



SOCIAL REPORT 2008
Ericsson Nikola Tesla d.d.

ERICSSON NIKOLA TESLA – A SOCIALLY RESPONSIBLE COMPANY

Ericsson Nikola Tesla, as a part of the global Ericsson group, equally participates in developing new communications trends around the world along with other Ericsson companies, and stands as an example of a socially responsible company in Croatia as well as in other countries in which it operates.

Led by principles of responsibility in all segments of its operations and towards all of its stakeholders, Ericsson Nikola Tesla believes that social responsibility aids the company in developing its reputation, strengthening competitiveness and ensuring motivation and employee satisfaction, as well as acceptance on behalf of the wider community, and in the long-run it enables the company's business to develop quicker. In this regard, we always emphasize that along with financial responsibility, companies must be highly aware of their responsibility towards the community and sustainable development.

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 Ethics, Ericsson's Suppliers Code and the Environmental Management Policy - based on international documents. The aforementioned policies are integral parts of the Company's management system and are applied equally to the Company and its suppliers. We have herein described a few noteworthy projects and activities in 2008.

We would like to point out that in 2008 we completed the Corporate Social Responsibility Index (CSR) project which took several years and in which specialists from the Croatian Chamber of Economy (HGK) and the Croatian Business Council for Sustainable Development (HR PSOR) participated along with representatives from Ericsson Nikola Tesla. This is one of the largest projects in Croatia based on corporate responsibility, and the fact that the Croatian Government incorporated it into its Anti-corruption Strategy is a proof of its great significance. Towards the end of 2008, the Croatian Chamber of Economy and the Croatian Business Council for Sustainable Development dealt awards to the best Croatian companies in the area of corporate social responsibility. Along with Ericsson Nikola Tesla, six other companies accepted the award.

Ericsson Nikola Tesla's greatest contribution towards realizing Corporate Social Responsibility Index project was 'donating' their specialists' knowledge in project managing and developing software applications – questionnaires. The questionnaire created may be used in other companies as a tool for learning what corporate responsibility is, what areas it encompasses and how they themselves can improve their business processes and company reputation, as well as how to recognize business risks and weaken their impacts.

Ericsson Nikola Tesla actively participates in the activities of the Technical Board 552 during preparations for the future ISO 26000 norm, which will contain guidelines for the coherent, systematic and common implementation of social responsibility.





KEY STAKEHOLDERS

Ericsson Nikola Tesla's operations focus on 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. By means of two-way partnerships, 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	<ul style="list-style-type: none"> ▷ Professionalism ▷ Partnership in finding the best solutions ▷ Innovativeness in the provision of total ICT solutions ▷ Monitoring of customer satisfaction
Employees	<ul style="list-style-type: none"> ▷ 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	<ul style="list-style-type: none"> ▷ Application of corporate governance principles ▷ Timely and objective information on all important Company activities and business results
Suppliers and partners	<ul style="list-style-type: none"> ▷ Joint improvement and enhancement of the supply chain ▷ Exchange of knowledge ▷ Regular assessment of quality and environment control systems
Trade union	<ul style="list-style-type: none"> ▷ Partnership ▷ Consulting and participatory decision making ▷ Support for TU activities which includes 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 for educational initiatives ▷ Conveying knowledge regarding cutting-edge technologies ▷ Financial aid
Community	<ul style="list-style-type: none"> ▷ Exchange of ideas ▷ Support and cooperation regarding local initiatives ▷ Financial aid

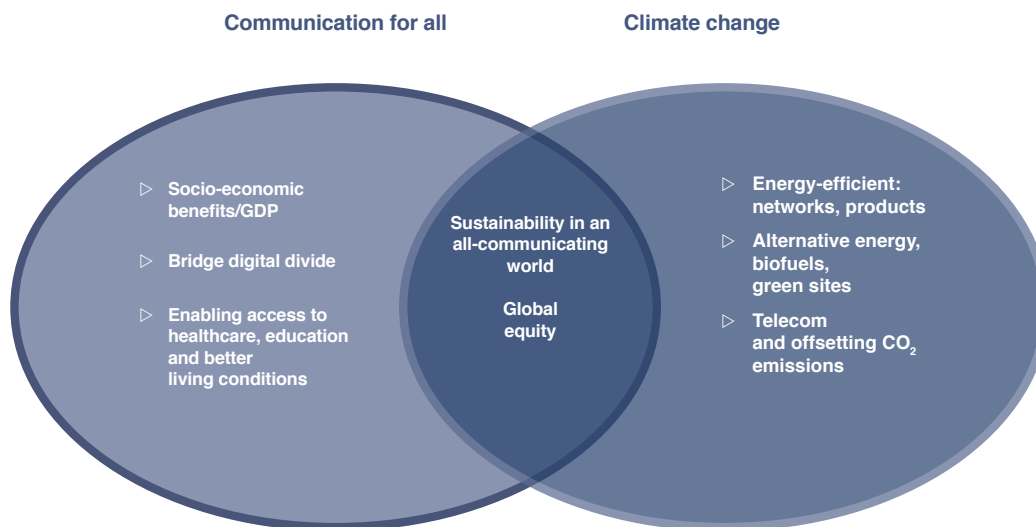



AREAS OF CORPORATE SOCIAL RESPONSIBILITY

Ericsson is one of the leading global corporations in the field of corporate social responsibility. This was recently proven during the World Economic Forum in Davos, in which Ericsson was listed among the world's top 100 corporations in the field of sustainability.

Ericsson's fundamental contribution towards corporate social responsibility at the global level is through the use and enhancement of modern technologies which make communication accessible to all, and minimize harmful effects on climate change by implementing alternative energy sources and rationally utilizing energy sources. Ericsson enhances the socio-economic situation of the more than 175 countries in which it operates - not only by increasing their gross domestic product (GDP) but by increasing quality of life with its solutions, especially in the spheres of education and health care.

Ericsson - creating positive impacts Key focus areas



As a part of the large Ericsson Corporation, Ericsson Nikola Tesla equally participates in developing new global communications trends, along with other members of the powerful global family. Ericsson Nikola Tesla also stands as an example of a socially responsible company in Croatia and the numerous markets in which it operates. In the Corporate organization, Ericsson Nikola Tesla operates within Ericsson's Market Unit Central Europe (MUCE).

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 economic, social and environmental dimensions.

Areas in which the Company expresses its social responsibility are:

- ▷ Economic sustainability
- ▷ Including socially responsible practices into its business strategy
- ▷ Working environment
- ▷ Market relations
- ▷ Environmental protection
- ▷ Community relations.



ECONOMIC SUSTAINABILITY

► The Company's contribution to economic prosperity

Ericsson Nikola Tesla promotes sustainable development because it is a business strategy whose aim is to balance long-term Company growth and competitiveness under changing external conditions with the effects of economic, environmental and social development. Economic sustainability, i.e. financial stability and strategic developments, is monitored in Ericsson Nikola Tesla with the help of the Balanced Scorecard (BSC) and Key Performance Indicators (KPIs).

Ericsson Nikola Tesla has been operating successfully for many years now and, according to its results, it is at the very top of the Croatian economy. During the last decades 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.

► 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 to the economic prosperity of the country from the perspectives of direct and indirect impact. Direct impact is measured by traditional financial indicators which are also shown in this financial report. Indicators of added value from operations, which is distributed among all stakeholders, show that the Company yielded 630.5 million added value from operations in 2008, which is 8% more compared to 2007.

Ericsson Nikola Tesla – added value from operations	2008	2007
	HRK'000	HRK'000
Sales revenue	1,800,059	1,781,486
Other operating income	27,410	23,858
Financial income	61,566	92,771
Total income	1,889,035	1,898,115
Procurement and other operating expenses	-1,185,198	-1,233,147
Amortization and depreciation	-73,283	-83,622
Added value	630,554	581,346
distributed among:		
- Employees	418,381	380,570
- Government (income tax)	7,602	744
- Financial institutions	203	237
- Shareholders	204,368	199,795
	630,554	581,346
Added value increase	8%	

► Recruitment

Ericsson Nikola Tesla is among large Croatian companies and employs more than 1,600 highly-educated specialists. In the last four years alone, the Company recruited more than 700 young experts. With the assumption that each employee has two to three family members, we arrive at the number of 4,800 to 6,400 Croatian citizens whose subsistence is tied to the Company's success.

Ericsson Nikola Tesla is recognized as one of the best employers in Croatia because it offers its employees good working conditions and motivates them to develop their careers while enabling them competitive salaries in comparison to other Croatian companies. With the aim of ensuring quality staff for the future, for the second consecutive year, the Company established a scholarship award program for regular students attending their final years of the Faculty of Electrical Engineering and Computing (FER) at the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FESB) at the University of Split. By awarding young specialists scholarships, Ericsson Nikola Tesla, as a socially responsible company, offers new incentive 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 finance the work and development of areas important for the functioning of society as a whole - including science, education, health and infrastructure development. In 2008 alone, the Company paid a total of MHRK 203.3 into the state budget through various forms of Company and employee contributions and taxes, which is 19% more than compared to 2007.

► 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. In 2008, all trade payables were settled within the contracted period.

► Active role in the community

- ▷ **Promotion and implementation of new information and communications technology** which are preconditions for economic and social development.
- ▷ **Standardizing the business chain** in which all participants must act in the same manner. Thus, trust is formed among all participants in the business process and all involved in the process are provided with the preconditions for conducting rational and efficient business activities.
- ▷ **Sharing knowledge** relating to 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** with which we help shape positive changes and initiatives in society.





BENEFITS OF MODERN COMMUNICATIONS TECHNOLOGIES

The desire to communicate, including communicating from a distance, is a primeval human necessity and thanks to the development of modern technology, telecommunications are becoming an increasingly significant part of everyone's life. On the other hand, the right to a healthy and clean environment is a basic right which affects the enhancement of quality of life and the welfare of current and future generations. This right, along with rational utilization of natural resources and energy sources, is fundamental to sustainable development.

Through well thought-out strategic operational planning and operational excellence in every segment, the Company participates in creating various benefits for all individuals as well as the community.

► **Mobility**

During 2008, the total number of mobile users worldwide reached 4 billion, and more than 220 commercial networks enabled HSPA access for 60 million end users worldwide, with a monthly growth of around 7%. HSPA, the most popular mobile broadband technology, represents the natural evolution of WCDMA/GSM technology and thus experts predict that 71% of all mobile broadband connections will be HSPA based by 2010. Thus users will more frequently be able to access an entire range of appealing broadband services in a mobile manner, not only choosing the place and time which is most convenient to them, but also the device from which they will access such. The benefits of implementing 3G technology is based on small and thin modules, i.e. on the latest generation of Ericsson HSPA chipsets which enable manufacturers to offer very attractive user devices. Furthermore, Ericsson optimizes its own modules for transmitters for various eminent manufacturers. By 2011, already half of the around 200 million transmitters sold annually should have HSPA mobile broadband modules installed. Market analysts predict that portable computers will be the key for productive business, and HSPA has, and will remain to have, a very important role in this process. Along with this, increasingly developed pocket devices for mobile internet create true mobile surfing experiences, and along with this stimulate the use of a range of new services: from entertainment and media, GPS navigation, online play and social activities, to data communication and functions which affect productivity growth.

Last year was marked by the first global LTE (Long-Term Evolution - the next generation standard for mobile networks, 4G) end-to-end call - accomplished with the help of a computer developed by Ericsson Mobile Platforms. LTE provides flawless performance of the most demanding applications such as mobile video contents, blogs, advanced games, multimedia telephony and professional services.

► **Security**

Fast changes are taking place in the LBS (Location Based Services) segment as well. Highly precise location information obtained through the use of GPS (Global Positioning System) functions provides precise positioning. For instance, a security device based on Ericsson platforms has been developed which provides exact positioning and movement monitoring of users in dangerous or emergency situations. A switch on this small device, suited for every purse or pocket, with which the user activates positioning, may also be used to trigger a siren to prevent criminal activity.

For many years now, Ericsson's technology has been present among the 'key in your hand' solutions for emergency assistance (phone number 112). The system comprises all necessary hardware and network components as well as systems and application software. By calling 112, citizens may seek police intervention, ambulances, firefighters, land and sea search and rescue services, as well as other services from the emergency and civil security sector. The high quality and reliability of this communications solution supports the efficient work of all crisis services and ensures quality communication when it is most needed, i.e. during emergency situations when its benefits are practically immeasurable.

► Health care

The company provides a range of products and solutions in the area of health care – a strategical area for the further development of the ICT sector and also the segment with the most direct impact on the quality of life. The aforementioned solutions are based on innovativeness and the latest information and communications technology. They provide authorized medical teams with timely access to databanks, as well as access to patient health records via the internet. In this manner, they obtain insight into existing medical information and are able to update it as well as conduct due activities (e.g. scheduling appointments) – regardless of geographical location and time of access.

Company specialists in the area of e-health have respectable knowledge and experience which they gained from working on the project for implementing a national integrated primary health care system in Croatia, which has also been recognized as a successful solution and concept within the framework of the e-Europe project.

► Transport

Ericsson Nikola Tesla also pays special attention to intelligent transport systems, which are characterized by dynamic transport management in real time. Data gathering and statistical processing enable reliable planning and implementation of preventive activities for regulating transport flow. These types of systems are being successfully used today to manage both port and city transport.

By connecting radar control system, automatic identification system, video surveillance, meteorological and oceanographic data from buoys, and communications system, we significantly increase the security of vessels and people involved in sea transport and increase the quality of monitoring, control and management of sea transport.

In urban areas, active citizen involvement in transport system is achieved by connecting transport systems and mobile communications and thus the effectiveness of the system itself is increased – decreasing both stress as well as time spent in traffic.

► Digital cities

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 city administration buildings, hospitals, city halls, schools and universities. In this way citizens get a more easily accessible public infrastructure and fast cutting-edge broadband services that affect the development of many innovative next generation services. These services include electronic markets for local entrepreneurs, geo-information systems for the areas of environmental protection and emergencies, intelligent transport networks and a health care program. The solution includes an integrated alarm system for emergencies and new services such as distance-learning courses for unemployed people, etc. By implementing the latest GPON fiber-to-the-home technology, advanced multimedia services such as IP telephony, movies upon demand, personalized TV programs and exceptionally fast internet access are enabled.

► Entertainment

Multimedia is one of Ericsson's strategic focus areas and includes total solutions for interactive television: IPTV and DTT (Digital Terrestrial Television). These solutions lift television as a media to a whole new level - they increase picture quality and provide individualization by introducing new multimedia content. The main idea behind this work is the evolution of TV services which will provide the end user with completely personalized and interactive services and the providers of services, including media houses, with the most technologically advanced total solutions as a foundation for successful business development. At the same time, IPTV platforms are being enhanced, especially in the segment of IPTV service quality monitoring.

IMS (IP Multimedia Subsystem) platforms are also being enhanced. They ensure multimedia communication, i.e. they provide





convergence of data, speech and network technology via IP-based infrastructure. Last year, Ericsson's IMS-based Command Supporting System provided a range of new functionalities such as video conferencing, call centers and click-to-dial functions in the network which connected the 6 Olympic cities in China.

Furthermore, the music industry is quickly developing new marketing and distribution models and thus attracting the interest of telecommunications operators and other suppliers. These models are also changing consumer behavior. The end user experience is also being supplemented by telecommunications services, which are also providing new possibilities in the entertainment segment. Ericsson offers total solutions in this area as well. On each continent Ericsson offers solutions for various business models and contents including music videos, games and hosting or white-label solutions for music.

Ericsson's ConsumerLab research institute conducted research in Europe, Asia and the USA which indicates that users want to use communications services which have become popular on the internet (such as creating like-minded communities, blogs and instant messaging) in their mobile networks. Thus in 2008, the Ericsson MCS (Multimedia Communication Suite) was launched. This solution gives users the opportunity to use popular internet services in a new and advanced way on their mobile devices.

Corporate strategy for multimedia solutions particularly emphasizes IP solutions and communications connection of different devices – above all, home computers as well as fixed-line and mobile telephones. The Volvo Ocean Race is among the most descriptive examples of creating new generation multimedia services. They provide new revenue and offer a delivery of content spanning from high definition video material to adapted mobile devices. In this way, spectators of the Volvo Ocean Race were constantly updated on race standings at each race point 'live' via mobile TV and IPTV. Spectators also had the chance to personalize how they followed the race thanks to cameras with various views of the race in the port which they could control themselves.

► Environmental protection

Although there are numerous examples of how ICT solutions enhance the quality of business and private lives (e.g. document managing systems, automatic weather report messaging on mobile phones, etc.), environmental protection is more frequently being pointed out as one of the most significant benefits.

Different studies show that mobile broadband services can decrease CO₂ emissions and increase employee productivity. By implementing advanced HSPA functionalities, business people need to travel less often and waste less paper for printing documents. Furthermore, the new generation of Ericsson energy efficient radio base stations support GSM/EDGE, WCDMA/HSPA and LTE in a single housing, and decrease energy consumption by 20-65% in comparison to existing radio base stations – which, along with greater environmental protection, lowers operator costs.

The development of green solutions for constructing and powering mobile networks is the key for making communications services accessible to billions of people.

Ericsson predicts that there will be around 6.5 billion mobile users in the world by 2013 and a 90% increase is expected in developing markets in which more than half of the population lives in rural areas. Due to geographical reasons or environmental protection, constructing regular electronic networks in unpopulated areas was often not possible. For a long time such situations created a significant obstacle for telecommunications operators who wished to offer their services in rural areas.

Due to the aforementioned reasons, Ericsson continually develops and provides the market with new energy efficient products with an emphasis on optimizing energy consumption in all segments. This allows operators to develop and deliver accessible and sustainable communications services within the markets of developing countries and at the same time to conduct profitable business.

Along with all of the Corporation's members, Ericsson Nikola Tesla possesses the shared vision "communication accessible to all" and the conviction that creating sustainable business development at a local level is also a foothold for benefiting the entire community and all people's lives. For this reason, Ericsson Nikola Tesla promotes corporate social responsibility and at the same time fulfills the human desire to exchange thoughts and information, regardless of place and time.

CORPORATE SOCIAL RESPONSIBILITY AS AN INTEGRAL PART OF BUSINESS STRATEGY

Ericsson Nikola Tesla has a clear business development strategy, while the principles of socially responsible conduct are integrated into each segment of Company operations and in relations with all its stakeholders.

The Company is a signatory to the Ericsson Code of Business Ethics as well as the Code of Business Ethics issued by the Croatian Chamber of Economy, which further confirms our commitment towards ethical business conduct.

Ericsson Nikola Tesla, as the regional leader in telecommunications, 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

In line with Corporate policy, 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 on 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 the management system review is used for enhancing operations in order to ensure that product and service deliveries consistently meet demands and expectations.

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 Communications Software Technologies.

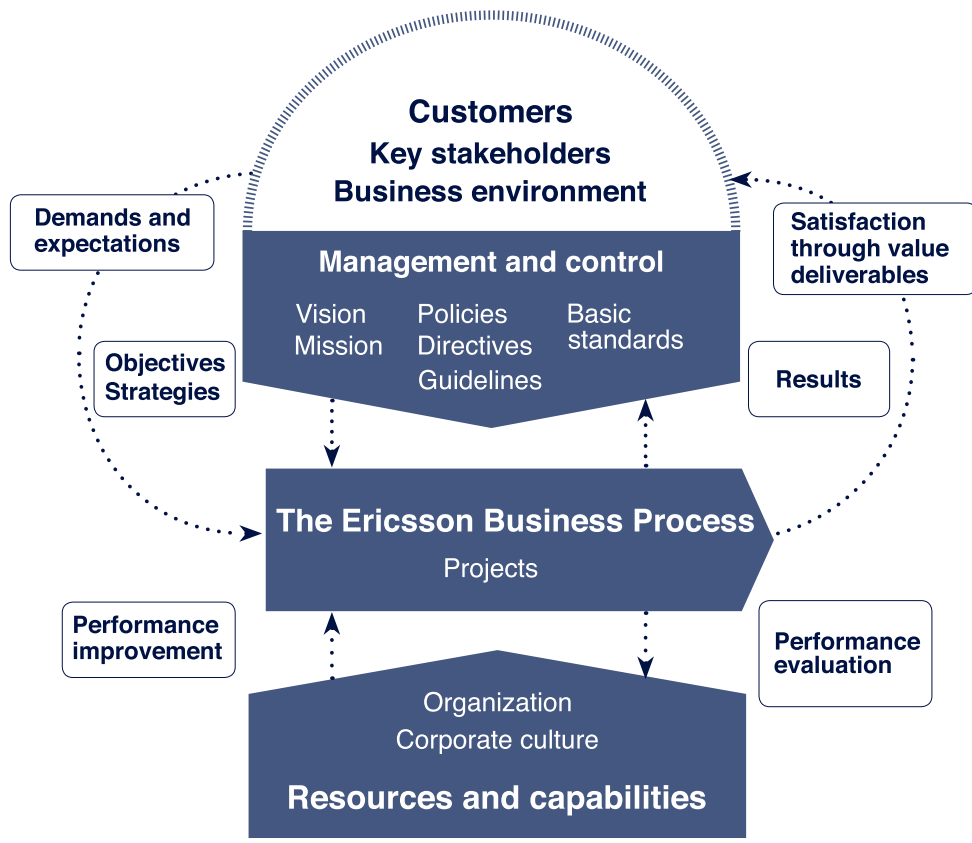
Along with Total Quality Management, a system of internal risk-based assessment has been introduced, which operates preventively and indicates areas for improvement. It is important to point out that the operational management system is constantly being enhanced and employees can get all relevant information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





ETK Management System

- ETK MS describes roles and responsibilities, organization, processes and other characteristics vital for operational excellence





WORKING ENVIRONMENT

► Our employees

Our most valuable asset is our employees – our "intellectual capital", and they are also our competitive advantage on which our success in the market depends.

One of the Company's strategic business goals is to attract, train and retain efficient, competent and motivated people while stimulating the ambitions of individuals to be successful in a competitive environment.

Fundamental principles we are governed by while conducting business:

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

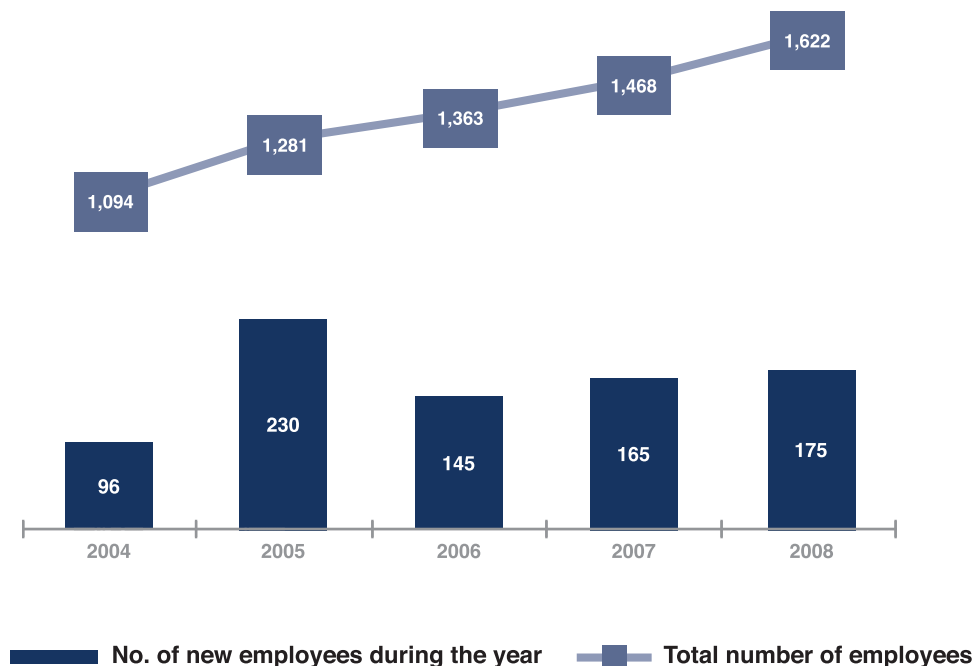
We provide attractive jobs, a motivational working environment, work in global teams, constant competence development, career development and performance-based advancement to our employees, as well as fulfillment of their professional aspirations.

We recruit young, creative and educated people who are business-orientated and ready for life-long learning and taking on the responsibility.

► Employee movement in 2008

In 2008, the Company continued its trend of recruiting new employees. The number of employees was 10.5% higher than the previous year. In this manner the number of young employees also grew, so that 29% of employees now have two or less than two years of working experience.

Ericsson Nikola Tesla employee movement

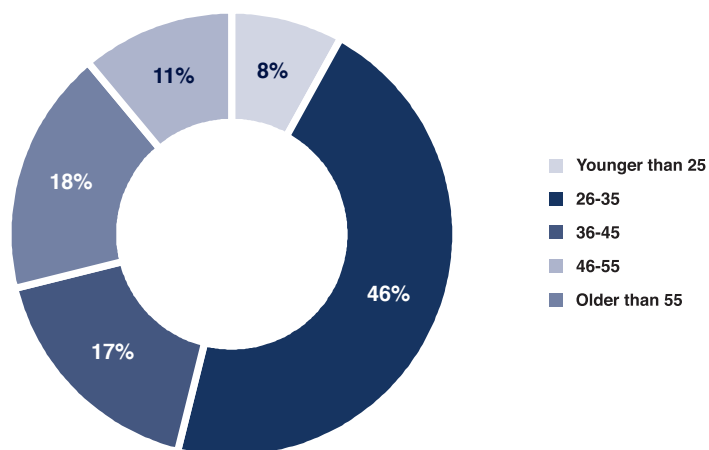




► **Employee structure**

- ▷ 1,622 employees as at December 31, 2008
- ▷ 85% college-educated specialists, the majority of whom are electrical engineers
- ▷ 7% hold a master's degree or doctorate
- ▷ Average employee age is 38
- ▷ 642 (40%) employees younger than 32
- ▷ Average duration of service in the Company is 12 years
- ▷ 29% of employees have two or less than two years of working experience
- ▷ Gender ratio (male vs. female): 73% : 27%
- ▷ Average age of an ETK manager: 43
- ▷ 19% of managers are women

Ericsson Nikola Tesla employees (according to age)*



*as at December 31, 2008



► Investing in competence development

Employee education is key to surviving and further advancing in today's dynamic and demanding market. Thus, for many years the Company has been providing each employee with a range of opportunities to enhance their competence and to acquire the necessary skills and knowledge for successfully carrying out their activities.

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

In 2008, ETK employees were involved in the following training programs:

- ▷ **HR and business competence development program**
Training in finance, communication and presentation skills, management, team work, change management, negotiation skills, conflict resolution, etc.
- ▷ **Marketing and sales program**
Training intended for employees who deal with marketing and sales.
- ▷ **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 PMI Institute. 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.
- ▷ **Management competence development programs**
Management competence development programs include the Leadership Core Curriculum (LCC) Program, the Ericsson Nikola Tesla Assessment & Development Center, 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.
- ▷ **Foreign language courses**
Due to the international environment in which the Company operates, foreign language courses are organized for ETK employees within Company premises in cooperation with a foreign language school.

► 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 take a step further and consider diversity 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 continuously 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 life-long learning and development, equal 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 Dialogue 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 actively participate in and propose changes and improvements for various segments of activity.

In 2008, the Dialogue survey once again had a high employee response rate of 94%, which ensured a realistic framework for analyzing results and for carrying out further improvement.

Compared to Corporate results, the results of Ericsson Nikola Tesla were once again above average. Compared to the results from the previous year, and according to the main indicators of satisfaction which were shown by our Company's employees, a positive trend is continuing.

- ▷ Human Capital Index (HCI) continued to grow, from 76% to 77%, which means that we have been moving within the level of excellence for a number of years.
- ▷ Average of High Performers is very high at 68%, which indicates a continually high level of employee professionalism. This is encouraging since it is one of the fundamental values of our Corporate culture. A strong inflow of new employees demands greater effort in retaining a positive trend when dealing with motivation and employee satisfaction, making this high average of employee high performers a significant accomplishment.
- ▷ Employee Empowerment grew from 41% to 45%, which is ten percent higher than the Corporate average. For a knowledge-based company focused on innovativeness, such as Ericsson Nikola Tesla, this indicator's trend of growth is a sign that we are on the right path.

► Occupational health and safety

Systematic employee health care is an important part of managing Company employees. Among the numerous activities conducted during 2008, 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 monitor the number of injuries at work, preventive and corrective activities anticipated by danger assessments, as well as proposed activities proceeding from regularly held Occupational Health and Safety Committee assemblies. In 2008, 5 injuries occurred within the Company – one within Company premises and all others while arriving to or leaving work, which resulted in 85 lost work days.

▷ 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

With the cooperation of a medical physician and an occupational safety expert, new danger assessments are developed in which work at computers is also assessed.

▷ Recreational activities

Recreational courses have been conducted within the Company for the sixth consecutive year. A Company room has been remodeled into an exercise gym and organized courses are held before and after working hours. Courses intended for those with bone-muscular system difficulties have also been organized, as well as courses for those who desire more advanced recreational activities. Along with this, the Company supports numerous employee sports clubs outside of Company 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 areas are organized.



MARKET RELATIONS

In market environment, Ericsson Nikola Tesla builds relationships with suppliers, customers, consumers, shareholders or owners and respects its competitors. In doing that, we follow our values – professionalism, perseverance and respect. In concrete terms, Ericsson requires from all of its units, companies and employees, as well as other stakeholders that they have contractual relations with (e.g. 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, and the promotion of fair recruitment conditions, responsible environment management and high ethical standards.

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 Managing Director and Supervisory Board continuously support the observance of fundamental principles of Corporate Governance to ensure the protection of shareholders' rights and equal treatment, business transparency and responsibility towards all stakeholders. All employees are required to comply with the highest ethical standards in line with rules and instructions laid down in the Ericsson Code of Business Ethics and the Code of Business Ethics recommended by the Croatian Chamber of Economy.

Ericsson Nikola Tesla pays a great deal of attention on informing the community about its activities and business results in a timely and objective manner.

The principles of corporate governance in Ericsson Nikola Tesla, which the Company adopted in April 2005, are based on Croatian legislation and recommendations from the OECD Principles of Corporate Governance and they clearly define the rights and obligations of the Managing Director, Supervisory Board and shareholders (www.ericsson.hr/investors).

► **Managing Director**

The role of the Company's Managing Director is regulated by the Croatian Company Act, the Charter of Ericsson Nikola Tesla and its internal bylaws. The Managing Director is obliged to perform his or her duty conscientiously, while looking after the best interests of the Company and its shareholders.

The Supervisory Board appoints the Managing Director of Ericsson Nikola Tesla to a 5-year term with the possibility of re-election. The Managing Director is obliged to report financial and business results, strategy and operative planning to the Supervisory Board. The Managing Director is also obliged to report on his or her work at the Annual Shareholders' Meeting and to implement resolutions passed at the Annual Shareholders' Meeting. Financial compensation for the Managing Director depends on Company performance and is determined by the Supervisory Board.

► **Supervisory Board**

The fundamental task of the Supervisory Board is to oversee the work of the Managing Director. In doing that, the Supervisory Board must uphold high ethical standards and look after the best interests of the Company and its shareholders. The Supervisory Board consists of five members elected to a four-year mandate with the possibility of re-election. The Supervisory Board reports at the Annual Shareholders' Meeting on the supervision conducted, it expresses its views on the Managing Director's profit allocation proposals and puts forward proposals with regard to the appointment of auditors.

During 2008, the Supervisory Board of Ericsson Nikola Tesla held five meetings to discuss financial performance, the Company's position in domestic and export markets, business plans and key projects, as well as trends in the ICT industry. Furthermore, the Supervisory Board discussed activities arising from new responsibilities of the R&D Center and the Global Services Delivery Center (GSDC), as well as human resources and competence development. The Supervisory Board also reviewed and upheld the Company's Business Strategy for 2009-2012 as well as the focus areas for the successful implementation of the Strategy.

► **Audit Committee**

With the aim to effectively perform its role in overseeing the management of Company operations, including the development of annual financial statements, in June 2006 the Supervisory Board set up an Audit Committee.

In 2008, the Audit Committee held two meetings to discuss quarterly and annual financial statements and the Audit Plan for 2008 as well as to perform other assignments in line with the Audit Act. The Committee regularly informed the Supervisory Board on its conclusions and recommendations.

► **Annual Shareholders' Meeting**

Company shareholders exercise their rights at the Annual Shareholders' Meeting. The Annual Shareholders' Meeting makes decisions on profit allocation, charter amendments and the election and mandate completion of Supervisory Board members. Furthermore, the Annual Shareholders' Meeting appraises the work of the Managing Director and Supervisory Board and decides on the matter of appointing independent auditors and other issues explicitly regulated by law as well as Company bylaws.



ENVIRONMENTAL PROTECTION

Ericsson Nikola Tesla's operations are based on the principles of sustainable development which not only entail economic sustainability and social responsibility but also continual enhancement of environmental relations. Key documents which define environmental relations are the Environment Management Policy and Code of Business Ethics.

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

Environmental protection is a Company priority and is implemented in accordance with the principles of sustainable development:

► 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 specialists 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 their organizational unit's area of operations and its effects on the environment. Quality, environmental protection, occupational health and safety experts check management systems once a year and make proposals for their improvement in order to educate suppliers, partners and contractors.

Through cooperation with stakeholders, e.g. business partners and educational institutions, Ericsson Nikola Tesla's specialists convey their knowledge and experience and thus contribute to building awareness regarding the importance of proper environment relations.

COMMUNITY RELATIONS

► Helping the community

Having adopted a proactive attitude towards identifying needs, providing support and developing community partnerships, the Company strives at harmonizing national and local programs with the best international practice. The Company's donation and sponsorship policy defines the tools and methods for recognizing and realizing the most 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 2008, the Company implemented valuable socially beneficial projects in the fields of education, health, culture, sports, humanitarian and others, and dedicated millions of HRK to these causes. Among the most significant projects are the following:

- Sponsoring and participating in professional conferences such as: MIPRO, SOFTCOM, Infoarena, Call Center Conference, INFOFEST, Electronic Management Conference, Business Processes Conference, VID1 E-novation, the Science Festival
- Expanding the cooperation which has been traditionally successful for many years regarding various projects with the Faculty of Electrical Engineering and Computing in Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split
- Continuing the project of financing the scientific development of a junior researcher not included in the Ministry of Science, Education and Sports quota
- The technology and innovation partner of the Croatian Olympic Committee for developing electronic health records for professional athletes
- Donation to the National Fund for Student Support and Student Standards
- Donation for boosting scientific research at the Mediterranean Institute for Life Sciences in Split
- Donations to *Put u život* - the Association of Parents with Special Needs, *DODIR* - the Croatian Association of Deafblind Persons, the Croatian Down Syndrome Union, the Croatian Paraplegic and Tetraplegic Union, and *Europa Donna* - the Croatian Forum Against Breast Cancer, as well as realization of the *Tin Express* project for children from unions, orphanages and centers with development impairments and disabilities
- Donations to the Trešnjevka Cultural Center, the International Cultural Center and The Croatian National Theater in Varaždin
- Christmas donations to our "neighbors": OŠ (elementary school) August Šenoa, the electrical and mechanical trade school, and *Bajka* - the day care center.



AWARDS AND RECOGNITIONS IN 2008:

- ▶ The Croatian Exporters Convention awarded Ericsson Nikola Tesla:
 - ▷ ***The Golden Key for Best Croatian Exporter in the Category of Large Companies***
 - ▷ ***The Golden Key for Most Successful Exporter to the Russian Federation***

- ▶ The Development and Creative (Thinking) Network awarded Ericsson Nikola Tesla with the
 - ▷ ***Creative and Innovative Human Resources Projects award***

- ▶ The Croatian Chamber of Economy (HGK) and the Croatian Business Council for Sustainable Development (HR SPOR) awarded Ericsson Nikola Tesla the
 - ▷ ***CSR INDEX (CORPORATE SOCIAL RESPONSIBILITY)*** award for positive conduct with key stakeholders.

