



SOCIAL REPORT 2010
Ericsson Nikola Tesla d.d.





ERICSSON NIKOLA TESLA – A SOCIALLY RESPONSIBLE COMPANY

For some ten years an ever-increasing number of companies have been using the policy of corporate social responsibility. It is a form of corporate self-regulation integrated into a business model. Back in 1993 the President of the European Commission appealed to the European business community to join the fight against social exclusion. The European Council held a special meeting in March 2000 in Lisbon to agree a new strategic goal for the Union in order to strengthen social responsibility and promote a lifelong learning, work organization, equal opportunities, social inclusion and sustainable development.

By implementing principles of social responsibility and by expressing willingness to exceed legal requirements, companies positively affect social development as well as environmental and human rights protection.

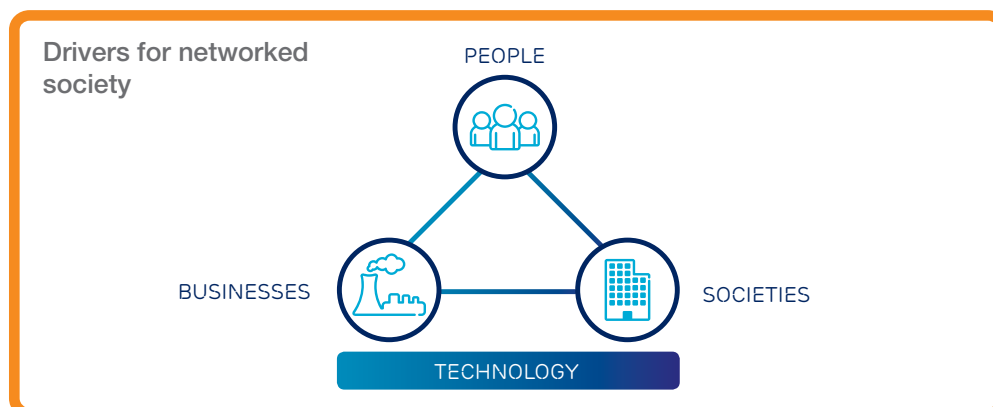
Ericsson Nikola Tesla is strictly applying international standards and is following Ericsson's example as a technological leader and global player that has a positive impact on development of technology and society. In its long-term business strategy, the Company has built in principles of responsible behavior in all segments of business and towards all stakeholders, which includes relationships based on trust, dialog and mutual sharing of knowledge and exchange of information.

We impact society economically, socially and environmentally. However, we must not forget that Ericsson Nikola Tesla is a regional ICT leader, and therefore social development is its biggest responsibility. The objective of our business is to make communication available to all, and thus narrow a digital gap, enable development of infrastructure significant for social development, make people's lives easier, reduce negative impact on the environment and stimulate economic prosperity in Croatia and in countries with which we make business. So, for a number of years we have been putting focus on development of 'green technology'. Ericsson Nikola Tesla's experts have designed and made commercially available a variety of e-products and services, like e-Health, e-Cadastre or digital city, which contribute to a more efficient use of natural resources, better time management, better access to information and knowledge and positive impact on the environment.

At Ericsson Nikola Tesla, the Marketing and Communications Unit (including CSR), together with employees from other organizational units, is in charge of social responsibility management activities.

There are three cornerstones of social responsibility: Code of Business Ethics, Supplier Code of Conduct and Environmental Management Policy, which comply with international standards. All of them are an integral part of corporate governance, and apply both to our company and our partners and suppliers. This Annual Report deals with the most important projects and activities in 2010.

Over the past several years Ericsson Nikola Tesla has won numerous awards and recognitions for its achievements and best practices of social responsibility.



KEY STAKEHOLDERS

The Company's concern for all stakeholders, as well as for its own long-term development is a cornerstone and an indicator of a total social responsibility relating to the future successful operations, and the sustainable development of the whole society, too. 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.

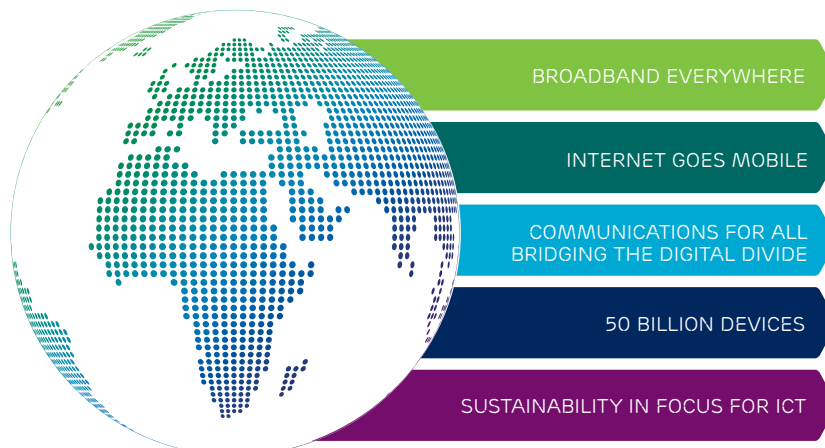
KEY STAKEHOLDERS	OUR WAY OF WORKING
CUSTOMERS	<ul style="list-style-type: none"> » Professionalism » Partnership in finding the best solutions » Innovativeness in the provision of total ICT solutions, which have a positive impact on business, people's lives and the environment, as well as climate changes » Monitoring of customer satisfaction
EMPLOYEES	<ul style="list-style-type: none"> » Lifelong learning and training » Attractive jobs in the ICT sector » Equal development and work opportunities for all employees » Performance-based salary system » Motivational working environment » Modernly equipped workplaces
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> » Application of corporate governance principles » Timely and objective information on all important Company's activities and business results
SUPPLIERS AND PARTNERS	<ul style="list-style-type: none"> » Joint improvement and enhancement of the supplier chain » Exchange of knowledge » Regular assessment of Quality and Environmental Management Systems
TRADE UNION	<ul style="list-style-type: none"> » Partnership » Consulting and involvement in the decision-making process » Support to TU activities, which include safeguarding the interests of its members
BUSINESS AND PROFESSIONAL ASSOCIATIONS	<ul style="list-style-type: none"> » Involvement in activities
GOVERNMENT BODIES	<ul style="list-style-type: none"> » Participation in passing legislation » Exchange of ideas » Promoting an environment conducive to business development
EDUCATIONAL INSTITUTIONS	<ul style="list-style-type: none"> » Support to educational initiatives » Conveying knowledge regarding the cutting-edge technologies » Financial aid
COMMUNITY	<ul style="list-style-type: none"> » Exchange of ideas » Support and cooperation regarding local initiatives » Financial aid



AREAS OF CORPORATE SOCIAL RESPONSIBILITY

Being a member of the Ericsson global corporation, the leader in ICT industry and the creator of global telecom trends, Ericsson Nikola Tesla has been implementing the principles of a socially responsible company in all segments of its operations. The Corporation also strongly supports achievement of the Millennium Development Goals by following the basic values of peace, equality, solidarity, tolerance, human rights observance, nature protection and responsibility distribution in offering aid to the least developed countries. The Corporation and all its members strongly support the development and implementation of information and communication technologies, since they believe this is the way to create circumstances for faster economic growth and society development as well as quality of life enhancement. The economic growth and environmental protection, do not necessarily contradict one another. On the contrary, investments into state-of-the-art technology may help in stimulating both areas and bring them to the green technology era. With that, Ericsson wishes to be the driving force and an agent in introducing rapid changes in the communications world. The number of broadband mobile access users increased last year by 30 percent worldwide to reach approximately 500 million users. This trend is expected to continue in 2011, and according to studies the number of users will double and reach one billion by the end of the year. The given trend is mainly due to easy available smart phones, tablets and notebooks, which are predicted to represent, globally, more than a half of all computers sold worldwide. This trend will continue in future too, and will result in almost 5 billion users of broadband internet by 2016. According to studies, the mobile data traffic will increase by approximately 25 times, mainly due to the use of video. The predictions are that the networked society, having networked all units that may see benefit from it, will result in 2020 with 50 billion of various networked devices. The need for information exchange among people and devices will be extremely strong. Such a networked society will be based on mobility, broadband access and “cloud” services. The ICT industry is a development leader of modern society. For example, according to estimations, a thousand of new broadband access users create 80 new jobs, and as of the national economy, a 10-percent increase in broadband access penetration is said to be contributing an additional one percent to GDP growth. Ericsson is ready for a prominent and active role in modern social and economic trends, thus creating new opportunities to people, business operations and society as a whole.

ICT impact on social development until 2020



Key areas impacted by the Corporation:

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

In accordance with the guidelines of the Global Report Initiative (GRI), which represents the leading global framework for reporting on sustainable and responsible company's 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.

The Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development awarded Ericsson Nikola Tesla, for the third time in a row, the Corporate Social Responsibility Index (CSR Index) for its positive practice towards key stakeholders within the category of large companies.





ECONOMIC SUSTAINABILITY

THE COMPANY'S CONTRIBUTION TO ECONOMIC PROSPERITY

With its business strategy Ericsson Nikola Tesla promotes principles of sustainable development, thus balancing its long-term growth and competitiveness with a positive impact on economic, environmental and social development of the community. Care about key stakeholders and the Company's business development is the cornerstone of business practice and an indicator of the total social responsibility in the sense of providing continually successful business operations, and sustainable development of the whole society.

At Ericsson Nikola Tesla, economic sustainability, implying financial stability and strategic development have been monitored by means of a Balanced Scorecard (BSC) and Key Performance Indicators (KPIs).

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 457 added value from operations in 2010.

RECRUITMENT

Ericsson Nikola Tesla employs almost 1,600 people, mainly university graduates, making it a large Croatian company in terms of employment. Supposing that each employee has two to three members of the family, it is some 4.800 to 6.400 Croatian citizens with existence directly related to the Company's

ERICSSON NIKOLA TESLA - ADDED VALUE FROM OPERATIONS	
	2010
	HRK '000
Sales revenue	1,218,863
Other operating income	15,411
Financial income	41,408
Total income	1,275,682
Procurement and other operating expenses	-762,178
Amortization	-56,831
Value added distributed among:	456,673
» Employees	432,419
» Government (income tax)	0
» Financial institutions	192
» Shareholders	24,062

operations. Ericsson Nikola Tesla has been recognized as one of the best employers in Croatia. The Company offers its employees good working conditions, motivating them to develop their careers, as well as competitive earnings in relation to other Croatian companies. In order to recruit the best employees not only for present but for future too, the Company has established long-term partner relations with the Faculty of Electrical Engineering and Computing at the University of Zagreb, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture at the University of Split.

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

IMPLEMENTATION OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGIES

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

STANDARDIZATION OF BUSINESS CHAIN

Company experts are active participants in business chain standardization, in which all participants operate in a uniform manner, from design to the ecological treatment of products and solutions. 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 information and communications technologies, modern business models and ways of working as well as world standards they apply in business operations. Our experts are prominent members of numerous professional associations, they lecture vocational subjects at colleges and faculties and publish professional papers.

DIALOGUE AND CONSULTANCY

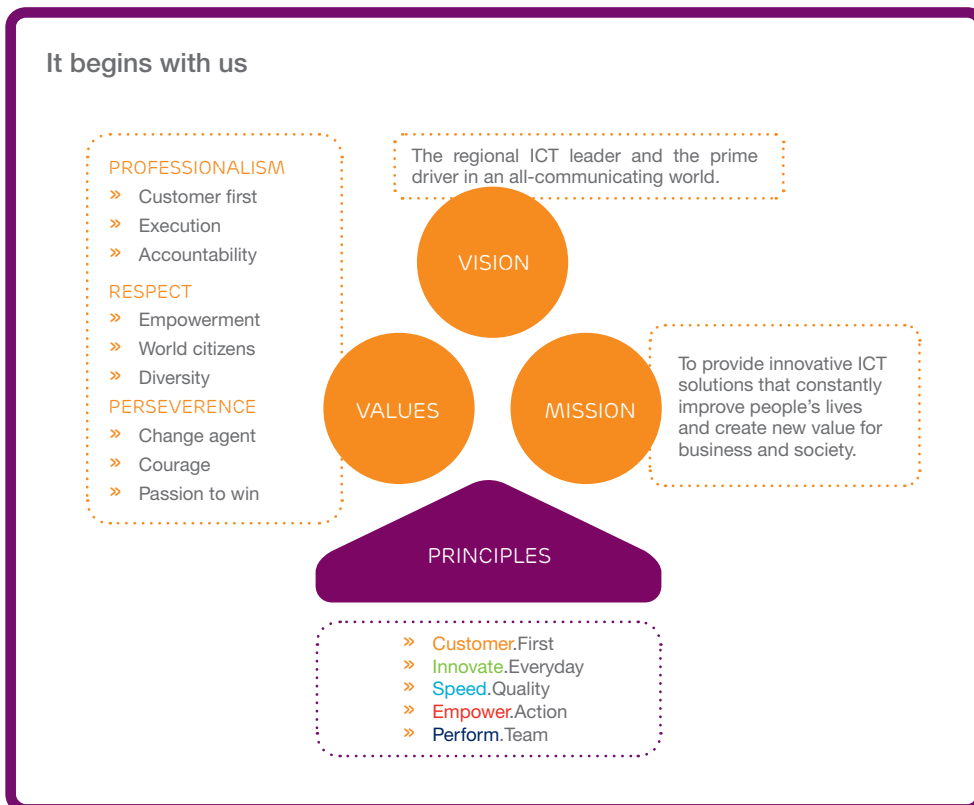
We encourage dialogue, open feedback, consultancy and exchange of opinions, thus contributing to shaping positive changes and initiatives within the community in which we operate.

CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

IT BEGINS WITH US

The ICT industry has a positive impact on society from economic, social and environmental aspects. Ericsson Nikola Tesla's partnership with customers, operational excellence and technological leadership make a solid foundation for sustainable development and successful business. It makes it possible for the Company to realize its vision as a regional ICT leader. Ericsson seeks to be the prime driver in an all-communicating world, and to set the course of the communications development.

Ericsson Nikola Tesla seeks to lead the way in making positive changes in the society in which it operates. The Company creates added value; it has been permanently undergoing business transformation and has been constantly looking for new business opportunities aimed at a long-term growth. The Company's competitiveness stems from a permanent improvement based on innovative ideas, its human resources, corporate culture, its way of working and governance. The Company's way of working includes a robust corporate culture.



To realize our vision and complete our mission, uniform principles of work and Company values have to be used on a daily basis. Employees have to be permanently in the forefront of developing new products and solutions, and proactively engaged in the improvement of cooperation with customers, partners and other stakeholders. By design and offering of sustainable solutions that have a positive impact on the environment, Ericsson Nikola Tesla is providing its customers, partners and society at large with quality prerequisites for their growth and prosperity. Here at Ericsson Nikola Tesla we apply three core Corporate values: professionalism, perseverance and respect. The Company's messages and results should reach ordinary citizens to empower them to benefit from modern technology. By generating added value for our customers and end users, Ericsson Nikola Tesla wants to be recognized as an innovative partner offering products, solutions and services that have a global impact on people, businesses and society.

BUSINESS STRATEGY

Ericsson Nikola Tesla's business strategy is focused on design of new innovative ICT solutions, which will improve people's lives by creating new values for both business and social community. The strategy also includes the best practices of socially responsible business conduct. Employees are dedicated to the core Corporate values every day, no matter on what or where they work. These values are incorporated in all segments of business as well as in relationships with all other stakeholders.

Ericsson Nikola Tesla aims at:

- » Supply of products, solutions and services which exceed customers' expectations;
- » Application of efficient processes which are in compliance with the Company's strategy and business requirements;
- » Improvement of its products, solutions and services by means of permanent evaluation/review and technical innovations;
- » Building infrastructure essential for social development and improvement of people's lives;
- » Safe environment by use of energy saving products and solutions and eco ICT solutions;
- » Contribution to the GDP growth.

TOTAL QUALITY MANAGEMENT

Ericsson Nikola Tesla maintains a safe and healthy environment, and relies on technology for more efficient use of resources. Ericsson Nikola Tesla is successful in what it is doing owing to the application of the Total Quality Management (TQM). The Company strives to operational excellence in every activity. It implies the achievement of a high level of the organization maturity and process capability. The objective is to reach a high professional level in business conduct at which all key processes are optimally used and improved in all organizational units. Thus the Company meets and even exceeds customers' expectations in a cost effective way.

The implementation of TQM principles provides permanent improvements and involvement of all employees. The key to this goal is an integrated Management System. It is a prerequisite for operational excellence that is contributing to increased customer satisfaction, cost reduction and better competitiveness.

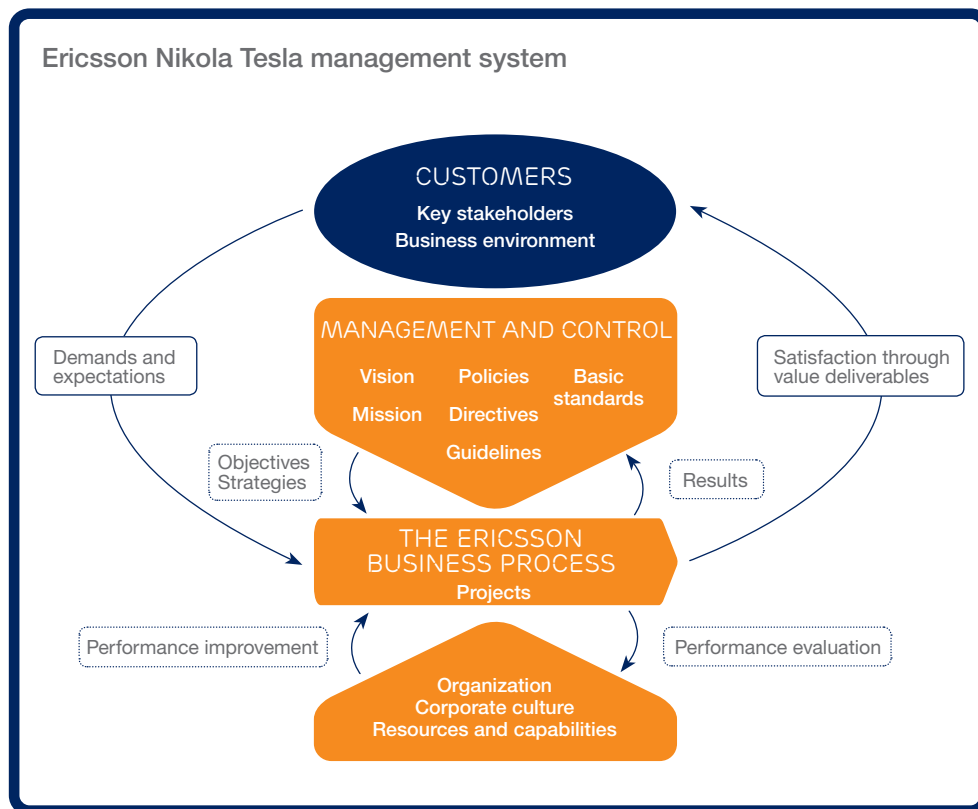
INTEGRATED MANAGEMENT SYSTEM

Management System is a powerful tool for both Company management and employees in their everyday work that can be accessed on the intranet. The system enables the execution of set business goals.

It monitors all Company’s management elements with focus on “flows of values” of a business deal that are defined as a business process.

Ericsson Nikola Tesla Management System is compatible with the Ericsson Group Management System (EGMS), and is based on ISO 9001 standards for Quality Management. However, in today’s complex world of telecommunications, compliance with only one standard is no longer an option. There has to be synergy among various standards, models and methods. The integrated Management System meets the requirements of other ISO Management Systems standards such as the Environmental Management System (ISO 14001), the Occupational Health and Safety Management System (OHSAS 18001), the Information Security Management System (ISO 27001) and the Quality Management System for Medical Devices (ISO 13 485), as well as the requirements of the TL 9000 Quality Management System. In addition, the integrated Management System is an integral part of the Company’s system of internal control. Certain elements of different models and methods such as CMMI (Capability Maturity Model Integration), EFQM (European Foundation for Quality Management) and Six Sigma are also integrated into the Management System.

By means of the integrated Management System, the Company defines functions and responsibilities, organization and other factors that play a significant role in operational excellence and design of high-quality products, solutions and services. The integrated Management System is regularly updated and adapted to organizational and management changes.



CERTIFICATES

Ericsson Nikola Tesla regularly certifies its Management System by using independent notified bodies. At present, the Company holds the following certificates:

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



WORKING ENVIRONMENT

OUR EMPLOYEES

Ericsson Nikola Tesla is a successful Croatian company. As a part of the global Ericsson Group, it operates on the global ICT market. Ericsson Nikola Tesla's most valuable assets are its employees, who are our intellectual capital and make us different from our main competitors. Our employees determine how much faster, better and more successful we will be than other players in the market.

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

One of the strategic goals of Ericsson Nikola Tesla is to become the employer of choice, recognized for its leadership, culture, and best practices that attract, optimize, and hold top talent, achieving Corporate objectives.

To excel in our fast-changing industry, we have set three key principles:

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

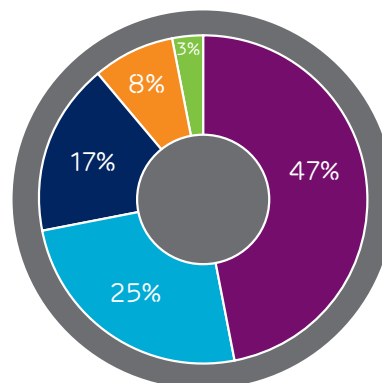
Employee structure:

- » 1,595 employees (as at December 31, 2010);
- » 85 percent of university graduates, the majority of whom are electrical engineers;

**Ericsson Nikola Tesla employees
(according to age) ***



* as at December 31, 2010



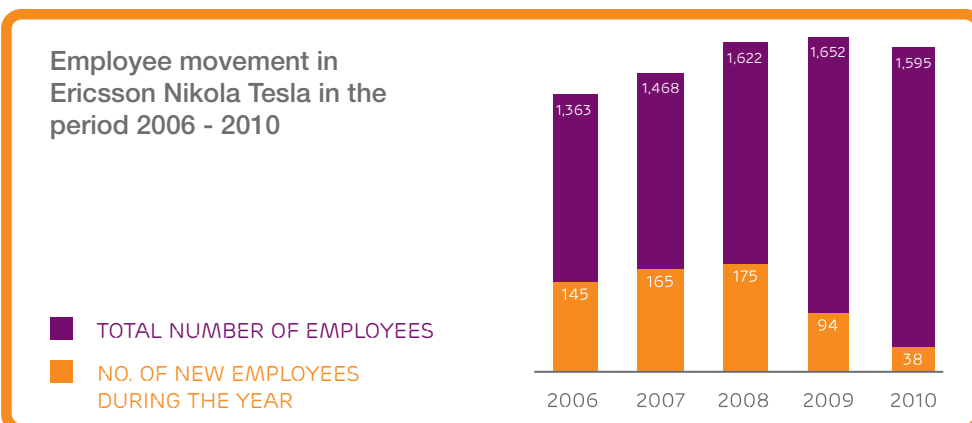
- » 8 percent of Masters of Science and Doctors of Science;
- » Average employee age is 38;
- » 597 employees (37 percent) are younger than 32;
- » Average employment duration is 12 years;
- » 26 percent of employees have two or less years of working experience in the Company;
- » Gender ratio (male vs. female): 74 percent : 26 percent;
- » Average manager age is 43;
- » 19 percent of managers are women.

EMPLOYEE TURNOVER

Over the period of the last five years, 617 new employees, the majority of whom are electrical engineers, have been hired in our organizational units in Zagreb and Split. The incentive being new responsibilities that the Ericsson organization gave the Company in the field of research and development, service delivery center, and other expert centers that have been established in the meantime. On the one hand, hiring new people is a strength because they bring knowledge, new ideas and enthusiasm. On the other hand, there is a risk of increased turnover, since young people are more prone to change jobs.

INVESTMENT IN COMPETENCE DEVELOPMENT

Ericsson Nikola Tesla has been constantly taking care that its employees acquire new knowledge, competences and skills. It is done in a close cooperation with Ericsson Academy that is providing education to all Ericsson's employees. Quite often our employees participate in regional projects and thus acquire new competences.



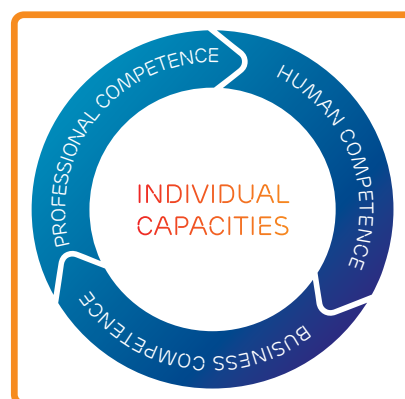


Knowledge is acquired at training courses organized in the Company and/or in training centers in the country or abroad, by e-learning, by proprietary software tool for exchange of expert knowledge, at seminars and conferences, by participation in international projects, etc.

In 2010, employees attended the following training programs:

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

WE INVEST
IN PEOPLE
AND THEIR
COMPETENCES



WORKING ENVIRONMENT

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

- » Attractive jobs and clearly defined roles for every employee in the fulfillment of common objectives;
- » Opportunities for lifelong learning and development, equal development and working conditions for all employees;
- » Recognition of individuals and teams who contribute to the Company results the most;
- » Performance-based salary system accompanied by various incentive reward schemes;
- » Stimulative working environment, modern workplaces and tools;
- » Flexible working hours;
- » Care of employees' health and high health care standards;
- » Support to young parents by organizing day care centers in the immediate vicinity of the Company;
- » Recreation and socializing in sports, cultural and other clubs.

MONITORING EMPLOYEE SATISFACTION

Employee satisfaction is monitored by means of the Dialog survey, which is conducted once a year. The survey is as an important tool for monitoring employees' satisfaction and getting employees' opinion about various segments of organizational and business issues. Employees and their managers jointly propose changes and improvements of all segments of work.

In 2010 employees' participation was very high (94 percent), which provides a good sample for results analysis and further improvements. The results from 2010, just like from previous years, are the level of excellence. Areas that remain in focus are the Company capability to adapt to changes, operational excellence and permanent competence development.

Employee satisfaction indicators for 2010:

- » **Future Capital Index (FCI)** was introduced last year for better understanding and constant adaptation to changes. The Index is important for the Company's future since it reflects the Company's capability to successfully adapt to changes by means of operational excellence, innovativeness in all business processes and permanent work with talented individuals. The Index has remained at the last year level (77 percent).
- » **Human Capital Index (HCI)** is 2 percent higher than in the previous survey (79 percent), which is putting the Company at the level of excellence. Within the Human Capital Index, the employee satisfaction indicator has the largest growth in comparison to the last year. It addresses the group of questions related to learning, perception of employee's own skills and competence, and continuous transfer of employees' knowledge and experience to others. For Ericsson Nikola Tesla as the company of knowledge aimed at innovations, the growth trend of this indicator is an additional sign that we are ready for future challenges.



- » **Motivation Index** shows that in our Company 73 percent of employees are motivated, those committed to and satisfied with their jobs.
- » **Leadership Index** is 1 percent higher than the last year and it is now 84 percent.
- » **“It begins with us”** is a new index. It was introduced to measure a degree of integration of a new Ericsson way of working into everyday life and work of each employee. The Index value is 84 percent and witnesses a very high degree of acceptance of a new way of working by our employees.

HEALTH AND SAFETY AT WORK

Ericsson Nikola Tesla systematically takes care of its employees' health and improvement of their working conditions. Among numerous actions taken in 2010, we highlight the most important ones:

- » **Implementation of health and safety at work management system**

Monitored indicators are the number of injuries at work, preventive and corrective measures defined in accordance with danger assessment, direct monitoring and measures proposed at regular meetings of the Health and Safety at Work Committee. In 2010 four meetings took place. In 2010 not a single injury occurred on the Company premises. Eight injuries occurred while arriving to or leaving from work.
- » **Regular medical checkups**

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

Day-to-day cooperation between the occupational medicine specialist and occupational safety experts positively affects health and safety at work and increases employees' satisfaction. Workplace injury and disease risk assessment study has been developed, including risks at workplaces where employees are working on personal computers. The study also includes corrective measures for areas where there is space for improvement that will contribute to health preservation and health and safety at work.
- » **Recreational activities**

Various sports and recreational programs intended for and adapted to needs of employees have been taking place on the Company premises for eight years in a row. In addition, the Company supports numerous employees' sports and recreational activities outside the Company premises.
- » **Education and training of employees**

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

MARKET RELATIONS

Ericsson Nikola Tesla permanently improves relations with its customers, suppliers, partners and related stakeholders, and respects its competitors. In doing so, the Company follows its core values – professionalism, respect and perseverance. In particular, it means that the Company requires from all its employees and stakeholders (such as suppliers and their subcontractors) to act in line with the provisions of the Code of Conduct and the Code of Business Ethics.

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

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

The Company continuously enhances its relations with different customers in the domestic and foreign markets we operate in. We adjust to meet the customer's needs, offer innovative solutions for their business growth, thus fostering partnerships and building mutual trust. Our ways of working with our customers are validated through a Customer Satisfaction Survey, on an annual basis.

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



CODE OF BUSINESS ETHICS

No employee should be discriminated against because of e.g. race, color, sex, sexual orientation, marital status, pregnancy, parental status, religion, political opinion, nationality, ethnic background, social origin, social status, disability, age or union membership.



CORPORATE GOVERNANCE

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

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

MANAGEMENT BOARD

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

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

SUPERVISORY BOARD

The basic role of the Supervisory Board is to supervise the Management Board's business conduct. While doing so, the Supervisory Board has to uphold high ethical standards and look after the best interests of the Company and its shareholders. The Supervisory Board has five members elected to a four-year term with the possibility of re-election. The Supervisory Board submits reports about its supervision of business conduct, and gives its opinion about proposal for allocation of profit and makes proposals on whom to appoint as the Company auditor at the Annual Meeting of Shareholders. According to the decision made by the Annual Meeting of Shareholders, members of the Supervisory Board are remunerated on a monthly basis in the amount of a half of Company employee's average gross salary. Ericsson representatives renounced the remuneration in accordance with the Corporate policy.

In 2010, Ericsson Nikola Tesla's Supervisory Board held four regular and two extraordinary meetings. At these meetings, financial performance, the situation in domestic and export markets, market conditions and ICT industry trends as well as business plans and strategic projects, business risks, internal audit results and human resources issues were discussed. In addition, the Supervisory Board monitored business development and responsibilities of the Research and Development Center, the Service Delivery Center and Business Ericsson Test Environment.

At the extraordinary Supervisory Board meetings, payment of dividend and write-off of the Kazakhstan receivables were discussed.

The Supervisory Board examined and supported the Company business strategy for the period 2011–2015 and focus areas and strategic programs needed for future growth of the business.

The Company management identified key objectives for 2011 with clearly defined activities and measurement methods, which were also approved by the Supervisory Board.

In 2010, the Supervisory Board membership changed. Dubravko Radošević, scientific associate at the Institute of Economics in Zagreb was appointed as a new member of Ericsson Nikola Tesla's Supervisory Board by the Annual Meeting of Shareholders held on May 20, 2010.

AUDIT COMMITTEE

In order to effectively fulfill its obligations related to the supervision of the Company's business, including annual financial statements, the Supervisory Board established the Audit Committee in June 2006.

In 2010, the Audit Committee held five meetings to discuss financial performance during the year and annual financial statements, the 2010 audit plan, internal control and risk management systems and attended to any other business defined by the Audit Act. The Audit Committee regularly reported on its conclusions and recommendations to other members of the Supervisory Board. At the date this report was issued, the members of the Audit Committee were Ignac Lovrek, Chairman, and Carita Jönsson, member.

ANNUAL MEETING OF SHAREHOLDERS

Company shareholders exercise their rights during the Annual Meeting of Shareholders. The Annual Meeting of Shareholders makes decisions about allocation of profit, changes/amendments of the Company Statute and appointment or suspension of members of the Supervisory Board. The Annual Meeting of Shareholders evaluates performance of the Management Board and Supervisory Board, makes a decision to hire an independent auditor to perform the audit of the annual financial statements and attends to any other business in accordance with the law or the Company Statute.

>> TAKING CARE OF SHAREHOLDERS' INTERESTS

>> TIMELY AND OBJECTIVELY INFORMING THE COMMUNITY

>> COOPERATION AND COMMUNICATION

>> APPLYING CORPORATE GOVERNANCE PRINCIPLES

>> NURTURING A POSITIVE IMAGE THROUGH THE CODE OF ETHICS





ENVIRONMENTAL PROTECTION

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

Regular and systematic checks of both internal and external system functionality are carried out in order to retain the acquired ISO 14001 Certificate.

The Company's approach to environmental protection has been verified through various questionnaires by institutions specialized in sustainability research.

DEVELOPING PRODUCTS AND SERVICES TO IMPROVE QUALITY OF LIFE

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

IMPLEMENTING REGULATIONS AND NORMS

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

WASTE MANAGEMENT

A total and systematic education on all types of waste that may be produced in the location has been carried out. The rulebook on electric and electronic waste regulates the commitment of producers and direct importers to report their business to the Environment Protection Fund and to pay the corresponding fee for imported and produced equipment, respectively, on a kilogram basis.

The Company meets not only commitments regulated by the given rulebook, but also implements electronic waste management in the location, and in line with requirements by some customers, also takes care of their electronic equipment waste management.

Furthermore, the Company has organized collection, selection and ecological management of paper, glass, plastic and wooden waste, cables, batteries, toners, fluorescent tubes and communal waste.

SYSTEMATICALLY OPTIMIZING AND REDUCING ENERGY CONSUMPTION

By implementing a central monitoring system for consumption of all energy sources, the preconditions for quality management and maintenance of the energy installation system were established and resulted in a reduction of energy consumption (water and steam) and in the optimization of all quality parameters of electric energy consumption. Increased electric energy consumption follows the trend of enlarged capacity, new tools and new working areas. By monitoring the entire pipe system, repair work was conducted timely and unnecessary loss of water was eliminated.

RELATIONS WITH SUPPLIERS

Impacts on the environment can be efficiently managed if the total supply chain is considered. The supply chain impact on the environment has been continually verified through assessment and audit of suppliers.

Ericsson issued a Code of Conduct for its suppliers covering requirements on basic human rights, standards of work, and environmental management and prevention of corruption in the work place. The requirements to suppliers with regard to the environment are as follows: to have an environmental management system, environmental and production friendly product design, to provide details of product material contents and transportation. Suppliers are informed of the list of harmful materials and materials that are limited or banned for usage, and must prove that such materials are not contained in their products.

E-APPLICATIONS

The Company's engagement in the high technology segment, and its leading role in research activities as well as in information and communications technologies, was the main reason for implementation of e-applications in our business process. Thus, we do not only promote information and communications technology, which is a must for competitiveness for all economic sectors and subjects, but we considerably improve and speed up business processes, save resources, time and money.

When it is about business trips, we have implemented smart solutions that save money and reduce CO₂ emission, especially by using virtual solutions like videoconferencing.

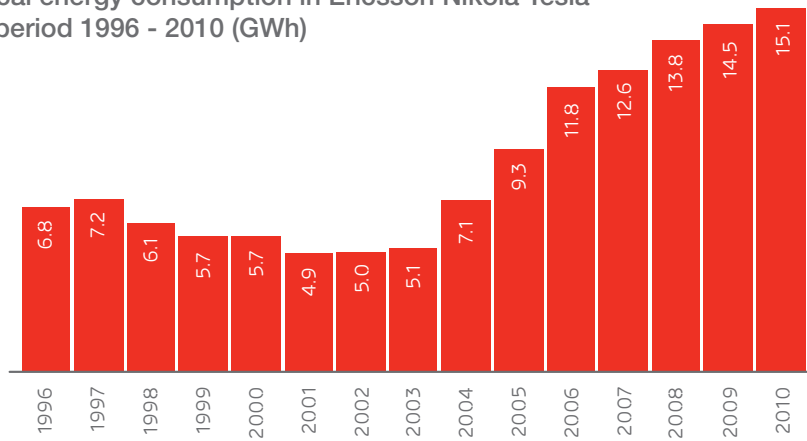
We strive to reduce the impact on the environment and apply remote delivery of particular services (in network design, optimization, integration and upgrade). By implementing such a way of working, the need for traveling is reduced. Furthermore, we use intelligent tools for cooperation, thus providing the same level of customer satisfaction, regardless of remote delivery.

Total quantity of waste produced at Ericsson Nikola Tesla in 2009 and 2010

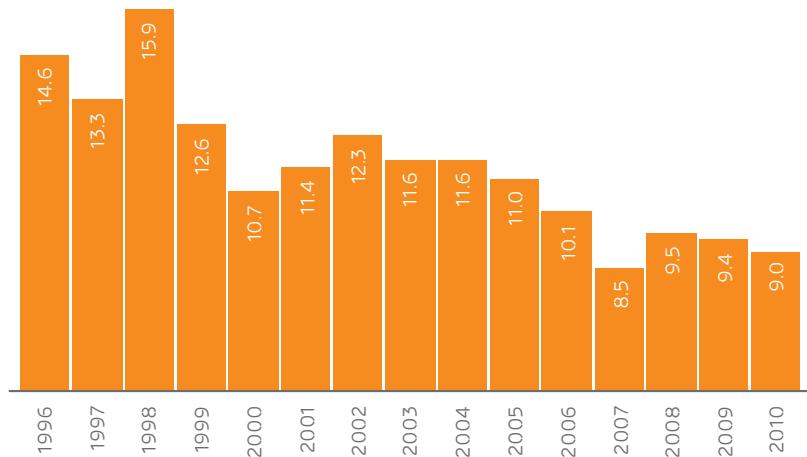
Waste name	2009 (in tonnes)	2010 (in tonnes)	INDEX 2010/2009
Used up activated charcoal	0.39	0.00	-
Waste printing toners	0.91	0.36	40
Packing	158.20	122.28	77
Castaway equipment – electronic waste	14.83	19.66	133
Various storage batteries	1.54	0.88	57
Glass	3.04	1.65	54
Aluminum	0.02	0.00	-
Iron and steel	50.07	32.07	64
Cable conductors	0.00	0.22	-
Fluorescent tubes	0.43	0.20	47
Small-size batteries	0.23	0.25	109
TOTAL	229.66	177.57	77



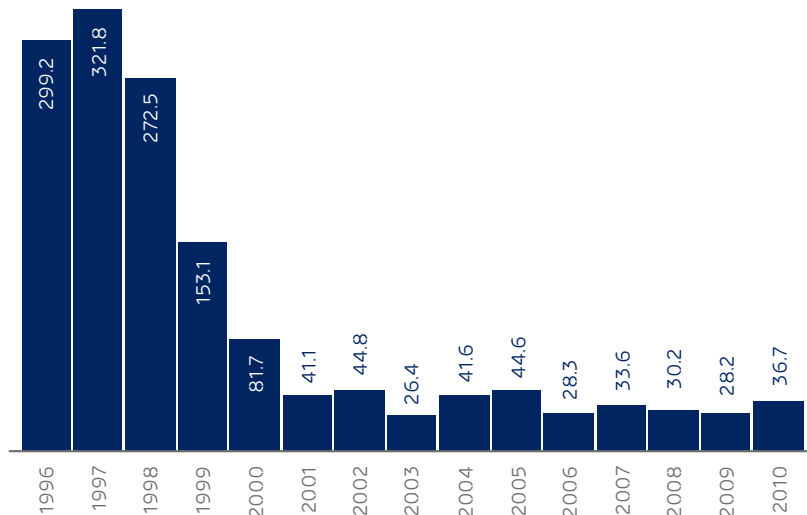
Electrical energy consumption in Ericsson Nikola Tesla in the period 1996 - 2010 (GWh)



Steam consumption (heating) in Ericsson Nikola Tesla in the period 1996 - 2010 (in '000 tonnes)



Fresh water consumption in Ericsson Nikola Tesla in the period 1996 - 2010 (in '000 m³)

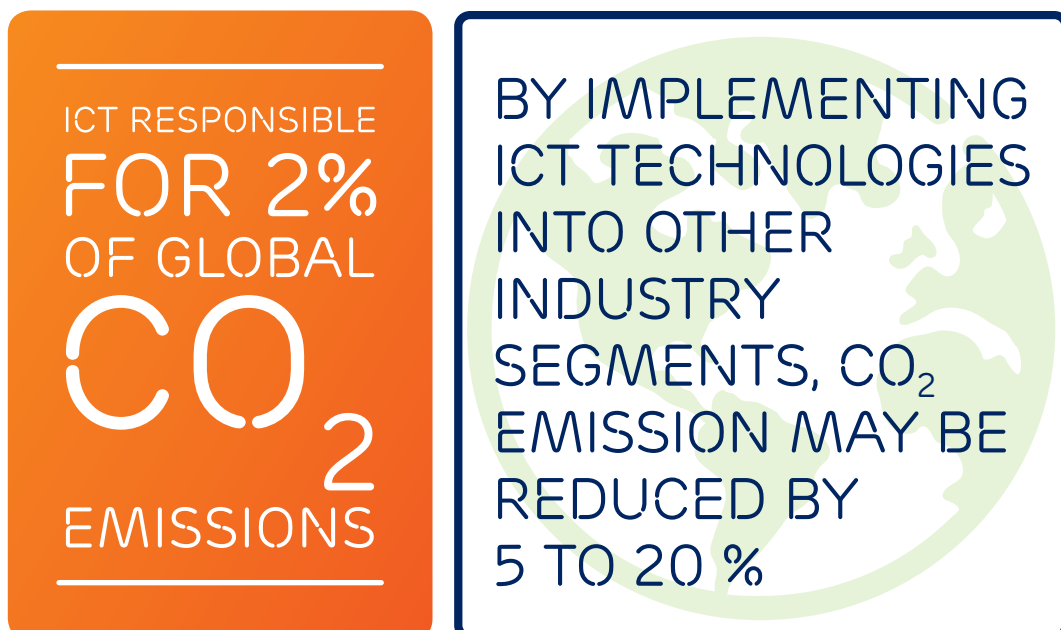


EDUCATION IN ENVIRONMENTAL PROTECTION

Environmental protection specialists, as a part of the team in charge of business excellence and quality in Ericsson Nikola Tesla, contribute to improvement of business processes within the organization.

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

Through cooperation with stakeholders, such as 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

Ericsson Nikola Tesla has always been aware of both its financial and social responsibilities, especially concerning the community. With its proactive approach in recognizing needs, support and partnership development with the community, the Company strives in coordinating its programs with international best practices. Its strategy of corporate social responsibility as well as sponsorship and donation policy, are very helpful in priority setting as well as in defining the tools and methods for recognizing and realizing socially beneficial projects. With regard to our strategic orientation that is focused on up-to-date technology, we prioritize projects in which our products, solutions, services and technology, as well as exchange of knowledge and information are playing a key role. The Company always tries not only to finance the project, but offers its resources, technology, competences, skills and time, thus enhancing the community in which it operates.

In 2010, the Company realized valuable educational, health care, cultural, sports, humanitarian and similar socially beneficial projects, such as:

- » Sponsorship and participation in various scientific and professional conferences;
- » Expanding scientific, research, development and educational cooperation with the Faculty of Electrical Engineering and Computing of the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture of the University of Split;
- » Continuation of financing the project on the scientific development of a junior researcher not included in the Ministry of Science, Education and Sports financing quota;
- » Support to the National Foundation for the Support of Pupil and Student's Standard;
- » A large number of wet wall dryers and aggregates were provided for areas hit by floods and similar natural disasters, accompanied by power supply shortages. The equipment was offered to the Croatian Red Cross;
- » Volunteering and socially beneficial work for employees in Finance unit who participated in clean up of green area around Jarun lake, extending assistance with decorating of Trešnjevka retirement and nursing home as well as extending help to socially handicapped citizens in Zagreb;
- » Employees continuously participate in voluntary blood donations organized in the Company's premises.



HELPING THE
COMMUNITY

OUR PROGRAMS
ARE HARMONIZED
WITH THE BEST
INTERNATIONAL
PRACTICE

AWARDS AND RECOGNITIONS IN 2010

- » Gordana Kovačević, President of Ericsson Nikola Tesla, was appointed a member of the Economic Council to Ivo Josipović, President of the Republic of Croatia.
- » Gordana Kovačević was granted the European **LeaderSHE Award 2010** by Forum Invest, Vienna. Owing to her exceptional business results and her ability to initiate change and to inspire, she was recognized as one of the region's most successful entrepreneurs. The award was given at the LEADER SHE International Forum – The Creative Management of Change, organized in Vienna.
- » Kapital Network, a business news channel awarded Ericsson Nikola Tesla for social responsibility.
- » The International organization Superbrands chose Ericsson Nikola Tesla, one of the leading brands in Croatia, as the **Superbrands Croatia 2010**.
- » The Croatian Public Relations Association awarded Ericsson Nikola Tesla the annual **Grand PRix 2010** in the large company category for Ericsson Nikola Tesla's 60th anniversary project.
- » The Zagreb Stock Exchange and newspaper *Poslovni dnevnik* awarded Ericsson Nikola Tesla for the best relations with investors.
- » At the Vidi e-novation competition, Ericsson Nikola Tesla was awarded **Golden Tesla's Egg** for its innovative Ericsson Mobile Health product.



Grand PRix 2010 for
public relations



LeaderSHE Award 2010



Award for social
responsibility



Award for the best
relations with investors



Golden Tesla's Egg

