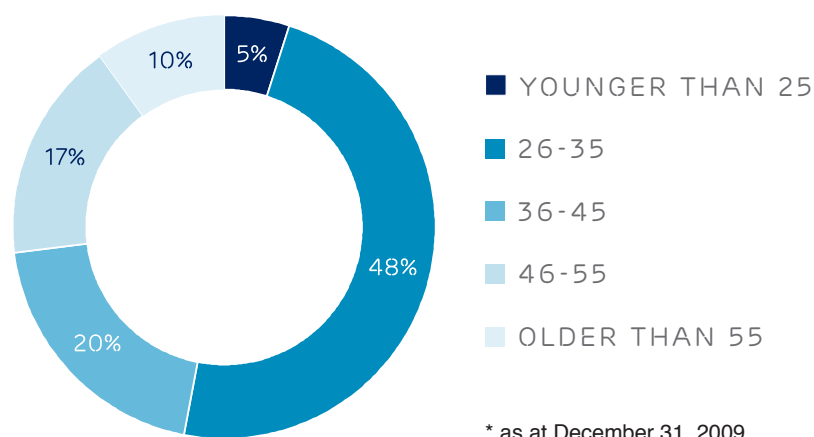


■ No. of new employees during the year □ Total number of employees

EMPLOYEE STRUCTURE

- > 1,652 employees*;
- > 83 percent of college-educated specialists, the majority of whom are electrical engineers;
- > 7 percent hold a master's degree or doctorate;
- > Average employee age is 38;
- > 630 (38 percent) employees are younger than 32;
- > Average duration of service in the Company is 12 years;
- > 26 percent of employees have two or less years of working experience in the Company;
- > Gender ratio (male vs. female): 73 percent : 27 percent;
- > Average age of a manager: 42;
- > 21 percent of managers are women.

ERICSSON NIKOLA TESLA EMPLOYEES (ACCORDING TO AGE)*



INVESTING IN COMPETENCE DEVELOPMENT

The Company takes continual care of its employees' training and competence development and thus continued conducting its existing competence development programs in 2009.

Necessary knowledge is acquired through courses within the Company and/or in training centers in the country or abroad, e-education, implementation of intercorporate software tools for specialist knowledge exchange, seminars, conferences, involvement in international project activities, etc.

In 2009, the employees were involved in the following training programs:

> **Project management skills development program**

The program is intended for employees who work on projects, and training is conducted in cooperation with external institutions including the Project Management Institute (PMI). The program encompasses each aspect and level of knowledge, from basic to advanced levels, and includes testing and international certification for the role of Project Manager.

> **Professional competence development programs**

Specialized training which is determined according to current needs and target positions and in some cases includes certification processes.

> **Marketing and sales program**

Training intended for employees who deal with marketing and sales.

> **HR and business competence development program**

Training includes acquiring new expertise in the following fields: finance, communication and presentation skills, management, teamwork, change management, negotiation skills, conflict resolution, etc.

> **Management competence development programs**

Management competence development programs include the Leadership Core Curriculum (LCC) Program, Assessment & Development Center – a program for evaluating and developing young managers, corporate leadership programs as well as job rotation within and out of the Company and work in international teams.

> **Postgraduate and MBA studies**

For a number of years the Company has encouraged and awarded scholarships to employees who aspire to complete postgraduate or MBA studies in technical fields or business management.

EQUAL OPPORTUNITIES

Although telecommunications were traditionally considered a male-dominated field, we have been encouraging an increase in female recruitment in the Company, and today a significant number of managerial positions are occupied by women. In 2008, the Diversity Project was established within the Company, as part of a global Ericsson project. The goal of the project is to develop a culture which embraces diversity and manifests through mutual understanding and equal opportunities for all employees, regardless of gender, race, religion, political views or other individual beliefs. We at Ericsson Nikola Tesla consider diversity as an advantage which brings added value to our operations. We employ individuals with different competencies, different interests and personal ambitions and we strive to utilize the best that they can offer towards achieving our Company goals.

WORKING ENVIRONMENT

The Company has continually worked on enhancing its working environment with the aim of increasing satisfaction and motivation among its employees through the following:

- > Providing attractive jobs and the clear role every employee has in meeting common objectives;
- > Opportunities for lifelong learning and development, providing equal development and working conditions for all employees;

- > Recognizing individuals and teams who contribute to Company results the most;
- > Performance-based salary system accompanied by various motivational reward schemes;
- > Stimulating working environment, modernly equipped workplaces and all necessary work tools;
- > Flexible working hours, the possibility of working from home;
- > Employee health care and a high standard of employee health protection;
- > Offering support to young parents by organizing day care centers in the immediate vicinity of the Company;
- > Recreation and socializing within sports and cultural clubs.

MONITORING EMPLOYEE SATISFACTION

At the end of each year the Company conducts its Dialog survey which monitors employee satisfaction and represents an important tool for measuring the organization's morale and for obtaining employee opinion on various topics. In this way employees, along with their managers, actively participate in and propose changes and improvements for various segments of activity.

In 2009, the Dialog survey once again had a high employee response rate of 94 percent, which ensured a realistic framework for analyzing results and for carrying out further improvement.

Employee satisfaction indicators:

- > In order to better understand and continually adapt to changes, this year's Dialog survey included a new indicator, a business environment adaptation index entitled Future Capital Index, FCI. This index describes the Company's ability to successfully adapt to changes in the future while achieving business excellence and innovativeness in all its business processes as well as to continually work with talent.

Although FCI is a new indicator, Ericsson Nikola Tesla's result (77 percent) was at the top end of the range.

- > Human Capital Index (HCI) remained at the high level of the previous year - 77 percent.
- > High Performers achieved 73 percent, surpassing last year's high result of 68 percent, which indicates continual growth of the level of employee professionalism. This is encouraging since it is one of the fundamental values of our corporate culture. Retaining employee motivation and satisfaction while achieving such a high percentage of high performers is a significant accomplishment.
- > Employee Empowerment grew from 45 percent to 49 percent. This indicates that a large and growing percentage of our employees feel that they can express their capabilities and create new values within their work. For a knowledge-based company focused on innovativeness, such as ours, this indicator's trend of growth is another sign that we are ready for the future.

OCCUPATIONAL HEALTH AND SAFETY

Systematic employee health care is an important part of managing Company employees. Among the numerous activities conducted during 2009, we would like to point out the most important:

> **Implementation of the occupational health and safety management system**

Indicators for the state of this area are monitored through the number of injuries at work, preventive and corrective actions anticipated by danger assessment, as well as proposed activities proceeding from regularly held Occupational Health and Safety Committee assemblies. In 2009, not a single injury occurred within the Company. Four injuries occurred while arriving to or leaving work.

> **Regular medical checkups**

Employees have the opportunity to undergo regular medical checkups in the Company clinic along with specialized examinations. The results of regular checkups are processed and analyzed. They are discussed and decisions are passed regarding such during the assemblies of the Occupational Health and Safety Committee. Employees can undergo the following specialized examinations in the Company clinic: cardiological, gastroenterological, endocrinological and gynecological.

> **Doctor at the workplace**

Cooperation of the occupational medicine specialist and occupational safety experts positively affects health and safety at work. A newly developed workplace risk assessment with computer ergonomics included as well as corrective actions in areas to be improved contribute to health protection and employee satisfaction.

> **Recreational activities**

Recreational courses have been conducted within the Company for the seventh consecutive year. Along with this, the Company supports numerous employee sports and recreational activities outside the Company's premises.

> **Education and employee qualification**

Except for legally defined qualification from the area of occupational safety, new employees attend educational courses related to health protection as part of their introductory seminars. Additional training is organized for management with the goal of assessing the importance of occupational health and safety to the satisfaction of employees and business success of the Company. For employees traveling to high-risk countries, lectures and workshops relating to the risks of traveling and staying in these countries are organized.

MARKET RELATIONS

Ericsson Nikola Tesla builds relationships with suppliers, customers, consumers, and shareholders and respects its competitors. In so doing, the Company follows its core values of professionalism, perseverance and respect. In concrete terms, the Company requires that all of its employees, subcontractors, suppliers and related stakeholders act in line with the provisions of the Code of Conduct and the Code of Business Ethics.

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

The Code of Business Ethics pertains to personal responsibilities in the relations with employees, customers, suppliers, shareholders and all others with whom one communicates or does business with. With the Code of Business Ethics, the Company covers legal compliance, protection of confidentiality, protection and proper use of company assets, respectful communication and human rights protection, conflict of interest; truthful PR, environment protection and supported reporting of illegal or unethical behavior.

The Company continuously enhances its relations to different customers within the country and on several dozens of markets we operate in. In other words, we adjust to the needs of our customers, offer innovative solutions for their business growth thus fostering partnerships and building mutual trust. We check our methods of working with numerous customers every year through Customer Satisfaction Survey. Although the results of the survey indicate that there is a high level of satisfaction among our customers, we always aim to improve.

We build long-term relationships with our suppliers, which involves dialogue, exchange of knowledge and the application of modern methods of working. We expect suppliers of products and services to adhere to standards of high quality and the provisions of the Code of Conduct and the Code of Business Ethics. Company assessors make an annual survey prepared in line with applicable standards of external assessments to assess the quality of major domestic suppliers. As the technological leader, Ericsson Nikola Tesla uses an e-sourcing system that offers highest levels of professionalism, efficiency and collaboration. Sourcing IT system has a range of advantages, most important of which for suppliers are transparency, fact-based comparisons, and saving of time and money.

APPLYING CORPORATE GOVERNANCE PRINCIPLES

Corporate governance is a term that 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 Management Board 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 informing the community about its activities and business results, and nurtures the positive image of a company which implements a Code of Business Ethics.

The principles of corporate governance in Ericsson Nikola Tesla, which the Company adopted in April 2005, are based on the Republic of Croatia's legislature and recommendations from the OECD Principles of Corporate Governance which clearly define the rights and obligations of the Management Board, Supervisory Board and shareholders (www.ericsson.hr/investors).

MANAGEMENT BOARD

The role of the Company's Management Board is regulated by the Croatian Company Act, the Statute of Ericsson Nikola Tesla, and internal bylaws. The Management Board is obliged to perform its duty by acting conscientiously, while looking after the best interests of the Company and shareholders.

Ericsson Nikola Tesla's Management Board consists of one member being appointed by the Supervisory Board to a five-year term with the possibility of re-appointment. The Management Board is obliged to report financial and business results, strategy and operative planning to the Supervisory Board. The Management Board is also obliged to report on its work at the Annual Shareholders' Meeting and to implement resolutions passed at the Annual Shareholders' Meeting. Remuneration for the Management Board depends on the Company's business results and is determined by the Supervisory Board.

SUPERVISORY BOARD

The fundamental task of the Supervisory Board is to supervise the Management Board's business conduct. While doing so, 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 term with the possibility of re-election. The Supervisory Board reports to the Annual Shareholders' Meeting regarding supervision conducted, expresses its views of the Management Board's proposals on profit allocation, and

makes proposals at the Annual Shareholders' Meeting on whom to appoint as the Company's auditor.

During 2009, the Supervisory Board of Ericsson Nikola Tesla held four regular and two extraordinary meetings during which financial performance, business plans, key projects, business risks, internal control results and human resources were discussed. Special attention was paid to the Company's position in domestic and export markets as well as market conditions and trends in the ICT industry. Furthermore, the development of activities and responsibilities of the Research and Development Center, the Global Services Delivery Center and Business Ericsson Test Environment were also discussed.

The topics of the irregular Supervisory Board meetings dealt with dividend payout and changes to the members of the Company's Supervisory Board.

The Supervisory Board reviewed and upheld the Company's Business Strategy for 2010 - 2012, as well as the focus areas for successful strategy implementation. Key goals for 2010 were defined based on focus areas and corresponding programs, which were also approved by the Supervisory Board.

During a meeting held December 17, 2009, the Supervisory Board awarded Gordana Kovačević, MSc, a new five-year term as the Company's Managing Director, which entered into effect on January 1, 2010.

During 2009, changes were made in the configuration of the Supervisory Board: Darko Marinac resigned as a member of Ericsson Nikola Tesla's Supervisory Board, which entered into effect on November 20, 2009.

AUDIT COMMITTEE

With the aim of efficiently executing its obligations towards supervising the Company's business conduct, including the development of annual financial statements, the Supervisory Board established an Audit Committee in June 2006.

In 2009, the Audit Committee held three meetings to discuss annual and periodical financial results, the assignment of a new auditor, the audit plan for 2009 and to conduct other assignments arising from the Audit Act. This Committee regularly presented its conclusions and recommendations to the other members of the Supervisory Board. As of the date this report was issued, the members of the Audit Committee were Ignac Lovrek, president, and Carita Jönsson, member.

ANNUAL SHAREHOLDERS' MEETING

Company shareholders exercise their rights during the Annual Shareholders' Meeting. The Annual Shareholders' Meeting makes decisions regarding profit allocation, Statute amendments, and the election and recall of members of the Supervisory Board. The Annual Shareholders' Meeting also appraises the work of the Management and Supervisory Boards and decides on the appointment of an independent auditor for the annual financial statements and other issues explicitly determined by the Law and Statute of the Company.

ENVIRONMENTAL PROTECTION

Responsible environmental relations are an integral part of Ericsson Nikola Tesla's operations and culture. Key doctrines which define environmental relations are the Environment Management Policy and Code of Business Ethics.

Regular and systematic, as well as internal and external system functionality checks are carried out in order to retain the ISO 14001 Certificate.

DEVELOPING PRODUCTS AND SERVICES WHICH IMPROVE QUALITY OF LIFE

ICT solutions, products and services which the Company offers have been recognized as green technologies and have a positive impact on operations, human lives and the environment as well as climate change. Ericsson Nikola Tesla develops and participates in the implementation of a long list of so-called e-products, such as e-health, e-cadastre, digital cities, intelligent transport systems, radar and communication control systems for naval traffic, and many others.

IMPLEMENTING REGULATIONS AND NORMS

All of the Company's activities are in accordance with international standards as well as valid national regulations related to environmental protection. Company professionals actively participate in the process of aligning Croatian with European regulations. Regulation demands for individual segments of the environment are followed and their implementation is regularly monitored.

SYSTEMATICALLY OPTIMIZING AND REDUCING ENERGY CONSUMPTION

By implementing a central monitoring system for consumption of all energy sources, the preconditions for quality management and maintenance of the energy installation system have been created, which resulted in a reduction of energy consumption (water and steam) and in the optimization of all quality parameters of electric energy consumption. By monitoring the entire pipe system, repair work is conducted timely, unnecessary loss of water is eliminated and a large decrease in water consumption is achieved.

E-APPLICATIONS

Since we are aware that increasing energy needs have a harmful impact on the environment, we implement e-applications in our operations and thus increase the efficiency of our business processes and activities.

WASTE MANAGEMENT

Total and systematic management is carried out for all types of waste created on location. By paying regulated fees for managing packaging waste as well as electronic and electrical device waste, we contribute to developing a management system for such waste in Croatia.

EDUCATION IN ENVIRONMENTAL PROTECTION

Education, awareness development and an increase of employee motivation for enhancing the state of environmental protection are constantly carried out. Each organizational unit has a coordinator for the environment who acts in accordance with the organizational unit's scope of work and its effects on the environment. Quality, environmental protection, and occupational health and safety experts perform annual management system audit and make improvement proposals in order to educate suppliers, partners and contractors.

Through cooperation with stakeholders, e.g. business partners and educational institutions, Ericsson Nikola Tesla's professionals convey their knowledge and experience and thus contribute to building up the environmental awareness.

COMMUNITY RELATIONS

Guided by the principles of responsibility in all segments of its operations and towards all stakeholders, Ericsson Nikola Tesla believes that social responsibility helps the company in building esteem, provides employee motivation and satisfaction as well as wider social acceptance, strengthens competitiveness and facilitates faster business development of the company in the long run. In this sense, we always emphasize that, along with financial awareness, companies need to have high social awareness of the community.

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

In 2009, the Company invested considerable funds in realization of a number of humanitarian and socially beneficial projects in the fields of education, health, culture, and sports.

Among the most significant projects are the following:

- > Sponsoring and participating in various professional conferences;
- > Expanding scientific research, development and educational cooperation with the Faculty of Electrical Engineering and Computing at the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture at the University of Split;
- > Continuing the project of financing the scientific development of a junior researcher not included in the Ministry of Science, Education and Sports quota;
- > Donations to ZAMISLI - the Association for the Promotion of Quality Education for Persons with Disabilities, Europa Donna - the Croatian Forum Against Breast Cancer, the Association for Self Advocacy, and Center for Training and Education – Prekrižje.

AWARDS AND RECOGNITIONS IN 2009

- > The Croatian Chamber of Economy awarded Ericsson Nikola Tesla a Zlatna kuna plaque for achieved business results in 2008 within the category of large businesses in Zagreb.
- > The Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development (HR SPOR) awarded Ericsson Nikola Tesla the Corporate Social Responsibility Index (CSR Index) Award for its positive practice towards all stakeholders within the category of large companies.
- > The independent non-profit organizations The Climate Group and the Global e-Sustainability Initiative carried out a joint research and their SMART 2020 report ranked the e-Health Croatia solution among the 25 best global solutions which have a positive impact on the quality of life and protect the environment.
- > On the occasion of the Company's 60th anniversary, the MIPRO Association awarded Ericsson Nikola Tesla a Recognition Charter for ICT Development in Croatia.