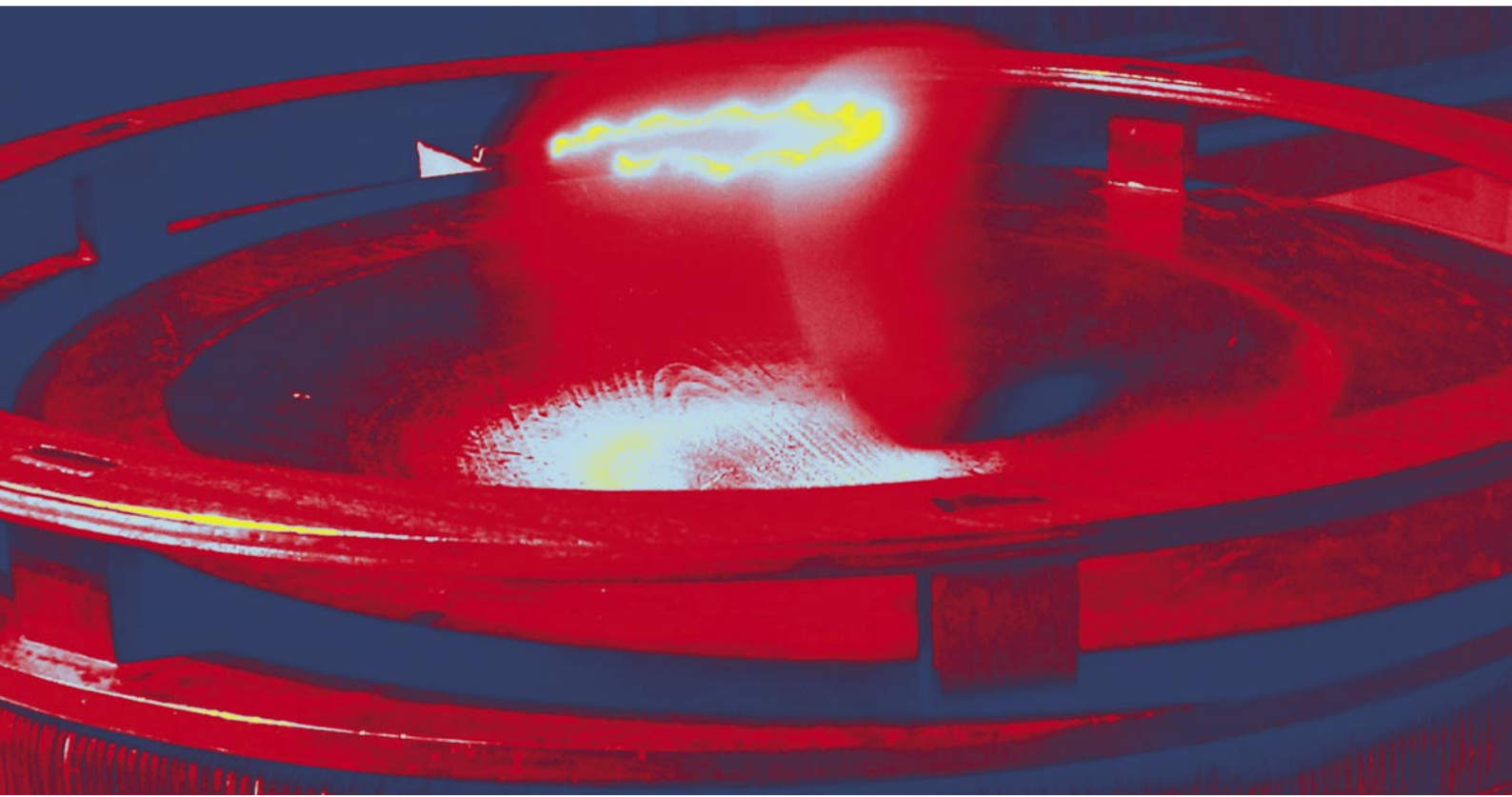


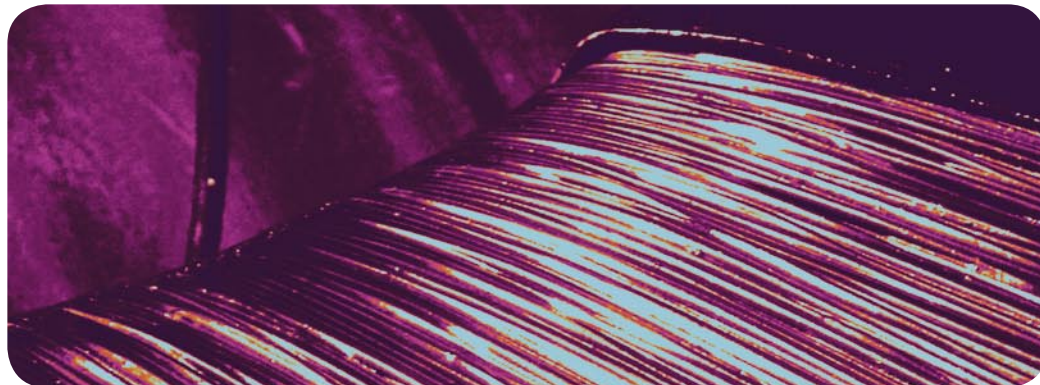
Our values



*Rotating magnetic field,
Tesla's Egg of Columbus,
at the 1893 World's
Columbian Exposition*

STRATEGY AND OBJECTIVES

Stator winding



Because today's market is dynamic and technologies rapidly change, sustainable long-term strategy is questionable; on the other hand this could be the very same reason why modern global business strategies are more important than ever before.

In order to maintain its outstanding performance Ericsson Nikola Tesla revised its objectives and strategies and defined them anew for the forthcoming three-year period. In doing so, key factors for strategy implementation and fulfillment of company objectives were taken into account including: leadership principles for the 21st century, the exchange of knowledge and competence development combined with the coordinated activities of management and staff. These objectives are based on facts about the current situations in all of the company's markets, trends in the information and communications industries and anticipated future movements. Because of the dynamism of this industry, the changing market situation and the rapid development of new technologies, company objectives and strategies are continuously revised and adjusted to meet the challenges of this business environment. Since the company is a member of the global Ericsson Group, its strategies, objectives and their realization are in accordance with the corporate strategy and business processes of Ericsson.

Ericsson Nikola Tesla operates in markets characterized by growing sales in mobile solutions and services, and broadband wireless access will enable 3G technologies to hit full swing

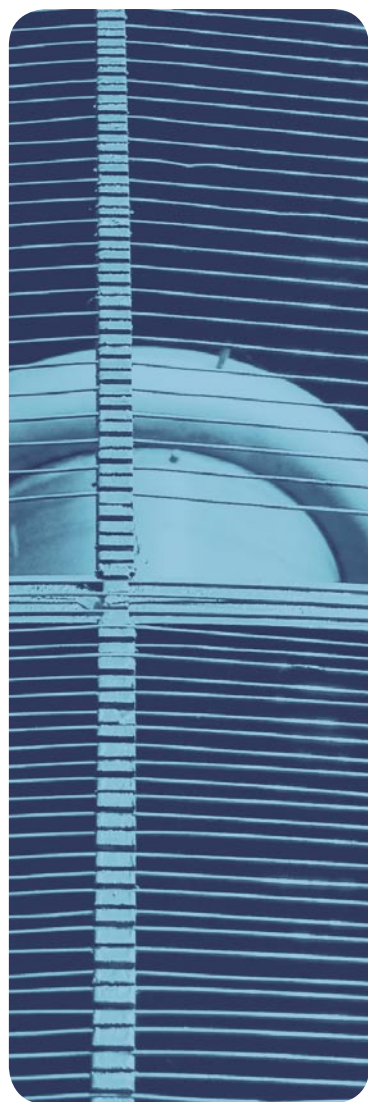
Ericsson Nikola Tesla operates in markets characterized by growing sales in mobile solutions and services. Also broadband wireless access will enable 3G technologies to hit full swing. In fixed telephony a number of company markets are involved in the processes of liberalization and deregulation and many operators that Ericsson Nikola Tesla cooperates with are going through restructuring processes that slow down sales in the telecom area. New generation networks and broadband access will provide the foundation for future business activities here as well. The enterprise systems are dominated by modern solutions based on Internet protocol. The overall trend is service growth, especially in professional, network management and network maintenance services. Low prices, new competitors in the market, and companies operating in the field of information technology give rise to vigorous competition.

Using clearly defined and transparent operations, constructive communications and a good remuneration system, Ericsson Nikola Tesla will endeavor to achieve EFQM business excellence

Keeping the above-mentioned in mind, Ericsson Nikola Tesla set the following comprehensive objectives for the period until 2008:

- to strengthen its position in all markets, Croatia in particular, by improving partnerships with our existing customers and by establishing relationships with new customers based on our offer of cutting-edge ICT solutions and technologies;
- to achieve an increase of export to the internal Ericsson market and to the markets of Central and Eastern Europe, Middle East and Africa;
- to actively search for and to utilize every business opportunity, including those outside the company's core business, providing the company has the competence and resources to handle them;
- to operate as a strong research and development center with global responsibilities within the Ericsson Group;
- to secure the quality and growth of service sales, in addition to the activities of the Global Services Delivery Center;
- to further develop and improve its position as the leading competence center for total communication solutions
- to maintain its standing as a top employer and a socially responsible company.

To achieve these objectives, the company will focus on business development related to UMTS, mobile and fixed broadband transmission, converging networks, multimedia subsystems based on Internet protocol (IMS), system integration, WiMAX and other new technologies as well as modern enterprise system solutions, especially for large, state-run systems (e-government). Employee competence development is included in this strategic planning as a major competitive advantage. Using clearly defined and transparent operations, constructive communications and a good remuneration system, Ericsson Nikola Tesla strives to achieve EFQM business excellence.



Teslas' transformer, a detail

INTELLECTUAL CAPITAL

Intellectual capital is vital for companies such as Ericsson Nikola Tesla that are oriented to «brainware» production.

One of the strategic goals of our company is to be the best employer in the country, so much attention is paid to human resource planning, i.e. recruiting and retaining experts capable of facing complex challenges in the new world of telecommunications. Due to broad responsibilities obtained within the Ericsson Group over the last couple of years, the company took on many new employees. In the last two years Ericsson Nikola Tesla has employed 340 young associates, most of whom are electrical engineers. In 2005 alone, 230 new associates were employed.

Employee structure:

- **1281** employees (as of December 31, 2005), **85%** of which are college educated, the majority being electrical engineers
- **8%** have a master's or doctor's degree
- **180** employees attending postgraduate studies
- **530** employees under the age of 32
- Average age: **39**
- Gender ratio (male vs. female): **72% : 28%**

Work methods:

- Innovative approaches, willingness to accept change
- Quick and urgent creativity
- Customer success focus
- Teamwork that results in new gains
- Developed managerial skills
- Efficient internal communication
- Social partnership

Important aspects of employee motivation:

- Appealing job positions and distinctive role in accomplishing common goals
- Life-long learning and development
- Equal working conditions and development opportunities for all employees
- A result-oriented salary system
- A stimulating work environment
- Modern workplaces and work tools
- Flexible working hours
- An efficient internal communication system
- High standards of occupational health and safety
- Recreational, sports and cultural activities

Various aspects of employee satisfaction are monitored through the Dialog survey, which is conducted in all Ericsson companies. The 2005 Dialog survey included a high response rate and indicated high employee satisfaction.



The company yard

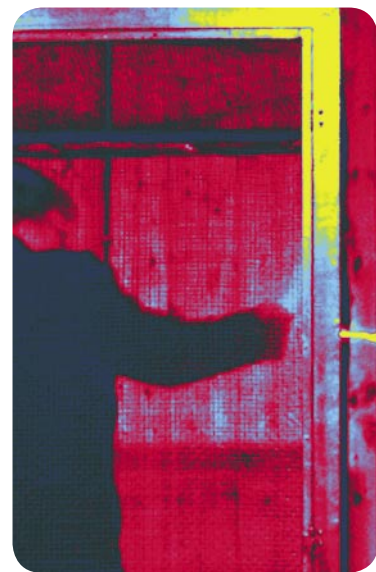
SOCIAL RESPONSIBILITY

Our corporate philosophy recognizes that our customers, employees, shareholders and other stakeholders are paramount. Environmental management and sustainable development are of equal importance because they must meet the needs and expectations of present and future generations. Pursuant to this philosophy, Ericsson Nikola Tesla desires to maintain its leading position as a socially responsible company.

In 2005 Ericsson Nikola Tesla confirmed its commitment to sustainable development by ensuring stable, long-term social and economical stability and further development of the community. Examples are:

- In Croatia and in other countries of its operations, the company contributes to public awareness and sustainable growth by developing, manufacturing and offering products and services that improve quality of life and productivity while enabling better utilization of natural resources.
- Ericsson's products are not hazardous to human health – tests performed by renowned world health organizations have confirmed this fact.
- The company strives to operate in accordance with the concept of Total Quality Management (TQM) by using the EFQM business excellence model.
- An aspect of our operations is the promotion and implementation of new information and communications technologies as they are prerequisites for a quicker development of our national economy and society, and for the integration of Croatia into the European Union.
- Ericsson Nikola Tesla adopted corporate governance principles that are in tune with international trend and good practice measures.
- By disseminating experience and knowledge and by employing young, creative college-educated staff, the company encourages quicker national economic development.
- Ericsson Nikola Tesla manages employees' health and systematically improves working conditions.
- The company also distributes part of its funds to charity and sponsorships, thus supporting educational, scientific, cultural, sports, humanitarian and other socially beneficial projects.
- Ericsson Nikola Tesla is one of the founding members of the Croatian Business Council for Sustainable Development (HR PSOR).

The Faraday cage



The commitment to sustainable development by ensuring stable, long-term social and economical stability and further development of the community is an integral part of the company's social responsibility

CORPORATE GOVERNANCE PRINCIPLES

Corporate governance is the framework for conducting and monitoring company business and it strives to create long-term economic gain for company shareholders.

The managing director and the supervisory board of Ericsson Nikola Tesla support corporate governance principles in order to secure the protection of shareholders' rights and equality, business transparency and responsibility towards every stakeholder. Ericsson Nikola Tesla pays great attention to timely and objectively informing the community about its activities and achieved business results. It also fosters a positive image of being a company that has adopted the Business Ethics Code.

The corporate governance principles adopted by the joint stock company Ericsson Nikola Tesla define the rights and obligations of the managing director, the supervisory board and shareholders. The role of the managing director in conducting company business is defined by the Croatian Company Law, the charter of the joint stock company Ericsson Nikola Tesla and its internal by-laws. The managing director is obliged to perform his or her duties conscientiously, while looking after the best interests of the company and its shareholders.

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

Financial compensation of the managing director depends on the performance of the company and is determined by the supervisory board.

The task of the supervisory board is to supervise the managing director's business conduct. In 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 mandate with the possibility of re-election.

Tesla's first invention: a telephone repeater. It was never patented, but found an immediate use in a government telegraph engineering office in Budapest



The polyphase generator

The managing director and the supervisory board of Ericsson Nikola Tesla support corporate governance principles in order to secure the protection of shareholders' rights and equality, business transparency and responsibility towards every stakeholder

The supervisory board reports to the general shareholders' meeting on the supervision conducted, expresses its views of the managing director's proposals on profit allocation, and makes proposals to the general assembly on whom to appoint as the company auditor. During 2005, the supervisory board of Ericsson Nikola Tesla held three meetings in which they discussed financial performance, the positions of the company in domestic and export markets, business plans and issues relevant to employees and shareholders. The supervisory board also reviewed and upheld the company's business strategy for 2006-2008.

Company shareholders exercise their rights at the annual shareholders' meeting. The shareholders assembly makes decisions regarding profit allocation, charter amending and the election and mandate completion of supervisory board members. Furthermore, the general assembly approves the work of the managing director, supervisory board and the annual financial statements, decides on the matter of appointing an independent auditor, and on other issues explicitly determined by the company charter and Croatian Company Law. During the general assembly the managing director is available for any questions shareholders might have regarding company operations.