

# Young Talented Professional

Ericsson Nikola Tesla d.d.

Annual report 2006

Ericsson Nikola Tesla d.d.

Address Krapinska 45  
P.O.B. 93  
HR – 10 002 Zagreb  
Croatia

Tel. +385 1365 35 35  
+385 1365 45 56  
Fax +385 1365 31 56

Web <http://www.ericsson.hr>  
E-mail [etk.company@ericsson.com](mailto:etk.company@ericsson.com)

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Almost half of the employees are younger than 32

The best large Croatian company in 2006

100% of dedicated employees, 87% of whom are highly educated professionals

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Although Ericsson Nikola Tesla has been active for more than 55 years, we are a young company – because almost half of our employees are younger than 32. We are highly appreciative of knowledge based on experience, but we also encourage talent for innovativeness – therefore Ericsson Nikola Tesla is the best large Croatian company in 2006. Although each of us has a personal side, we can say that we are always professional – because we have 100% of dedicated employees, 87% of whom are highly educated professionals. Despite the fact we know each other very well, there is still so much to say...

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## Company information

Ericsson Nikola Tesla is a part of the global Ericsson Corporation which leads and supports modern communications.

**Name:** Ericsson Nikola Tesla d.d.  
**Core activity:** Provider of modern information-communications products, solutions, software and services

**Address:** Krapinska 45, HR-10 000 Zagreb  
Poljička cesta 39, HR-21 000 Split

**Phone:** Zagreb / +385 1 36 53 535  
Split / +385 21 43 58 00

**Fax:** Zagreb / +385 1 36 53 156  
Split / +385 21 43 58 34

**E-mail:** etk.company@ericsson.com

**Web site:** www.ericsson.hr

**Company identification number (MB):** 03272699

**Company registration number (MBS):** 080002028

**Share capital:** 133,165,000.00 HRK\*

**Shares:** 1,331,650 registered shares

**Nominal share value:** 100.00 HRK\*

**Ownership structure:** Ericsson 49.07%, small shareholders: 49.19%, The Croatian Privatization Fund: 0.89%, treasury shares: 0.85%\*

**Share trading:** Shares of Ericsson Nikola Tesla (ERNT-R-A) were admitted to the quotation of Public Joint Stock Companies on the Zagreb Stock Exchange on July 17, 2003. In 2006, Company shares were traded on the Zagreb Stock Exchange and on the free market of the Varaždin Stock Exchange.

**Giro account:** ZABA / 2360000-1101235687  
PBZ / 2340009-1110012058  
RBA / 2484008-1100331673  
ERSTE / 2402006-1100414168  
SBS / 2330003-1100206134

**Managing director:** MSc Gordana Kovačević

**President of the supervisory board:** Jan Campbell

**Number of employees:** 1,363\*

\*as of December 31, 2006

# People make the difference

CEO address:  
MSc Gordana Kovačević,  
president of Ericsson Nikola Tesla

## Innovativeness in all business processes

In 2006 Ericsson Nikola Tesla operated in accordance with its track record – operations were stable, showing a tendency towards moderate growth. However, this moderate growth means that we were considerably better than in previous years, considering that margins have dwindled due to strong market competition, and because of the Company's investment in strategic projects, new customers and employee competence development as well as changes in its product portfolio and in the share of services in the total sales structure. Despite heavy demands last year, we managed to create a competitive advantage thanks to additional effort put in by all our employees, as well as our knowledge and innovativeness and this has been the key to the Company's business success. All things considered, and due to increased business volumes in all major markets, the Company achieved outstanding business results.

On one hand the Company has to meet high expectations set by stakeholders and on the other it must – being a socially responsible enterprise – skillfully balance all business aspects.

Thus, we have created the prerequisites for long-term business growth and sustainable development, not only for Ericsson Nikola Tesla but for the community in which we live and work as well.

The Company's business philosophy is based on business excellence in all activities and processes and fully complies with the Company's strategy, vision and mission and is a sound foundation for the future. Business development, long-term vision and competitiveness are the basis for Ericsson Nikola Tesla's operations. The Company is fully aware of its technological and strategic significance and consequently of its responsibility to contribute to the long-term development strategy of Croatia, primarily in the information-communications technology (ICT) area as a major research and development as well as export asset of the country.

We have fully achieved our plans; despite competition and price demands we have achieved a further increase in sales revenues and orders booked due to the higher sales volume of products and services.

Compared to 2005, the performance of Ericsson Nikola Tesla in 2006 was characterized by the following results:

- \_ MRHK 1,634.1, i.e. a 1% increase in sales revenue;
- \_ MRHK 1,623.6, i.e. a 1% increase of orders booked;
- \_ MRHK 264.5, i.e. a 1% decrease of profit before tax;
- \_ Positive cash flow for the eighth successive year;
- \_ A motivational company culture according to the annual employee survey "Dialog", carried out for the eighth year in a row;
- \_ Customer satisfaction evident in our business accomplishments and in the annual customer satisfaction survey.
- \_ Shareholder satisfaction

All of the key elements of our business performance, including financial and social aspects are dealt with in detail in this annual report. For this reason I would like to speak about how the Company fits into current ICT trends, about its future-oriented focus areas and innovativeness which are a competitive advantage necessary for its future strategic growth.

Our strategy includes various scenarios involving changes in technology, marketplace, economy and society as well as business conditions in all our markets.

All relevant analyses indicate high growth potential in the global telecommunications segment. This growth is anticipated primarily in the mobile communications segment. Over the last two years the number of users worldwide has significantly increased and new technologies and communications services generated considerable growth in telecommunications traffic, especially data traffic.

New market opportunities are occurring for ICT solutions in the enterprise segment as well. This can be explained by the fact that enterprises, administrative bodies and the public sector are inevitably moving towards information technology in their business processes in order to achieve cost efficiency, faster and better decision-making as well as better support for users.

We also anticipate further liberalization and consolidation in both domestic and foreign markets. This results in repositioning of companies and global mergers in key business segments, accompanied by their adjusted or new portfolios covering areas with the highest potential for business growth. In brief, growing market demands are accompanied by growing market competition.

For that reason all ICT companies, including Ericsson Nikola Tesla, have to think about what they are best at, which gap in the market they can fill with their product portfolio, and how to convert their knowledge, competence, technological advantages and market position into a brand. A good example of our innovative approach to changing markets and technologies and of our repositioning as a strong system integrator is the integrated primary health care project (e-health) entirely developed at Ericsson Nikola Tesla. We are very proud that we implemented the first primary health care system of this kind in Croatia. For us, as a global export center for e-health in Ericsson, there are further possibilities to position ourselves in this segment in other markets as well.

Relating to technology trends we expect further development and implementation of IP-based core networks. Growing broadband access in mobile (HSPA) and fixed networks (xDSL) is quite evident, as well as a gradual transition to new generation networks which are enabling the large-scale introduction of broadband services and significant growth in Internet users. In mobile communications tendencies are shifting towards Personal Broadband. A prerequisite for this concept is revolutionary change regarding increased transmission speed which should reach an almost inconceivable 100 Mbps by 2012 using "Super 3G" technology. In this context, 2007 will be a milestone. In accordance with the convergence trends of mobile and fixed networks we shall witness the large-scale use of IP Multimedia Subsystem (IMS), Mobile TV, TriplePlay services and the like.

Ericsson Nikola Tesla is strategically positioning itself within these new focus areas through activities relating to new generation networks and services including IP-based convergence and multimedia and by balancing its

vast experience and knowledge. Strategic positioning and the fast acquisition of new knowledge and innovativeness as a prerequisite for future growth were the reasons for introducing the Company's new marketing and innovation program that has already yielded good results.

If we take the main characteristics of the global market and technology trends in 2007 into consideration we see that changes are inevitable. Technology is increasingly influencing people's lives and behavior, while rapid information and knowledge exchange is no longer a matter of desire or ability, it is crucial for a company's survival. Ericsson Nikola Tesla is fully aware of all these circumstances: with most of the staff possessing a university degree (87%) and with a strong R&D Center, the Company has the optimum employee structure that complies with the requirements of this industry branch. The Company can use its research and development potential in this manner to achieve the highest level of competitiveness required for success in this demanding industry branch.

In conclusion, I can say that Ericsson Nikola Tesla has been acknowledged within the Ericsson group – for its modern business models and systems organization, technological and business leadership and above all, for its creative, top-quality professionals, and results in 2006 confirmed its ranking among the best Croatian companies.

The key to our further business growth is innovativeness in all business processes because it is only with creative work aimed at creating added value that we can contribute to our shareholders' satisfaction, sustainable development and social progress.



Gordana Kovačević,  
president of  
Ericsson Nikola Tesla

Expectations should be fulfilled, but it's even better if they are surpassed.

## Vision

To contribute to the prosperity of countries where Ericsson Nikola Tesla operates by using our leadership in the new economy.

## Mission

To understand our customers' needs and business opportunities. To offer customers ICT solutions for their businesses better than any competitor. To be a competitive software and service supplier within the Ericsson Group. To generate profit and growth for all our stakeholders.

## Corporate values

We work in accordance with Ericsson corporate values which include:

- \_ Professionalism
- \_ Perseverance
- \_ Respect

# Excellence

## Global market trends

- \_ Continuous development of ICT technology in: IP networks, multimedia subsystems, broadband access for fixed and mobile networks
- \_ Consolidation and globalization in operations and supply
- \_ Increased competition
- \_ Operators' focus on CAPEX and OPEX
- \_ Increasing role of ICT services vs. infrastructure (hardware and software)
- \_ New business models

## Success factors

- \_ High customer satisfaction
- \_ Continuous adjustments in the areas of
  - \_ Competencies
  - \_ Organization
  - \_ Resource management
  - \_ Result-oriented business culture
- \_ Innovativeness and knowledge management
- \_ Business process management
- \_ Quality of internal and external communications
- \_ Employee responsibility and loyalty

## Strategy, focus areas and objectives

In the contemporary world of business driven by dynamic market conditions and fast technology development, quality business strategies play an increasingly important role in the further development and maintenance of long-term profitability and market positions. Business strategies are based on facts describing the current situation in markets where the Company operates as well as on trends and forecasts in the information-communications and multimedia industries.

Necessary preconditions for Ericsson Nikola Tesla to continue its successful operations are well-established objectives, focus areas and company strategy for the forthcoming three-year period. The success of their implementation is based on the exchange of knowledge and development of competencies, a proactive approach and entrepreneurial employee culture, as well as the introduction of new technologies and business models. Since Ericsson Nikola Tesla is a part of the global Ericsson Corporation, its strategy has been aligned with Ericsson Corporate Strategy and business processes.

Current trends in technology development are directed at IP Protocol-based networks, the expansion of broadband access in mobile and fixed networks, and a gradual shift towards new generation network architecture. In line with these trends, a dynamic introduction of broadband services and further increase in the number of Internet users is expected. In particular, intensive growth of the global telecommunications market is forecasted in the mobile communications segment with higher growth in data traffic. Accessibility of faster data transfer will enable the convergence of mobile and fixed networks. The use of technological concepts like IMS sub-systems, mobile TV and TriplePlay will foster further convergence of the telecommunications and multimedia industry. New market opportunities are arising in the segment of e-government and e-business. A strong emphasis is put on quality ICT solutions increasing operational efficiency and competitiveness.

However, competition is growing, repositioning is taking place, and new companies are being created in key segments and areas with the highest potential. Ericsson

Nikola Tesla's desired position in the forthcoming three year period is to maintain and improve its standing as one of the most desirable ICT business partners in all markets, as well as to retain existing customers and attract new ones while achieving outstanding business excellence. This is why we exert a lot of effort into retaining, attracting and developing highly efficient, competent and motivated people in a working environment characterized by professionalism, respect and perseverance.

Ericsson Nikola Tesla's Development Strategy focuses on the further strengthening of our position in the domestic, internal Ericsson and export markets; on the further expansion of customer base and solutions, products and services portfolio. We expect to exceed current results in the network infrastructure area, expand service activities and develop our role in the increasingly growing segment of multimedia solutions.

It is therefore crucial to follow global technological trends and develop innovativeness at both the Company and individual level. The Company has created a formal Innovation Management Framework, a strategic program relating to marketing and innovations and has been developing a creative entrepreneurial culture to efficiently implement every new solution, service or product.

Based on overall business excellence, led by a vision of proactive contribution to the prosperity of countries where it operates, Ericsson Nikola Tesla designed a strategic framework which shows the fundamental principles the entire Company operations are based on (see Strategy Temple).



This year, the Company management defined five strategic focus areas crucial for further development and to which the entire company should contribute:

- \_ Improving perception and expanding operations in multimedia solutions, enterprise systems and system integration,
- \_ Building a strong position in broadband and IP technology,
- \_ Extending R&D responsibility in IP technology,
- \_ Strengthening the service segment position,

- \_ Further strengthening of operational excellence and improving competitiveness.

The purpose of identifying focus areas is to facilitate: efficient and synergic use of company strengths through their tactful and operational application, and harmonized management and employee action. Key objectives defined in this way and concrete action plans represent a rational base for implementing ambitious strategies. In the upcoming period Ericsson Nikola Tesla will try to maintain long-term profitability and its potential for the future by making strategic business moves.



Professional acknowledgments are only a reflection of our most important award – the satisfaction of our customers.

# Awards and certificates

## Awards and recognitions:

- \_ On the occasion marking the 150th Anniversary of Nikola Tesla's birth the **President of Croatia, Stjepan Mesić**, awarded:
  - \_ **The Charter of the Republic of Croatia** to Ericsson Nikola Tesla for major contributions towards economic development and for cherishing Nikola Tesla's scientific legacy,
  - \_ **The Order of the Croatian Star with the Effigy of Nikola Tesla** to MSc Gordana Kovačević, president of Ericsson Nikola Tesla, as a business woman who contributed to the promotion of Nikola Tesla's legacy.
- \_ **The Croatian Chamber of Economy** awarded Ericsson Nikola Tesla with **The Golden Marten Award** for outstanding contributions in economic development in 2006, in the category of large companies.
- \_ MSc Gordana Kovačević, president of Ericsson Nikola Tesla, was voted **Entrepreneur of the Year** for 2006 by viewers of **Kapital Network** business TV.
- \_ **The Varaždin Stock Exchange** awarded Ericsson Nikola Tesla with the **Recognition for Highest Share Trading** on the Varaždin Stock Exchange.

## Certificates:

- \_ Certificates for the Quality Management System according to the **ISO 9001:2000** Standard
- \_ Certificates for the Environment Management System according to the **ISO 14001** Standard
- \_ Certificate for Occupational Health and Safety Management System according to **OHSAS 18001**
- \_ **Trade Compliance Certificate**
- \_ **Entity Wide Control** as part of SOX 404 (Sarbanes-Oxley Act – 2002)

# The world appreciates

# quality

## Business activities

Since it is a part of the Ericsson Corporation and Global Telecommunications, Ericsson Nikola Tesla is directed towards cutting-edge communications solutions. Over the last ten years the Company has gained the status as a "brain ware" provider.

The Company's core business includes:

- \_ Marketing and sales in Croatia, within the Ericsson corporation and in dozens of export markets in Central and Eastern Europe and the Middle East
- \_ Research and development
- \_ Design of end-to-end communications solutions
- \_ System integration
- \_ A wide range of services

## Products and services

Ericsson Nikola Tesla provides its customers with the complete Ericsson portfolio of telecommunications products, solutions and services:

- \_ Broad range of products for both existing and new operators, Internet Service Providers (ISP) as well as enterprise systems
- \_ Consulting, implementation, system integration, management and support services
- \_ Information systems and application solutions in e-areas (e.g. e-health)
- \_ Special systems

## Position in Croatia

Ericsson Nikola Tesla positioned itself as a Company that:

- \_ Contributes to national prosperity by ensuring access to modern communications systems and technologies
- \_ Is one of the biggest exporters in the country, as well as the biggest knowledge exporter
- \_ Creates worthy and appealing telecommunications business deals
- \_ Employs and retains young and talented specialists
- \_ Plays an active role in e-Croatia projects
- \_ Initiates and leads positive social and economic changes in the countries where it operates, primarily in Croatia, being fully aware of its social responsibility

## Position within the Ericsson Corporation

Due to the competence and skills of its specialists as well as its work methods and management style, Ericsson Nikola Tesla has been distinguished within the Ericsson Corporation as a:

- \_ Marketing and sales network
- \_ Strong research and development unit
- \_ Regional center for end-to-end communications solutions
- \_ Regional and global service delivery center
- \_ Regional center for system integration
- \_ Ericsson Mobility World Center in the Market Unit Central Europe
- \_ Mobility Data Solutions Global Expertise Center
- \_ Leader in e-systems

# The real value is not only the one that is calculated but also the one that can be felt.

## Sales and marketing

Out of the total sales from the year 2006, the domestic market accounted for 30%, export to the internal Ericsson market accounted for 22%, while export markets represented 48%.

Sales revenues in the **domestic market** have increased by 1.4% and amount to MHRK 482.6. Successful cooperation in the field of fixed and mobile systems, including mobile Internet, with the strategic partners – VIPnet, T-HT and Tele2 has continued. Mobile broadband Internet access was introduced in cooperation with VIPnet, as a precondition for the further evolution of 3G networks, and an HSDPA network was introduced as well. The Company has modernized the fixed network for the T-HT operator and developed a network for the mass introduction of broadband services and increased volume of Internet users (IP, ADSL-EDA). A contract has been signed with the third mobile operator in Croatia, Tele2, for equipment delivery and end-to-end communications solutions required for the development of an UMTS network. Another contract has been signed with the same operator for mobile network maintenance service, the first contract of this kind in Central Europe.

A contract to build TriplePlay infrastructure was signed with Vodatel Hrvatska, one of the major domestic Internet providers. A range of contracts were signed with large business entities (Croatian Ministries, HEP, FINA, HŽ, INA, etc.). The project of an integrated information system in primary healthcare in Croatia should be pointed out. This project was entirely developed by the Company, which proves Ericsson Nikola Tesla has a strong position as a provider of sophisticated and complex ICT system integration.

In regards of Ericsson Nikola Tesla **export markets**, total sales in 2006 amounted to MHRK 793.7.

Sales of fixed, mobile and business systems in CIS countries yielded traditionally good results, amounting to MHRK 548.4 (a 2.8% increase). Major contracts were signed in Belarus with the mobile operator, JV MDC Velcom, and the fixed operator, Beltelekom, as well as with the fixed system operator, TeleKron, in Kazakhstan. A range of contracts was also signed in Russia with different operators to modernize and expand fixed and business communications systems.

In the markets of Bosnia and Herzegovina and Montenegro, Ericsson Nikola Tesla sales revenues amounted to MHRK 233.2. It was election time in both Bosnia and Herzegovina and Montenegro, and the fact that 3G licenses have not been issued slowed down the rate of investment. In comparison to the previous year, sales revenues dropped by 14.7%. Major contracts to modernize and expand mobile and fixed systems were signed with BH Telecom, HT Mostar/HT Mobile Communications, Telekom Srpske, T-Com Montenegro and T-Mobile Montenegro. It should be pointed out that a significant part of the contract signed with BH Telecom, the largest operator in Bosnia and Herzegovina, covers business multimedia and system integration.

Services in the **internal Ericsson market** such as the sale of R&D Institute expertise conducted by the Unit responsible for end-to-end solutions and services have an increasing role in the overall business results of the Company. Therefore the trend of employing new, young experts in Ericsson Nikola Tesla continued in 2006. Export to this market in 2006 amounted to MHRK 357.8 which represents a 20.7% growth.

## Other activities

- \_ The Company actively participated in the national project marking the Year of Nikola Tesla. On the occasion of the 150th anniversary of Nikola Tesla's birth, the Company was visited by the President of Croatia, Stjepan Mesić, and Carl-Henric Svanberg, Ericsson president and CEO. Both actively participated in a commemorative conference entitled "The Life and Work of Nikola Tesla".
- \_ Company specialists, led by Company president, Gordana Kovačević, took part in the "Nikola Tesla in Croatia" symposium, held in September 2006 in Paris.
- \_ Company specialists participated in the international exhibition of telecommunications, IT, bank systems, office equipment and security systems, better known as TIBO, which took place at Minsk, Belarus.
- \_ The Company participated in the INFOCOM 2006 ICT exhibition, held in St Petersburg in October 2006.
- \_ Ericsson Nikola Tesla participated in a wide range of activities at the MIPRO international conference held in Opatija and was also the general sponsor of this conference, the largest in ICT and microelectronics.
- \_ Company representatives participated in the celebration of the 10th anniversary of Ericsson Bosnia and Herzegovina.
- \_ Entitled "The Power of Endurance", the 13th INFOFEST ICT Festival took place late September 2006 in Budva where Ericsson Nikola Tesla participated for the 6th consecutive time.
- \_ The Company participated in the plenary session of the International Conference on Software, Telecommunications and Computer Networks, SoftCOM.
- \_ Press conferences were held in Zagreb and Split to present the public with Company performance.
- \_ The Annual Shareholders' Meeting of Ericsson Nikola Tesla was held.
- \_ At the 2nd international conference, entitled "Foreign Investments for the Growth of the Croatian Economy," held in Cavtat and organized by the Export and Investment Promotion Agency of the Croatian Government, was attended by many professionals from various industries, including representatives of Ericsson Nikola Tesla.
- \_ Ericsson Nikola Tesla's "Suppliers' and Business Partners' Day" was held at the end of October.
- \_ Ericsson Nikola Tesla co-organized the Vidi E-novation Awards Competition and participated in the awards ceremony. By engaging in this project, the Company strived to further motivate the Croatian ICT community and create an environment conducive to a stronger development of innovative, highly competitive ICT - hi-tech products in the demanding global market.
- \_ Ericsson Nikola Tesla participated actively and professionally in marking an important jubilee – half a century of mobile telephony in the world.
- \_ Ericsson Nikola Tesla and the Bajka kindergarten contracted for mutual cooperation regarding admittance and care for the children of Ericsson Nikola Tesla employees.
- \_ The 8th traditional "Family Day" was celebrated by over 2,000 employees and their family members.
- \_ After a five-year break the Ericsson Nikola Tesla Gallery was reopened. It is dedicated to exhibiting the artwork of Ericsson Nikola Tesla employees and external artists.

# Positively Business performance different in 2006

CFO address:  
**Maria Radtke,**  
Finance and Sourcing  
director of Ericsson Nikola Tesla

## Solid performance and better results than planned in spite of strong pressure from competition – Ericsson Nikola Tesla has done it again

In 2006, Ericsson Nikola Tesla succeeded once again in increasing delivered volumes, gaining new customers and further supporting the growth and development of existing ones, being at the front edge of technology progress and offering the most comprehensive service packages. But due to increased price competition and an 11% drop of the US dollar value, top-line volumes in money terms remained just stable, while margins adjusted downwards. This was an expected development, foreseen by management in earlier reports.

At the same time, the company has managed a major paradigm shift, and increased services (both mobile and fixed) from 42% to 48% of total sales. This means that nearly half of the net sales in money terms today derive from different kinds of services. As operators reduce investments in e.g. fixed networks, Ericsson Nikola Tesla sees a sustainable future in managed services, system integration, multimedia offerings and consultancy, but also in traditional network roll-out services, support, R&D assignments, etc.

The bottom line was kept unexpectedly high, partly due to one-time gains like the recovery of the insurance compensation for the 2005 loss in the warehouse fire, but mainly due to continuous cost efficiency and a constant search for better ways of conducting operations. The operational cash flow was extremely good, and offers a solid platform for future expansion and development.

## Financial management survey

In 2006, cost efficiency focused on more innovative ways of saving money, using smart ICT concepts in-house, while selling the same concepts to customers. The company is transforming itself into a much more innovative organization, where everyone is "core" and all contribute both to internal efficiency and ideas for new kinds of sales concepts for customers.

Operational expenses for Selling, General and Administrative activities have been reduced even further from 7% to 6.7% of net sales. We are continuing to strictly monitor external suppliers, with transparency and competitiveness, and even using e-auctions as a sourcing tool.

The focus continues to be on sustainable growth, and finding areas for future expansion, even at a cost. The financial management of Ericsson Nikola Tesla does not rely solely on a solid balance sheet and cash funds situation, but explores and establishes additional possibilities for off-set and possible future issuance of commercial papers, which can further boost the capabilities of the company in capitalizing on opportunities which exist in the marketplace.

Margins, according to expectations, were reduced in 2006 compared to 2005, as competition is growing. Part of this is due to low-cost competitors and another to the increasing impact of global ownership structures and streamlining of contract conditions across countries, as operators are focusing on their OPEX. Margins in the ICT industry are generally under pressure. Cost efficiency can only lower costs gradually, while prices drop more quickly. Another significant reason for lower margins is this year's 11% drop of the US dollar, which has heavily impacted and reduced the value of our export net sales. The slight 2006 1% top-line growth in money terms compared to 2005 could have only been achieved by a considerable growth in real volumes. The answer to decreasing margins is cost efficiency, innovation and stable and sustainable growth of the top line. We launched a number of initiatives that will create a new value for our customers by integrating our capabilities throughout the company in the years to follow.

Operations generated a very positive cash flow amounting to more than MHRK 200 – funds, which together with the use of all possible financial tools in the market, are placing Ericsson Nikola Tesla in a very good position for future expansion into new areas. There are many ways to expand, and the best companies pursue multiple strategies as market conditions change and opportunities arise.

**Windfalls, provisions and new accounting principles**

As already mentioned, the company has had extraordinary, non-recurring gains during 2006 amounting to approximately MHRK 50 – mainly due to the insurance compensation for the 2005 warehouse fire incident.

Positive developments in the markets have made it possible to substantially reduce the levels of new provisions and subsequent collections in the following periods. The net impact of new provisions and collections has thereby decreased in importance. In 2005, this net effect was as high as MHRK 43.5, while in 2006 only MHRK 16.

New IAS accounting principles for long-term financing have made it necessary to show reversals relating to long-term financing provisions as financial income, rather than other operating income. When comparing operating income by year and with other operating companies, this fact should be noted. However, to compare the EBIT (earnings before interest and taxes) will continue to be relevant, and this item has therefore been introduced into the income statement presentation.

To clarify the comparison with the past year, the 2005 figures have been reclassified to mirror this change in accounting principles.

**Summary of financial items (2005 figures in brackets)**

- \_ Orders booked: MHRK 1,623.6 (MHRK 1,608)
- \_ Net sales: MHRK 1,634.1 (MHRK 1,624.5)
- \_ Operational cash flow: MHRK +217.6 (MHRK +46.8)
- \_ Margins: 17.5% (19.9%)
- \_ Selling and General & Administrative expenses: 6.7% (7%) of net sales

\_ Earnings before interest and taxes – EBIT: 16.3% (16.5%) of net sales

\_ Profit before taxes: MHRK 264.5 (MHRK 268.4)

**Shareholders' perspective**

Ericsson Nikola Tesla continues to honour the shareholders' perspective, with transparency being a key word.

**Outlook**

Ericsson Nikola Tesla is on its way to become a fully-fledged ICT company with a high focus on all types of services – managed services, system integration, consultancy, multimedia services, etc. The company will need to expand into this area, and the necessary funds for such investments are being provided through strong, positive operational cash flow and the clever use of financial tools and opportunities. The increasing reliance on people and knowledge being the “products” that we sell, means that we need to be innovative in our approach to cost efficiency and continuously improve our processes and ways of working, but also to include partners and external suppliers in cost efficiency operations. We are changing the perspective from inside-out to outside-in, applying solutions that we intend to sell to our customers first on ourselves, and profiting from the experience.



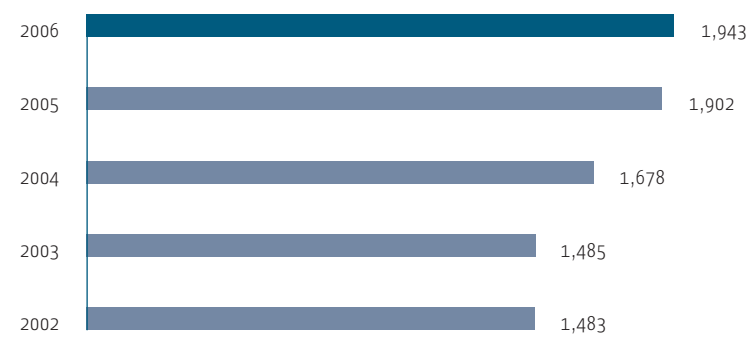
**Maria Radtke,**  
Finance and Sourcing director of  
Ericsson Nikola Tesla

If we look back to our past, we will clearly see our future, too.

# Financial highlights 2006

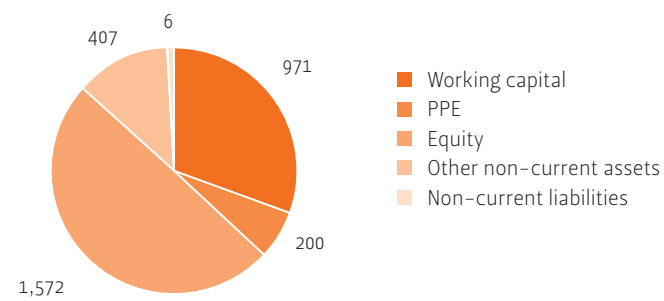
## Balance sheet

Balance sheet total (in MHRK)



Balance sheet structure as at 2006-12-31

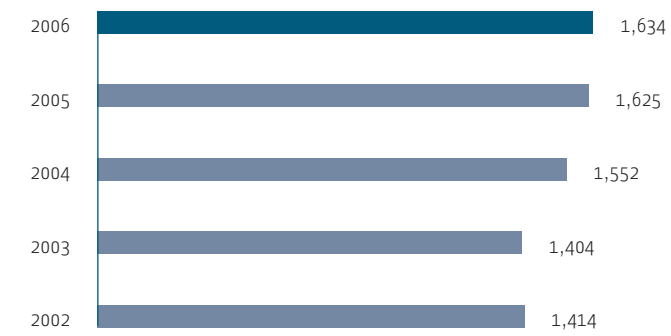
| in MHRK                  | 2002  | 2003  | 2004  | 2005  | 2006  |
|--------------------------|-------|-------|-------|-------|-------|
| Working capital          | 775   | 963   | 996   | 1,021 | 971   |
| PPE                      | 168   | 149   | 150   | 206   | 200   |
| Equity                   | 1,043 | 1,209 | 1,277 | 1,491 | 1,572 |
| Other non-current assets | 107   | 105   | 138   | 271   | 407   |
| Non-current liabilities  | 7     | 7     | 7     | 7     | 6     |



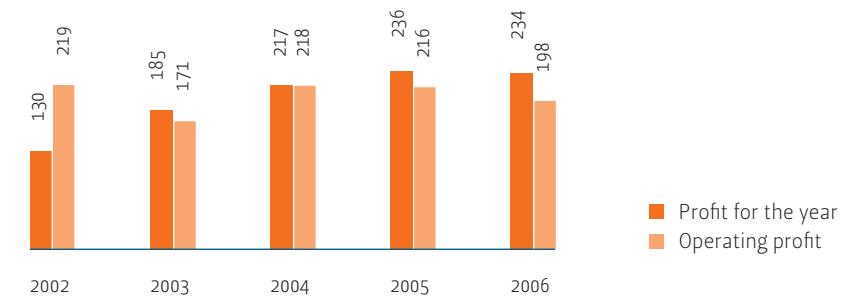
## Sales revenue, operating profit and profit for the year

| in MHRK             | 2002  | 2003  | 2004  | 2005  | 2006  |
|---------------------|-------|-------|-------|-------|-------|
| Sales revenue       | 1,414 | 1,404 | 1,552 | 1,625 | 1,634 |
| Operating profit    | 219   | 171   | 218   | 216   | 198   |
| Profit for the year | 130   | 185   | 217   | 236   | 234   |

Sales revenue (in MHRK)



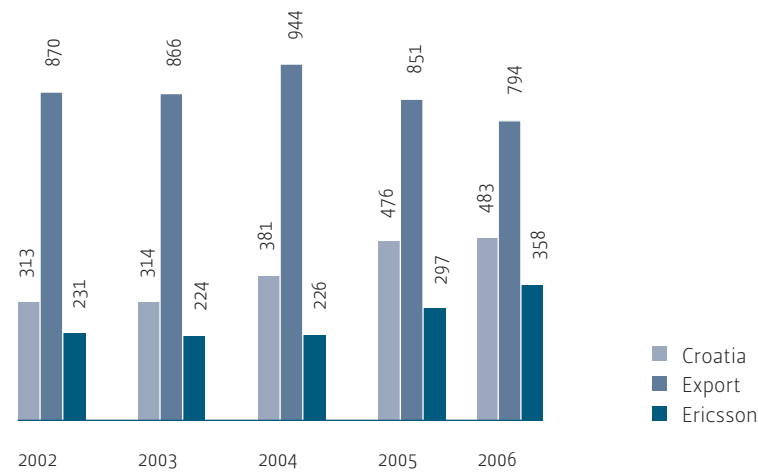
Operating profit and profit for the year (in MHRK)



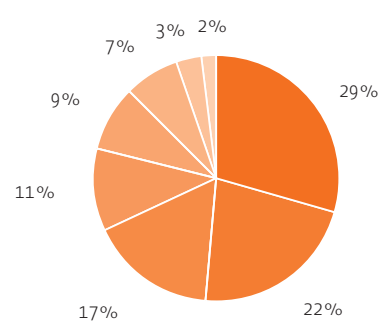
### Net sales by market

| in MHRK  | 2002         | 2003         | 2004         | 2005         | 2006         |
|----------|--------------|--------------|--------------|--------------|--------------|
| Croatia  | 313          | 314          | 381          | 476          | 483          |
| Export   | 870          | 866          | 944          | 851          | 794          |
| Ericsson | 231          | 224          | 226          | 297          | 358          |
|          | <u>1,414</u> | <u>1,404</u> | <u>1,551</u> | <u>1,624</u> | <u>1,634</u> |

Three Ericsson Nikola Tesla cornerstones (in MHRK)



Ericsson Nikola Tesla top markets 2006



| in MHRK                | 2006         |
|------------------------|--------------|
| Croatia                | 483          |
| Sweden                 | 358          |
| Belarus                | 272          |
| Bosnia and Herzegovina | 180          |
| Kazakhstan             | 139          |
| Russia                 | 118          |
| Montenegro             | 53           |
| Other                  | 31           |
|                        | <u>1,634</u> |

## Information for investors

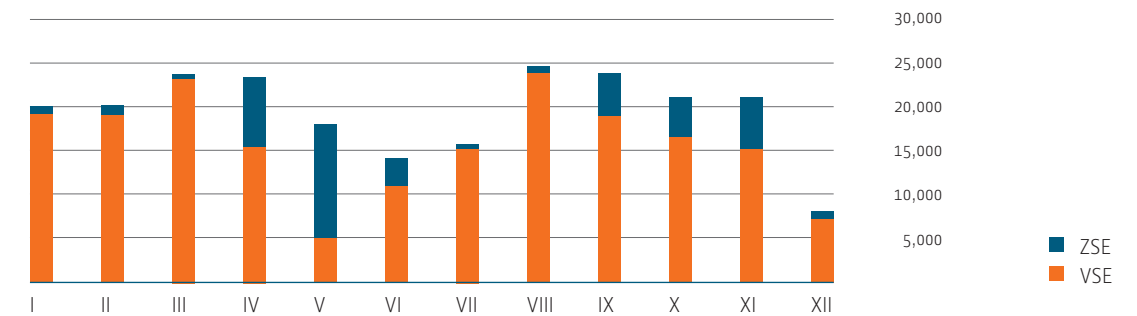
Shares of Ericsson Nikola Tesla (ERNT-R-A) were listed in the quotation of public joint stock companies in the Zagreb Stock Exchange on July 17, 2003. The shares were also traded on the free market of the Varaždin Stock Exchange. In March 2007, the process of merging the Varaždin and Zagreb Stock Exchange was completed, and the Croatian capital market gained a single, central point for share trading.

### Information on share trading and price movement

During 2006 over 230 thousand shares were traded, 82% of them on the Varaždin Stock Exchange and 18% on the Zagreb Stock Exchange. Total turnover amounted to MHRK 500.7.

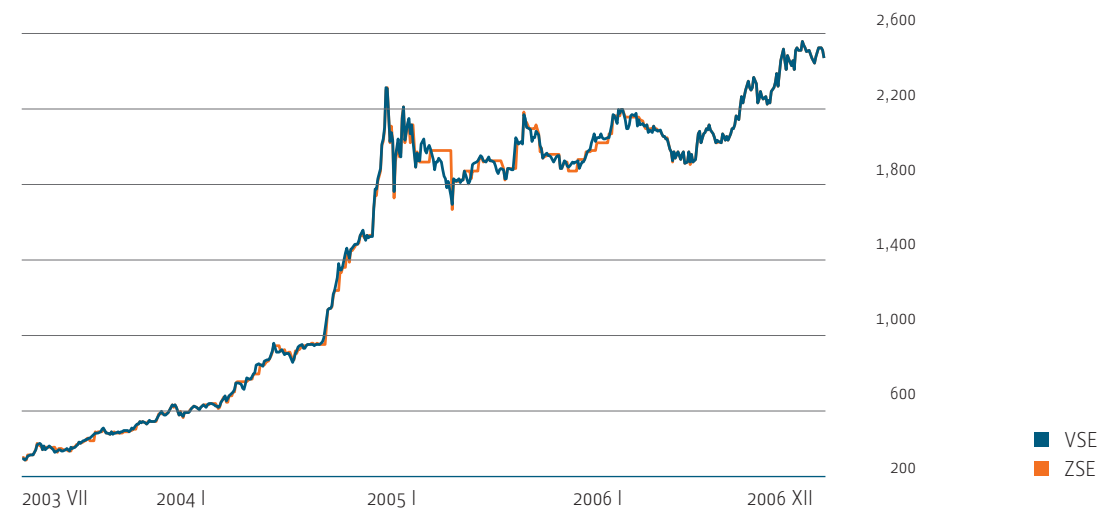
Market capitalization rose from MHRK 2,548.8 in 2005 to MHRK 3,275.9 in 2006 which is a 29% increase. The share of Ericsson Nikola Tesla in the total market capitalization of the Zagreb Stock Exchange is 2%.

Trading volume in 2006 (No. of shares)



| Month | No. of shares |        |
|-------|---------------|--------|
|       | VSE           | ZSE    |
| I     | 18,961        | 706    |
| II    | 19,064        | 660    |
| III   | 23,055        | 98     |
| IV    | 15,548        | 7,829  |
| V     | 4,924         | 12,873 |
| VI    | 10,404        | 3,369  |
| VII   | 15,215        | 303    |
| VIII  | 23,886        | 388    |
| IX    | 18,928        | 4,714  |
| X     | 16,383        | 4,365  |
| XI    | 15,123        | 5,788  |
| XII   | 7,090         | 691    |

Average daily price movement 2003 – 2006 (in HRK)

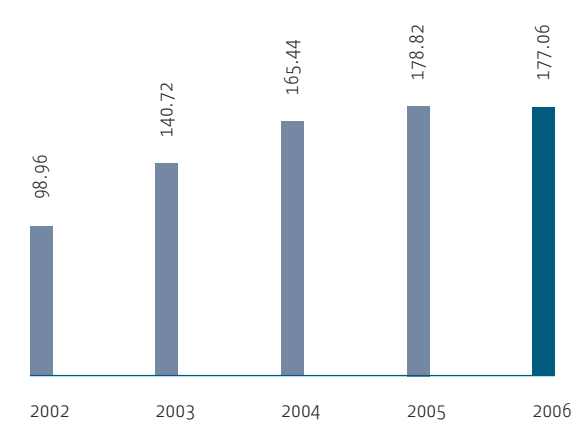


| Share price and turnover | 2003  | 2004  | 2005  | 2006  |
|--------------------------|-------|-------|-------|-------|
| Highest (HRK)            | 475   | 1,550 | 2,300 | 2,600 |
| Lowest (HRK)             | 250   | 440   | 1,495 | 1,850 |
| Last – end of year (HRK) | 445   | 1,480 | 1,914 | 2,500 |
| Turnover (MHRK)          | 117.6 | 313.8 | 638.4 | 500.7 |

| Earnings per share (HRK) | 2002  | 2003   | 2004   | 2005   | 2006   |
|--------------------------|-------|--------|--------|--------|--------|
| Earnings per share       | 98.96 | 140.72 | 165.44 | 178.82 | 177.06 |

Earnings per share (HRK)



#### Share capital

As of December 31, 2006 the share capital of the joint stock company Ericsson Nikola Tesla amounted to HRK 133,165,000 divided into 1,331,650 ordinary registered (series A) shares, each one carrying one vote at the General Shareholders' Assembly. At the end of 2006 the total number of treasury shares was 11,314 (0.85% of the share capital).

#### Shareholders

The list of Ericsson Nikola Tesla's major shareholders as of December 31, 2006.

|   | No. of shares | Percentage of capital |
|---|---------------|-----------------------|
| Telefonaktiebolaget LM Ericsson   | 653,473       | 49.07%                |
| PBZ d.d. / joint trustee client account                                       | 52,695        | 3.96%                 |
| PBZ d.d. /NLB / Hansabank clients account                                     | 40,025        | 3.01%                 |
| Raiffeisenbank Austria d.d. Zagreb / RBA                                      | 36,865        | 2.77%                 |
| Zagrebačka banka d.d. / Bank Austria Creditanstalt AG                         | 36,418        | 2.73%                 |
| Societe Generale – Splitska banka d.d. / Skandinaviska                        |               |                       |
| Enskilda Banken, Swedish residents  | 35,474        | 2.66%                 |
| Raiffeisenbank Austria d.d. Zagreb / R5                                       | 23,619        | 1.77%                 |
| Raiffeisenbank Austria d.d. Zagreb / joint account for foreign legal entities | 17,244        | 1.29%                 |
| Zagrebačka banka d.d. / Zagrebačka banka trustee account                      | 15,468        | 1.16%                 |
| Croatian Privatization Fund   | 11,848        | 0.89%                 |