



The Power of Knowledge >>

[2002 Annual Report >>](#)

Ericsson Nikola Tesla d.d.

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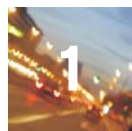
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Since its incorporation into Ericsson, the company has been transformed into a modern company fully oriented to brainware "production".



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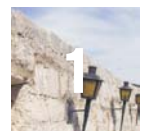
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Ericsson Nikola Tesla, the Joint Stock Company

The joint stock company Ericsson Nikola Tesla (ETK) was founded in May 1995 when, in the course of privatization, the Ericsson Corporation became the major shareholder. In the present ownership structure, Ericsson owns 49,07% of shares, small shareholders own 47,61% and the Croatian Privatization Fund 3,32% of shares.

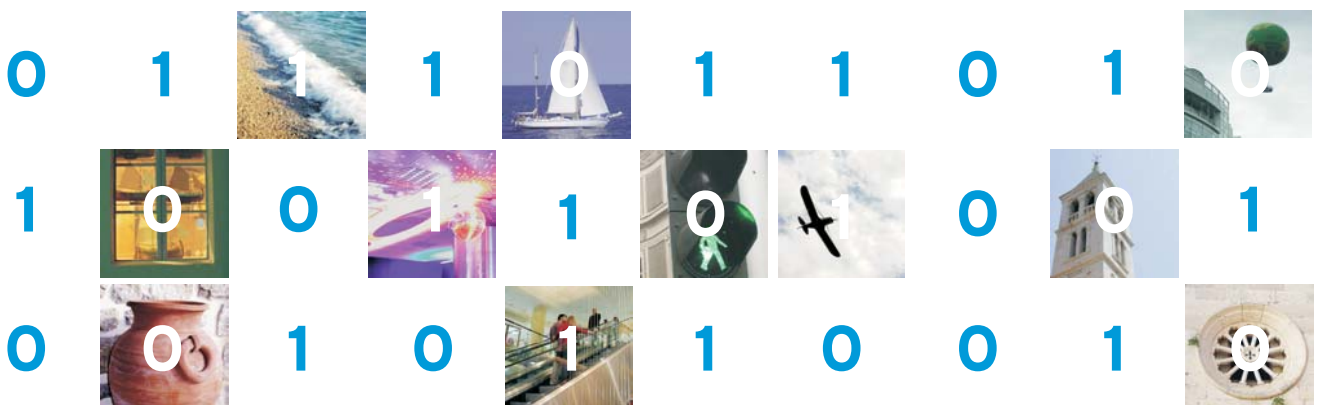
Ericsson Nikola Tesla continued the successful operations on the firm foundations laid by the Croatian company that for almost fifty years had been the largest specialized supplier of telecommunications systems and solutions in Central and Eastern Europe.

The mission of Ericsson Nikola Tesla is: To understand the customers' needs, to create business opportunities for them and to offer to them the New Telecom World solutions by being faster and better than any competitor, and by being the best partner for software and services within the Ericsson Group. In doing so Ericsson Nikola Tesla will generate profit and growth for all its shareholders.

Over the last eight years, since its incorporation into Ericsson, the company has been transformed into a modern company fully oriented to brainware "production", i.e. to the design of software and to the delivery of total communication solutions and services for global operators of fixed and mobile telephony and for large businesses worldwide. The company is fully committed to the New World of Telecommunications that features solutions and services for the mobile Internet and multi-service networks. As a member of the Ericsson Group the company offers to its customers the entire Ericsson portfolio of telecommunications products, solutions and services.

The mission

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**Ericsson Nikola Tesla,
the Joint Stock Company**

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To increase the satisfaction of its customers and to get adapted to their needs Ericsson Nikola Tesla underwent a restructuring process in 2002 and by doing so it obtained higher responsibilities related to products and solutions as well as to customers and markets. On the corporate level the company belongs to the market area Europe, Middle East and Africa (EMEA), and respectively, to the market unit Central Europe (MUCE).

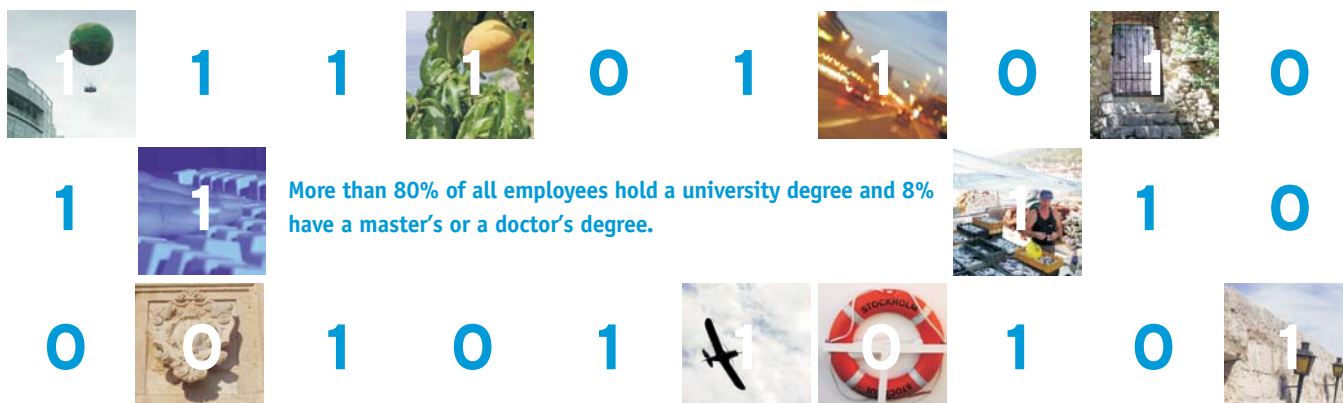
The company has successfully operated over all the years of its existence and due to its business results it occupies a position among the top ranking Croatian companies. By vote of the Croatian Chamber of Commerce Ericsson Nikola Tesla was honored in a ceremony with »The Golden Marten« as the best large company in the country in 2001. The company is one of the largest "brainware" exporters in Croatia.

The competencies of the employees play a significant role when it comes to performance and reputation of Ericsson Nikola Tesla. More than 80% of all employees hold a university degree, 8% have a master's or a doctor's degree. A significant fact is that presently almost 16% of all employees are continuing their education with postgraduate studies. All this shows the strong commitment of the company to invest into own employees as the main asset of the company.

Due to the rightsizing process in human resources the number of employees dropped in 2002 from 1162 to 1109. Within the redundancy scheme 67 employees left the company, 36 are temporarily inactive due to military service and maternity leave, 2 retired and 17 went to other companies. At the same time the company employed, i.e. re-activated 70 employees who returned from military service and maternity leave.

The age and gender structure also show improvement. The average age of employees is 39,7 years and as many as 400 employees are under the age of 32. The relation between male and female employees is 29,4% towards 70,6%, which is a good proportion, considering the standards in telecommunications worldwide.

Owing to the outstanding competencies of its specialists, to their creativity and their way of working in challenging situations Ericsson Nikola Tesla strengthened its position and broadened its responsibilities on the corporate level. During 2002 the company confirmed its standing as the expert center for total communication solutions and services in Central Europe, and in the new Ericsson organization it was assigned the status of one (out of three) centers of business excellence in customer solutions and sales support in the entire market area Europe, Middle East and Africa.



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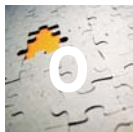
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Our result in 2002 is based to the large extent on earlier improvement programs.



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Address by Åke Enell ,
 the president of Ericsson
 Nikola Tesla to
 shareholders

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Successful 2002 - ETK on its way to business excellence

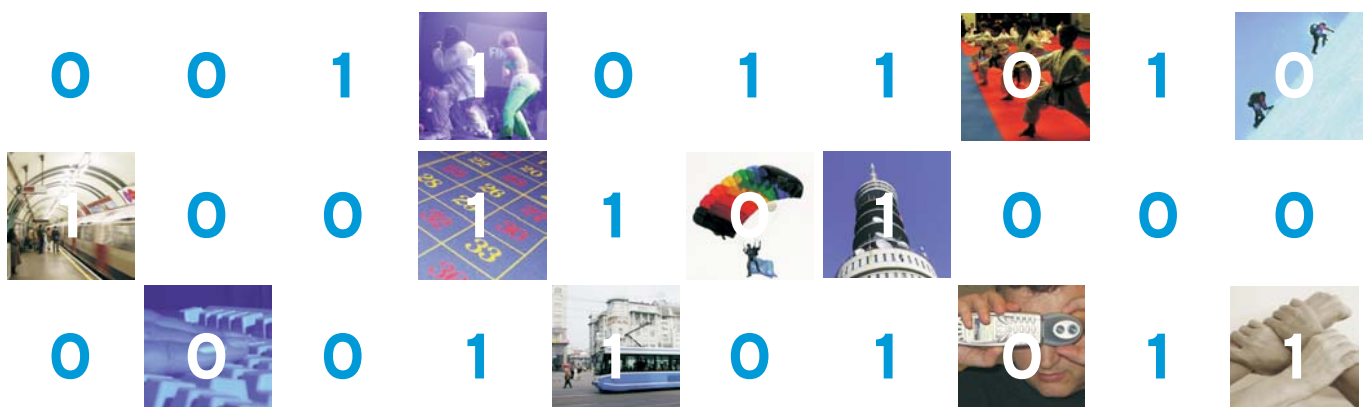
Ericsson Nikola Tesla continued its way to business excellence by accomplishing a 53rd successful year in a series. It was an even greater success when we consider the global telecom environment that over a couple of years now has carried a heavy load of numerous problems.

What contributed to the success of Ericsson Nikola Tesla in 2002? What trump cards does the company hold on its way to business excellence? How did Ericsson Nikola Tesla accomplish to place its business concepts as role models for other business subjects in Croatia and in the wider region?

Undoubtedly, 2002 was a very difficult year for the global telecom industry. We were not spared information about large employees redundancies or negative trends in the operations of global telecom players. Many hundreds of thousands of jobs were lost and the losses in billions of euros were a frequent topic among financial analysts discussing the quarterly results of the world-famous telecom companies. I may well say that I am proud that Ericsson Nikola Tesla finished another good and successful year, in spite of the turbulent and problematic environment within the entire telecom industry. Once again we used all our business opportunities which is visible in our annual financial statement.

Our result in 2002 is based to the large extent on earlier improvement programs we have accomplished over the last three years, on strong sales efforts in home and foreign markets and on cost saving activities.

It is also very important that Ericsson Nikola Tesla strengthened its position as a regional and global competence center within Ericsson during the year.



Successful 2002 - ETK on its way to business excellence

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Last year we established within the company the Mobility World Center in Croatia. The Center is included in a global corporate network consisting of 30 such centers that closely collaborate and bring together some 100.000 experts from all over the world. The Mobility World Centers develop applications and services for Ericsson's mobile and enterprise solutions. Ericsson Mobility World Centers promote cooperation with small companies and creative individuals by securing test labs and by providing technological, marketing and business support. In the MU Central Europe the membership of the Mobility World rose in the last year to 1500 individual specialists and 15 associate partners who jointly developed 17 new applications for mobile and business systems based on Ericsson solutions.

The company continued to invest into future-oriented competence shift and into the equipment indispensable for the acquisition of new 3G-related competence. A number of specialists from Ericsson Nikola Tesla have participated for over two years in the Ericsson projects for the introduction of 3G in the area stretching from Austria and Italy to Australia, Sweden and Japan. We have new UMTS equipment in place in Zagreb, designated for customer trial and later, for support. Therefore, we are ready to apply our rich experience and competence in 3G in Croatia as well!

And finally, what significantly contributed to the strengthening of ETK position within Ericsson were the new responsibilities assigned last year to our centers for Research and Development and for Customer Solutions and Sales Support. We received them owing to our outstanding competencies, our creativity in urgent situations, and our way of working.

Prioritised activities

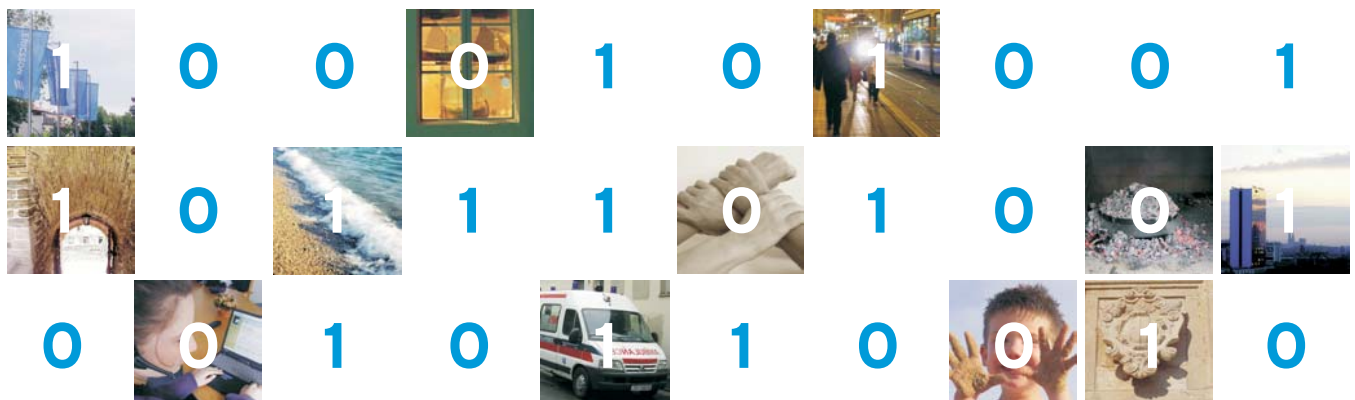
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Our focused areas during the year 2002 were finance, people and culture activities, markets and our image.

In finance cash flow, customer financing and especially cost optimization were in focus.

Our commitment to the acquisition of new competence and restructuring in compliance with the market and technological requirements are a continuous feature in our People and Culture activities. The Performance Management based on planned individual assignments was completed with enhanced training in order to further develop professional, business and human competencies of our employees. Special attention was paid to the comprehensive training of our managers and manager candidates, to enhance their leadership skills, reinforced with the ETK Assessment Centre.

When speaking of our activities in the markets we have to stress that the entire 2002 featured strong revitalization of our presence in the Croatian market and strong focus on our export markets. Measured by export results, 2002 was a record-setting year.



And finally, the image of Ericsson Nikola Tesla in 2002 was utterly positive. We accomplished this by strong concentration on integrated marketing communication that secured permanent presence of the company in the media (1825 positive pieces of information about Ericsson and Ericsson Nikola Tesla were published in the Croatian media during 2002). Due to numerous communication activities Ericsson was recognized in the wider community as the world leader in telecommunications, and Ericsson Nikola Tesla confirmed its reputation of the best employer and a good citizen of Croatia.

> Net Sales went up from MHRK 1.238 (2001) to MHRK 1.414 (up 15%) in 2002, due to the increased sales both in home and in export markets. Orders booked increased with 32% in comparison with the preceding year, which means that three orders on the average were received at the company every day. Cash flow was positive (+93 MHRK) for the fourth consecutive year.

> In the sales revenues structure per market Croatia is accounting for 20% of total sales income, whereas export, including the export to internal Ericsson market, accounts for 80%. Croatia is with its sales growth of 29% back as the largest single market. It is followed by Russia, Sweden, Belarus, Bosnia and Herzegovina, Montenegro, Sudan and Ukraine. We had a very important breakthrough in the GSM network of VIP-Net, with new contracts within the switching area. We also increased our business with HT, and we had a number of important contracts within the enterprise field. We also signed a telecommunication contract with the Defence Ministry of the Republic of Croatia. The export to foreign markets went up by 17% compared with the preceding year and only the export to Ericsson internal market, for the first time since 1996, has decreased by 7%. I should like to point out that there is a significant growth in sales in our markets in Central Europe. Excellent results were achieved in Eastern Europe where sales growth was accomplished, in spite of tough price pressure in marketplace imposed by the telecom equipment and services providers from the Far East. Good business results were achieved in the new market in Africa.

> Operating expenses, sales and administration costs decreased with 34% in comparison with the preceding year. The main reasons were tough improvement programs with focus on cost control and efficiency improvements, also on logistics and overall project management. Throughout 2002 the company was using more effectively own developed web-based tools for e-business, thus boosting efficiency and productivity.

> Income before taxes decreased from MHRK 219 (in 2001) to MHRK 168 (down 20%). It results from a tough price pressure in the marketplace, but the main reason was currency deviation, i.e. weak USD. The income before taxes in 2002 was, however, better than planned.

Very good business result, in line with our objectives

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Restructuring continued

> During 2002 the restructuring of Ericsson Nikola Tesla into a software company with a large intellectual capital, that develops, projects and integrates top-quality customer solutions and services, was continued.

Ericsson Nikola Tesla continues to cherish the result-oriented company culture, business optimization and fast adaptation to changing markets. Consequently, our business success results from the passion to win, from our dedication to customer success, team work and creativity in urgent situations. These outstanding qualities made the company Ericsson Nikola Tesla and its leading people visible and recognized not only on corporate level but also in the broader community, be it either the general public, or the expert circles. The way we work and conduct business, transparent business processes, people management, modern technology applied in business, and success we achieve in all our activities made the company a role model for the Croatian economy. Not only did the public recognize the values and qualities of our company, our employees as well are satisfied with company achievements. The results of employees satisfaction survey positioned Ericsson Nikola Tesla within the best in class.

In 2002 Ericsson Nikola Tesla obtained numerous recognitions/awards that position the company among the best employers in Croatia - we are providing the best working environment, development and earning opportunities for our employees. In 2002 the average net salary was 7.860 HRK.

Among our last-year achievements is the Croatian Business Woman of the Year from our own ranks; our managers are, by vote of leading Croatian media, among the most successful Croatian managers, and our marketing communication practice was included in an university textbook. The company won awards and recognitions as the best exhibitor at international information technologies fairs home and abroad (INFO in Zagreb, INFOFEST in Budva, BIHTEL in Sarajevo), and the company web page ranks among the ten top corporate web pages in the country. With its participation in positive initiatives in the Croatian society the company also confirmed its mission to be a socially responsible entrepreneur and respectively, to be a good citizen who actively contributes to creating the prerequisites for prosperity in Croatia.

Challenges in 2003

> The year 2003 shows no signs of turn-around within the telecommunication sphere. We expect a slowdown in investments and undoubtedly, this will have impact on the operations of all providers of telecommunications equipment and services, among them on Ericsson as well. It is expected that the mobile systems market will end flat or slightly down and the wireline systems market will continue to shrink further. Consequently, the year 2003 will be a very challenging year as we expect a slowdown in investments by our customers (customers CAPEX, capital investments), on the other hand we will face a much lower demand in volumes from Ericsson corporate.



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During 2002 we achieved all our main financial objectives.

**Business Performance
in 2002**

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Cash flow

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Our objective is to generate own cash flow in order to have freedom to make our own decisions and we have been up to the task in reaching the best results so far.

Our liquid position (including current financial assets) has increased by nearly 100 MHRK during the year and, most importantly, all through business-related activities.

Good cash management, where we have reduced costs through implementing most of the available tools for e-banking but also through a clear focus on customers payments, has resulted in reduction of provisions for bad debts. Possibilities for cash discounts have also been utilised.

Once again I would like to point out that through our good results we have also managed to get bigger support from financial institutions we are working with. This means that today we have less problems to find attractive financial solutions for customers on terms that are on global level and in some cases even better. A very important factor in this success is higher level of operational services and potentials that locally established banks have today through their internationally improved network. Future development of the local financial institutions' ability and their readiness to follow us and our customers are crucial issues to be secured in our strategy.

The main area of our concern during the year was the extremely volatile USD currency position. In our results for the year 2002 the main cost burden was related to the devaluation of USD towards HRK. During the year we have worked on swapping USD for HRK and/or EUR but since our main export markets (and export shows the biggest growth) are USD-oriented, our USD dollar position continues to cause us problems. The main losses refer to the second quarter of the year when the drastic drop of USD occurred. In the period after that we have not faced further losses. During 2003 we will further improve risk management regarding currency risks as we foresee a volatile situation regarding currency rates to continue.

Capital turnover

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The main driver to achieve positive cash flow is of course to be profitable. However, we in Ericsson Nikola Tesla are focused hard on utilising our assets as efficiently as possible.

We are focusing on the below stated areas with the following targets:

Regarding inventory management, we are now targeting 20 days, which will be our long-term level. During the year we achieved that.



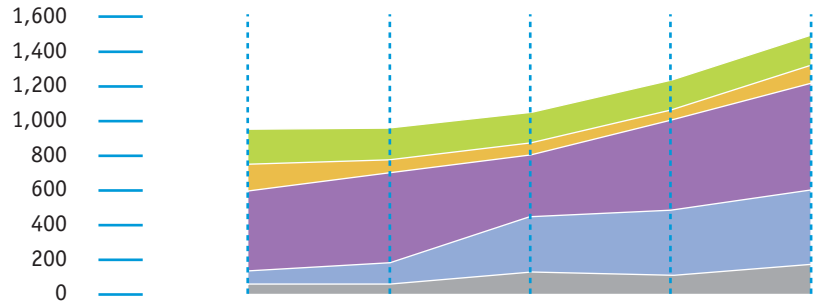
Our liquid position has increased - all through business-related activities - by nearly 100 MHRK during the year.

**Financial Highlights
in 2002**

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**Assets
(MHRK)**

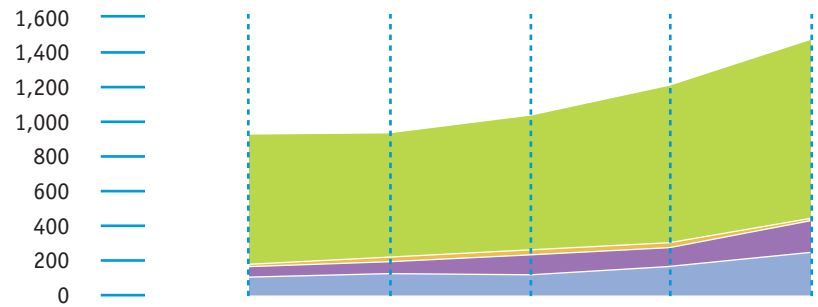
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	1998	1999	2000	2001	2002
PPE	203.73	190.35	175.37	177.19	168.36
Inventories	146.44	72.77	60.00	41.06	102.93
A/R	456.17	511.89	356.86	516.58	610.53
Cash	80.17	115.80	317.37	393.56	441.47
Other	54.51	61.91	125.81	91.31	159.76
Total	941.02	952.72	1,035.41	1,219.70	1,483.05

**Equity & Liabilities
(MHRK)**

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	1998	1999	2000	2001	2002
Capital	761.37	738.40	785.67	931.05	1,042.69
Loans	4.50	4.70	4.41	8.44	7.50
A/P	57.00	74.44	119.11	106.26	186.80
Other	118.15	135.18	126.22	173.95	246.06
Total	941.02	952.72	1,035.41	1,219.70	1,483.05

Our Selling and General expenses went down from 11.6% of Net Sales in 2001 to 7.8% in 2002.

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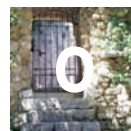


3G unites the best capabilities of mobile communications and the Internet.



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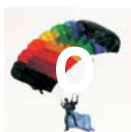
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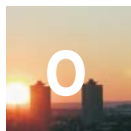
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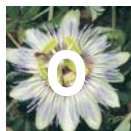
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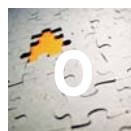
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What is 3G?

Some day in the future...

... you are awakened by music coming from your 3G mobile phone. Every day it is a different, totally new Internet song that starts at the time sharp you determined. Getting up, you glance at the prognostic map of Croatia just delivered on your mobile screen. The sunshine outside is deceptive, real weather is harsh: it is -10 °C outside, and you have taken a day off. On your way to the railway station you buy two rolls for breakfast and a bottle of excellent wine, a present for a friend of yours, and you pay over your 3G mobile. You are ready for a trip; still, there is a minor problem: yesterday you forgot to adjust your mobile phone to your PC - you solve this quickly over the 3G network. A list of your daily assignments from your permanently overbooked calendar and new e-mail arrive on the screen. The camera on the phone makes the video transmission possible, so you send a video birthday card to a colleague, directly from the train. You answer your e-mail and look through the documents for a meeting with a business partner scheduled for the following day. During the last twenty minutes of the journey you are connected to your bank account and you pay your bills; the time saved you will spend on activities that are much more fun.

You arrive at your destination - the town of your childhood and youth. The location service that you use over your mobile phone helps you find quite easily the restaurant where you are supposed to meet this friend of yours. Afterwards, still in thoughts about your childhood, you go downtown for a walk. On your mobile screen a couple of offers for shopping from near-by shops appear. You make use of the information about the occasion sale and buy a CD that will please your wife on her return home from a business trip. Still, there is enough time till your train leaves. You can walk a bit more on your own, or you can check whether any of your friends is around. On digital map you locate Joanna, you call her and you quickly agree on



Ericsson has a leading role in the development and standardization of 3G mobile systems and in defining the strategy of migration towards the 3G systems. Ericsson is intensively involved in international research projects related to WCDMA. Ericsson also set a record in new developments and implementations in this branch of industry. Ericsson holds a number of patents in WCDMA technology and has proposed over 2000 improvements in 3G specification. Among the telecoms manufacturers Ericsson made a major contribution to 3GPP (3G Partnership Project) standardization body.

In September 1999 Ericsson and the Swedish operator Telia demonstrated live the first roaming between the commercial GSM network and the 3G mobile communications.

At CeBIT 2000 Ericsson staged the first live public demonstration of a multi-party link-up between Ericsson's WCDMA pilot systems across seven countries in four world regions.

In April 2001 Ericsson and British Vodafone demonstrated the world's first WCDMA call across a commercial network. Late that year Ericsson participated in the first 3G international roaming test call made between J-Phone Japan and Vodafone Spain. The test results showed that the subscriber was capable of receiving and sending calls from the same terminal when travelling abroad, by using the same subscriber number. All calls made during the test were established across the 3G network completely delivered to J-Phone Japan by Ericsson.

Early in 2002 Ericsson and AT&T Wireless completed the first live WCDMA/UMTS call in the United States, with real 3G functionality shown at the rate of 384 kbit/s. At the same time, Ericsson and Hutchison tested the mobile video telephony, one of the most interesting and exciting features of 3G mobile networks that is based on Ericsson's new video gateway, in Italy, Great Britain and Hong Kong.

In September 2002 Mobikom Austria announced the start of 3G service in major parts of Austria. As one of the 3G network infrastructure suppliers Ericsson had been playing an essential role in implementing the UMTS services according to schedule and functionality requirements. Late in January 2003 Ericsson conducted the world's first IPv6 (Internet Protocol version 6) call across 3G UMTS/WCDMA network. The demonstration showed vital medical data, voice and video transmitted by using IPv6 and seamlessly roaming over 2G and 3G systems and wireless LANs. Through a close collaboration with leading global operators Vodafone and NTT DoCoMo, Ericsson supports the vision of mobile users being »Always best connected«.

Until now the Ericsson Group has signed 38 WCDMA contracts out of a total of 73 WCDMA contracts reported globally, thus firmly holding over 40% of the global WCDMA market. Ericsson is the world leading supplier of 3G mobile systems.

The first UMTS call in Croatia was established by the specialists of Ericsson Nikola Tesla back in November 2001. Over two years now many specialists of the company have been participating in Ericsson's UMTS introduction projects worldwide, from Western Europe to Australia and Japan. Ericsson Nikola Tesla believes that this rich experience and competence may soon be implemented in Croatia after the licensing for the 3G network has taken place.

Ericsson's leadership in 3G

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We are ready for 3G

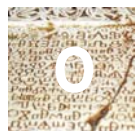
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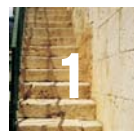


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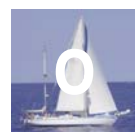
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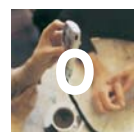
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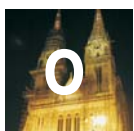
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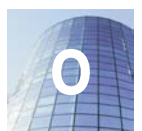
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Financial statements >>

as at 31 December 2002
together with auditors' report

Company profile

> History and incorporation >

Ericsson Nikola Tesla d.d. (the Company) is a Croatian company with a continuity longer than fifty years. It has always been a leading specialized supplier and exporter of telecom equipment, software solutions and services in Central and Eastern Europe.

The Company was founded as a result of the privatisation of the enterprise Nikola Tesla - Poduzeće za proizvodnju telekomunikacijskih sistema i uređaja, po. - i.e. the legal form characteristic for the economic and legal system in the former Yugoslavia, which did not specify the owner of the enterprise.

The Company was incorporated on 13 May 1995 and on the same date it was registered in the Court Register with an initial share capital of HRK 501,366,225. The Company was registered with the Trade Court in Zagreb on 13 June 1995. Following the decision of the General Assembly of the shareholders made on 17 December 1998, the base capital of the Company, amounting to HRK 501,366,225, was reduced by HRK 101,871,225 and now it is HRK 399,495,000. In November 1999, the period of six months from submitting the proposal to the court for satisfactory resolution of liabilities to the creditors ended and the Company paid out HRK 101,067 thousand. The remaining balance of HRK 804 thousand relates to the own shares that the Company had at that date. The reduction of the base capital was carried out by reducing the nominal value of the issued shares from DEM 100 to HRK 300.

According to the current ownership structure, Telefonaktiebolaget LM Ericsson (Ericsson) is the major single shareholder of the Company and it owns 49.07% of shares, the remaining shareholders own 47.61% of the Company's shares, while the Croatian Privatisation Fund owns 3.32% of the Company's shares.

Principal activities >

The principal activities of the Company are the following: development of telecommunications software and services, design and integration of total communications solutions for operators and enterprises as well as testing, sales and maintenance of communications solutions and systems in the Republic of Croatia, some seventy countries of Central and Eastern Europe, Middle East, Central Asia and Africa as well as other companies within the Ericsson Group.

Directors and management >

Supervisory Board

Supervisory Board members during 2002 and up to the release of these statements were:

Mats Dahlin	from 04 June 2002	Chairman
Pär Lövgren	from 04 June 2002	Vice-Chairman
Lars Olof Lindgren	till 04 June 2002	
Dubravko Cej	till 04 June 2002	
Jan Frykhammar	till 04 June 2002	
Erik Nordling	till 04 June 2002	
Vladimir Kovar	till 04 June 2002	
Björn Hemstad		
Zvonimir Jelić	from 04 June 2002	
Ignac Lovrek		

Board

The board has only one member:

Lars Åke Einar Enell	Director
----------------------	----------



Executive management

As at 31 December 2002, the Company's executive management comprised:

Lars Åke Einar Enell	Director	
Rajko Pfaff	Deputy President	
Gordana Kovačević	Vice-President	Director of Operations
Josip Jakovac	Vice-President	Director of Export 1
Ivan Vilić	Vice-President	Director of General Services
Björn Dellås		Director of Research and Development Centre
Lars Jacobson		Director of Business Support
Ana Jožinec		Director of People and Culture
Thomas Svane Falk		Director of Export 2
Milivoj Pejković	Vice-President	Key Account Manager VIPNet
Tihomir Šicel		Key Account Manager HT
Tibor Jerger		Key Account Manager Other
Snježana Bahtijari		Manager of Communication
Antun Carić		Business Development and Marketing Manager
Sead Kotlo		Business Development and Marketing Manager

Pursuant to the Croatian Accounting Law (90/92), the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board which give a true and fair view of the state of affairs and results of the Company for that period.

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- > suitable accounting policies are selected and then applied consistently;
- > judgements and estimates are reasonable and prudent;
- > applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- > the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board must also ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

< Statement of responsibilities of the Board

Signed on behalf of the Board:

Lars Åke Einar Enell
 Ericsson Nikola Tesla d.d.
 Krapinska 45, 10000 Zagreb
 Republic of Croatia
 7 March 2003

**To the Shareholders of Ericsson
Nikola Tesla d.d. Zagreb:**

>

We have audited the accompanying financial statements of Ericsson Nikola Tesla d.d. Zagreb (the Company) as at 31 December 2002, as set out on pages 29 to 52. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by the Croatian Accounting Law.

Respective responsibilities of the Board and auditors

As described on page 27, these financial statements are the responsibility of the Company's Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit of the financial statements of the Company in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2002 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards, as required by the Croatian Accounting Law.



**Arthur Andersen d.o.o., Zagreb
Republic of Croatia**



Renata Jenčić

Zagreb, 7 October 2002

Zagreb, 7 March 2003

Ericsson Nikola Tesla income statement

For the year ended 31 December 2002

<i>HRK '000</i>	Notes	2002	2001
Sales income	1,2	1,414,135	1,238,177
Subsidies		-	18
Other income	3	28,586	38,981
Total operating income		1,442,721	1,277,176
<i>Operating costs</i>			
Changes in inventories of finished goods and work-in-progress		10,410	(9,125)
Cost of components and raw material		557,199	495,926
Other material costs (services)	4	298,255	217,130
<i>Staff costs</i>			
Wages and salaries	5	125,300	123,088
Pensions, health insurance and other payroll costs	5	122,123	121,833
Depreciation, amortisation and impairment loss	6	58,373	60,835
Provisions (recoveries) against doubtful assets	7	(17,425)	13,923
Provisions against risks	8	10,394	1,694
Other operating charges	9	58,939	69,468
Total operating costs		1,223,568	1,094,772
Operating profit		219,153	182,404
Financial income	10	79,547	107,143
Financial expense	11	(130,434)	(69,568)
Net result from financial activities		(50,887)	37,575
Income before tax		168,266	219,979
Taxation	12	(38,234)	(44,070)
Net income for the year		130,032	175,909
Basic earnings per share (HRK)	13	98,96	133,87

The accompanying accounting policies and notes are an integral part of this income statement

Ericsson Nikola Tesla balance sheet

31 December 2002


<i>HRK '000</i>	Notes	2002	2001
ASSETS			
B. Non-current assets			
Intangible assets	14	4,560	5,076
Tangible fixed assets	15	168,356	177,190
Investments	16	10,169	9,789
Investments in subsidiaries	17	40	-
Investments in associates	18	5	5
Long-term receivables	19	78,585	116,991
Deferred tax assets	12	13,179	15,250
		<hr/>	<hr/>
Total non-current assets		274,894	324,301
		<hr/>	<hr/>
C. Current assets			
Inventories	20	102,931	41,063
Receivables from related parties	32	42,602	30,069
Trade receivables	21	497,526	379,182
Other receivables	22	21,610	4,086
		<hr/>	<hr/>
Total receivables		561,738	413,337
Current financial assets	23	100,152	44,274
Cash and cash equivalents	24	441,473	393,562
		<hr/>	<hr/>
Total current assets		1,206,294	892,236
		<hr/>	<hr/>
D. Prepayments and accrued income		1,860	3,167
		<hr/>	<hr/>
F. TOTAL ASSETS		1,483,048	1,219,704
		<hr/>	<hr/>

Ericsson Nikola Tesla balance sheet (continued)

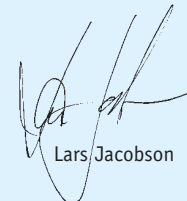
31 December 2002

HRK '000	Notes	2002	2001
EQUITY AND LIABILITIES			
A. Capital and reserves			
Share capital		399,495	399,495
Share premium		804	804
Reserves		36,958	36,958
Retained earnings		475,401	317,888
Profit for the year		130,032	175,909
		642,391	530,755
Equity	25	1,042,690	931,054
C. Non-current liabilities			
Employee benefits obligations	26	3,544	4,329
Long-term loans	27	3,951	4,112
Total non-current liabilities		7,495	8,441
D. Current liabilities			
Liabilities toward related parties	32	158,770	83,347
Current financial liabilities	28	19,645	4,585
Income tax payable		5,854	26,327
Accounts payable and other short-term liabilities	29	64,940	58,760
Provisions	30	26,974	22,144
Total current liabilities		276,183	195,163
E. Accruals and deferred income	31	156,680	85,046
Total liabilities		440,358	288,650
F. TOTAL EQUITY AND LIABILITIES		1,483,048	1,219,704

Signed on behalf of the Company on 7 March 2003:



Lars Åke Einar Enell



Lars Jacobson

The accompanying policies and notes are an integral part of this balance sheet.

Ericsson Nikola Tesla cash flow statement

For the year ended 31 December 2002

<i>HRK' 000</i>	2002	2001
Cash flows from operating activities		
<i>Net income for the year</i>	130,032	175,909
Adjustments for:		
Depreciation and amortisation	55,188	60,835
Change in provision	4,830	(15,303)
Change in employee benefit obligation	(785)	4,329
Deferred taxation	2,071	6,801
Current taxation	36,163	37,269
Losses on fixed assets disposed	5,519	159
Provision for doubtful receivables	22,923	44,828
Provision against inventories	6,942	7,297
Change in fair value of embedded derivatives	33,834	(6,807)
Investment income	(24,958)	(28,654)
Unrealised foreign exchange differences	5,290	1,577
<i>Operating profit before working capital changes</i>	277,049	288,240
(Increase)/decrease in inventories	(68,810)	11,635
(Increase) in receivables	(168,961)	(178,372)
Increase/(decrease) in accounts payable	82,930	(1,457)
Increase in accrued charges and deferred income	71,634	20,881
Decrease in prepaid expenses and accrued income	1,307	3,354
<i>Net cash generated from operations before taxation</i>	195,149	144,281
Income taxes (paid)/recovered	(56,635)	9,277
Net cash generated from operations	138,514	153,558
Cash flows used in investing activities		
Interest received	24,958	28,654
Purchase of tangible fixed assets	(48,916)	(60,832)
Purchase of intangible assets	(2,613)	(1,408)
Increase in long-term deposits	(420)	(7,478)
Net change in current financial assets	(46,140)	(17,984)
Workers' apartments	1,053	359
<i>Cash used in investing activities</i>	(72,078)	(58,689)
Cash flows from financing activities		
Repayment of long-term debt	(129)	(279)
Dividends paid	(18,396)	(18,396)
<i>Cash used in financing activities</i>	(18,525)	(18,675)
Net cash inflow	47,911	76,194
	<i>HRK '000</i>	
Cash and cash equivalents, 1 January 2001	317,368	
Net cash inflow	76,194	
Cash and cash equivalents, 31 December 2001	393,562	
Net cash inflow	47,911	
Cash and cash equivalents, 31 December 2002	441,473	

The accompanying accounting policies and notes are an integral part of this cash flow statement.

Ericsson Nikola Tesla statement of changes in equity

For the year ended 31 December 2002

	Notes	Share capital	Decrease in share capital	Share premium	Transformation reserve	Legal reserve	Retained earnings	Reserve for own shares	Own shares	Total
<i>HRK '000</i>										
Balance, 31 December 2000		501,366	(101,067)	-	16,848	20,110	348,417	5,890	(5,890)	785,674
Balance, 1 January 2001 as previously stated		501,366	(101,067)	-	16,848	20,110	348,417	5,890	(5,890)	785,674
Effect of adopting IAS 39	24	-	-	-	-	-	(12,133)	-	-	(12,133)
Balance, 1 January 2001, as restated		501,366	(101,067)	-	16,848	20,110	336,284	5,890	(5,890)	773,541
Decrease in share capital	24	(101,871)	101,067	804	-	-	-	-	-	-
Dividend distribution		-	-	-	-	-	(18,396)	-	-	(18,396)
Net income		-	-	-	-	-	175,909	-	-	175,909
Balance, 31 December 2001		399,495	-	804	16,848	20,110	493,797	5,890	(5,890)	931,054
Dividend distribution		-	-	-	-	-	(18,396)	-	-	(18,396)
Net income		-	-	-	-	-	130,032	-	-	130,032
Balance, 31 December 2002		399,495	-	804	16,848	20,110	605,433	5,890	(5,890)	1,042,690

The accompanying accounting policies and notes are an integral part of this statement of changes in equity.

Accounting policies

A summary of the Company's principal accounting policies is set out below.

General

The Company maintains its accounting records in Croatian Kuna and in accordance with the Croatian law and the accounting principles and practices observed by enterprises in Croatia.

Basis of preparation

The Company's financial statements have been prepared under the historical cost convention, with the exception of financial instruments which are carried at fair value, and in accordance with Croatian law and International Financial Reporting Standards as issued by the International Accounting Standards Board. Following the introduction of IAS 39, Financial Instruments: Recognition and Measurement, available for sale investments are carried at fair value, receivables at amortised cost and all derivatives (e.g. embedded derivatives) have been recognised as assets or liabilities. The opening balance of equity (retained earnings) as at 1 January 2001 has been adjusted. Prior year comparative figures have not been restated.

Reporting currency

The Company's financial statements have been prepared in Croatian Kuna (HRK). The effective exchange rate as at 31 December 2002, was Kuna 7.1464 per 1 United States Dollar (2001, 8.356) and Kuna 7.442 per 1 Euro (2001, 7.370).

Changes in presentation or classification of items in the financial statements

Certain amounts of income and expenses and balance sheet items were reclassified and reclassifications were made to the corresponding figures to conform with the current year's presentation.

Intangible assets

Intangible assets represent software (SAP, SOFTPRO) and are stated at purchase cost. They are amortised on a straight-line basis over a life of 4 years.

Tangible fixed assets

Tangible fixed assets are shown at historical cost, modified to reflect hyperinflation prior to 31 December 1993 as required by IAS 29, less accumulated depreciation.

Depreciation is provided on a straight-line basis over the estimated economic useful life of the assets, as follows:

Buildings	5 - 30 years
Technical equipment	4 - 10 years
Other (vehicles, tools, furniture and fixtures)	4 - 7 years

Expenditure on repairs and maintenance is expensed as incurred. The Company's apartments rented by employees are stated on the same basis as tangible fixed assets.

Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's net selling price and its value in use. Financial instruments are reviewed for impairment at each balance sheet date.

Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months.

Receivables

Receivables are stated at the fair value of consideration given and are carried at amortised cost. Receivables have been written down to their estimated realisable value through an allowance for bad and doubtful accounts.

Inventories

Inventories are stated at the lower of cost (substantially FIFO) and net realisable value. Cost includes materials, labour and related overhead. Slow-moving and obsolete inventories have been written down to their estimated realisable value.

Investments

Investments are classified into the following categories: held to maturity and available for sale. Investments with fixed or determinable payments and fixed maturity that the Company has positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held to maturity investments. All other investments, other than loans and receivables originated by the Company, are defined as available for sale.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Available for sale investments are subsequently carried at fair value without any deduction for transaction costs that the Company may incur on sale or other disposal. Held to maturity investments and loans and receivables originated by the Company are carried at amortised cost using the effective interest rate method.

Gains or losses on measurement to fair value of available for sales investment are recognised in the net profit or loss for the period and are included in the result of financial activities.

Taxation

The income tax charge is based on taxable profit for the year and considers deferred taxation. Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets.

Foreign currencies

Transactions denominated in foreign currencies are translated into local currency at the rate prevailing at the date of the transaction. Foreign currency receivables and payables at the balance sheet date have been translated at the year-end exchange rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the income statement.

Recognition of revenues

For long-term contracts, revenue is recognised according to stage of completion. The stage of completion is measured by the proportion of contract cost incurred for work performed to date in relation to the estimated total contract costs. If the cost required to complete such contract is estimated to exceed remaining revenues, provision is made for estimated losses in the period in which such loss is estimated.

Sales revenue from other activities is recorded upon delivery of products, software and services and represents amounts realised, excluding value added tax.

Research and development cost

Expenditures for research and development are recognised as an expense when incurred. In the year 2002 HRK 4,215 thousand (2001, HRK 4,384 thousand) of research and development cost was expensed as these do not qualify for capitalisation.

Employee benefits

The Company provides employees with jubilee and one off retirement awards. The obligation and costs of these benefits are determined by using a Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
 - a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
 - the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.
- For the Company, these conditions are met for a significant number of sales and purchase contracts based on a different currency to either party of the contract. Therefore, embedded forward foreign currency rate contracts are separated from host contracts and measured at fair value of such instrument at the balance sheet date. The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date.

Provisions

A provision is recognised when, and only when, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The most significant provisions in the financial statements are provisions for warranty claims, penalty claims and litigation.

Notes to the financial statements

1

Sales income

>

	HRK '000	2002	2001
Sales in Croatia		312,947	242,495
Sales in CIS and neighbouring countries		583,649	401,916
Sales to the European Union		238,983	252,270
Sales in former Yugoslavia, other than Croatia		245,546	206,758
Other export sales		33,010	134,738
		<u>1,414,135</u>	<u>1,238,177</u>

Out of total sales of HRK 1,414 million, sales of products amounted to HRK 858 million (2001, HRK 801 million) and sales of services amounted to HRK 556 million (2001, HRK 437 million).

Sales income comprises construction contract revenue recognised as revenue in the amount of HRK 865 million (2001, HRK 782 million).

2

Segment information

>

	Mobile Systems		Multi-Service Networks		Other		Total	
HRK '000	2002	2001	2002	2001	2002	2001	2002	2001
External sales and other income	558,445	549,696	773,011	613,555	111,265	113,925	1,442,721	1,277,176
Segment results	94,734	82,819	151,001	128,827	9,438	12,995	255,173	224,641
Unallocated Company's expenses							(36,020)	(42,237)
Operating profit							219,153	182,404
Financial income							79,547	107,143
Financial expense							(130,434)	(69,568)
Net result from financial activities							(50,887)	37,575
Income before tax							168,266	219,979
Taxation							(38,234)	(44,070)
Net income for the year							<u>130,032</u>	<u>175,909</u>

Mobile Systems

This segment provides system solutions/networks mainly for mobile operators.

Multi-Service Networks

This segment provides products and solutions for fixed networks, such as narrowband and broadband access networks.

Other business operations

This segment includes enterprise systems, dedicated networks, cables and components, defence communications and support unit shared services.

Notes to the financial statements (continued)

2

Segment information (continued)

	Mobile Systems		Multi-Service Networks		Other		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
HRK '000								
Segment assets	276,166	239,997	382,275	267,902	55,023	49,743	713,464	557,642
Unallocated Company's assets							769,584	662,062
Total Company's assets							1,483,048	1,219,704
Segment liabilities	86,762	46,104	120,098	51,465	17,286	9,556	224,146	107,125
Unallocated Company's liabilities							1,258,902	1,112,579
Total Company's liabilities							1,483,048	1,219,704
Depreciation and amortisation	10,587	13,227	14,655	14,765	2,109	2,741	-	-
Other non-cash expenses	8,873	2,746	12,282	3,056	1,768	569	-	-

All the Company's assets are located in Croatia.

3

Other income

HRK '000	2002	2001
Commission income	13,383	12,667
Reversal of provisions (note 30)	5,564	16,996
Income from restaurant	-	1,171
Other	9,639	8,147
	28,586	38,981

Notes to the financial statements (continued)

4

Other material costs (services)

>

	HRK '000	2002	2001
Third party suppliers		126,481	53,981
Licence fees		49,610	40,597
Telecommunication and transportation costs		37,154	34,313
Maintenance services		32,361	32,845
IS/IT services and support		6,583	7,140
Other external services		46,066	48,254
		<u>298,255</u>	<u>217,130</u>

Third party suppliers' services include subcontractors on projects, commissions paid to consultants and similar.

The Company pays licence fees on sales of AXE and other products. In the year 2002 the method of calculating the licence fee was changed so that such fee is paid as a percentage of sales of BMSN products and solutions instead of paying fixed fee per product sold (note 32). The new method was applied only to contracts signed in 2002 and concerning contracts signed before 2002, the old method was applied.

5

Staff costs

>

	HRK '000	2002	2001
Gross payroll		197,685	193,453
Health and pension contributions		33,881	29,896
Other payroll-related costs		15,857	21,572
		<u>247,423</u>	<u>244,921</u>
<i>Of that:</i>			
Net payroll		125,300	123,088
Taxes and contributions		106,266	100,261
Other payroll-related costs		15,857	21,572
		<u>247,423</u>	<u>244,921</u>

At the year end the Company employed the following personnel:

	2002	2001
Customer Solutions and Marketing Support	167	181
Customer Services	249	250
Research and Development Centre	379	361
Sales	71	70
Support functions (finance, IT, procurement, legal, human resources, real estate, logistics)	228	268
Employees on long-term assignment abroad	15	32
	<u>1,109</u>	<u>1,162</u>

Notes to the financial statements (continued)

6

Depreciation, amortisation and impairment loss

<i>HRK '000</i>	2002	2001
Depreciation of tangible fixed assets	46,434	49,444
Amortisation of intangible assets	2,854	2,337
Impairment loss	5,900	9,054
Provision for demolishing of obsolete buildings	3,185	-
	<u>58,373</u>	<u>60,835</u>

The impairment loss noted above has been recognised for certain buildings for which the recoverable amount was below the net book value (note 15).

7

Provisions (recoveries) against doubtful assets

<i>HRK '000</i>	2002	2001
Provision against doubtful receivables	22,923	44,828
Collected doubtful receivables	(47,290)	(38,202)
Provision against inventories	6,942	7,297
	<u>(17,425)</u>	<u>13,923</u>

8

Provisions against risks

<i>HRK '000</i>	2002	2001
Warranty reserve	9,390	1,694
Penalty reserve	1,004	-
	<u>10,394</u>	<u>1,694</u>

9

Other operating charges

<i>HRK '000</i>	2002	2001
Travel allowances	32,769	39,189
Educational costs	5,899	11,488
Other operating charges	20,271	18,791
	<u>58,939</u>	<u>69,468</u>

Notes to the financial statements (continued)

10

Financial income

>

	HRK '000	2002	2001
Interest income		24,958	28,654
Gains on foreign exchange		44,850	75,651
Fair value gains on embedded derivatives		9,739	2,838
		<u>79,547</u>	<u>107,143</u>

11

Financial expense

>

	HRK '000	2002	2001
Losses on foreign exchange		(114,743)	(63,676)
Interest expense		(543)	(1,476)
Fair value losses on embedded derivatives		(15,028)	(4,416)
Other		(120)	-
		<u>(130,434)</u>	<u>(69,568)</u>

12

Taxation

> Income tax has been calculated at 20% (statutory tax rate) of the taxable income of the Company.

Taxation expense comprises:

	HRK '000	2002	2001
Current income tax expense		(36,163)	(37,269)
Deferred tax (expense) relating to the reversal of temporary differences		(2,071)	(6,801)
		<u>(38,234)</u>	<u>(44,070)</u>

Movements and components of deferred tax assets are as follows:

	HRK '000	31 December 2001	Credited / (charged) to income statement	31 December 2002
Provision for bad debts		9,394	(6,342)	3,052
Provision for obsolete stocks		1,459	723	2,182
Provision for employee benefits		793	(144)	649
Impairment loss		1,811	1,254	3,065
Provision for losses on construction contracts		462	(462)	-
Long-term receivables for sold apartments		1,331	(105)	1,226
IAS 39 - foreign exchange		-	3,005	3,005
		<u>15,250</u>	<u>(2,071)</u>	<u>13,179</u>

Notes to the financial statements (continued)

12

Taxation (continued)

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Utilisation of the deferred tax asset in respect of bad debt provision depends on the collection of the receivables provided, possible suing of customers and the existence of taxable profits in the future.

The relationship between tax expense and accounting profit can be shown as follows:

HRK '000	2002	2001
Income before tax	168,266	219,979
Income tax at 20%, (2001, 20%)	33,653	43,996
Tax effects of income not taxable in determining taxable profit:		
Effect of IAS 39	(95)	(1,361)
Tax effects of expenses not deductible in determining taxable profit:		
Provision for bad debts	3,287	271
Entertainment expenses	1,357	1,164
Other	32	-
Total tax expense	38,234	44,070

The Company has provided for certain bad debts. From 2001 the provision for bad debt created is a tax-allowable expense if debt is overdue more than 120 days or the Company sues the customer. However, if the customer is not sued up to the end of legal expiration period, the provided amount, previously tax-deductible, becomes taxable. At the year-end, the balance of provision for bad debt in the amount of HRK 45 million (note 21) includes an amount of HRK 28 million tax-deductible provision created in 2002 and 2001 and effects of foreign currency retranslation in the amount of HRK 2 million that do not give rise to temporary tax differences.

13

Earnings per share

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	2002	2001
Net profit for the period (HRK '000)	130,032	175,909
Weighted Average Number of Shares Outstanding	1,314,026	1,314,026
Earnings per share (HRK)	98,96	133,87

Basic and fully diluted earnings per share are the same, as the Company does not have any dilutive potential ordinary shares.

Notes to the financial statements (continued)

14

Intangible assets

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Intangible assets represent purchased software (SAP, SOFTPRO). The movement on intangible assets in the year ended 31 December 2002 may be analysed as follows:

<i>HRK '000</i>	At 1 January 2002	Additions	Disposals	At 31 December 2002
At cost	12,875	2,613	(3,304)	12,184
Accumulated amortisation	(7,799)	(2,853)	3,028	(7,624)
Net book value	5,076	(240)	(276)	4,560

Intangible assets are amortised over 4 years, on average. Disposal of intangible assets during the year relates to old licences that are not in use any more.

15

Tangible fixed assets

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The movement on tangible fixed assets in the year ended 31 December 2002 may be analysed as follows:

HRK '000	At 1 January 2002	Additions	Disposals	Transfers	At 31 December 2002
Cost					
Land	18,163	-	-	-	18,163
Buildings	159,319	-	(915)	2,037	160,441
Technical equipment	225,730	-	(57,964)	39,570	207,336
Other (vehicles, tools, furniture and fixtures)	55,045	-	(6,152)	7,309	56,202
Construction in progress	15	48,916	(4)	(48,916)	11
Advances to suppliers	8	-	-	-	8
Total	458,280	48,916	(65,035)	-	442,161
HRK '000	At 1 January 2002	Charge for the year	Disposals	Impairment loss	At 31 December 2002
Accumulated depreciation and impairment loss					
Buildings	(108,093)	(4,384)	631	(5,900)	(117,746)
Technical equipment	(140,292)	(37,009)	53,170	-	(124,131)
Other (vehicles, tools, furniture and fixtures)	(34,384)	(5,042)	5,990	-	(33,436)
Total	(282,769)	(46,435)	59,791	(5,900)	(275,313)
Net book value	175,511				166,848
Net book value of workers' apartments	1,679				1,508
	177,190				168,356

Additions to fixed assets mainly relate to the acquisition of hardware and telecommunication equipment. Due to refurbishing of the offices during 2002, there were also significant additions of furniture.

Fully depreciated property, plant and equipment

Assets with a gross carrying amount of HRK 91,128 thousand and of HRK 113,231 thousand are fully depreciated as at 31 December 2002 and 2001 respectively, but these items are still in active use.

Impairment loss

Management has performed an impairment review of certain buildings. The result of the review indicated that a building owned by the Company has been impaired. The impaired building was written down to its recoverable value which is its net selling price assessed by reference to the bids received. Impairment loss recognised in the income statement for the year amounts to HRK 5,900 thousand (note 6). The net book value of impaired buildings was HRK 14 million as at 31 December 2002.

Capital commitments

The outstanding capital commitments at year-end amount to HRK 4,581 thousand (2001, HRK 2,438 thousand.)

Notes to the financial statements (continued)

16

Investments

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Investments are analysed as follows:

	HRK '000	2002	2001
Deposit at Zagrebačka banka		9,513	9,420
Shares of Hrvatska poštanska banka, net of reserve of HRK 14 thousand		369	369
Deposit at Volksbank leasing d.o.o.		287	-
		<u>10,169</u>	<u>9,789</u>

Deposits mature in a longer than 3-month period bear interest at an annual rate ranging from 1.14% to 3.48%.

17

Investments in subsidiaries

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	HRK '000	2002	2001
ETK Enterprise d.o.o.		20	-
ETK Softlab d.o.o.		20	-
		<u>40</u>	<u>-</u>

The Company founded two subsidiaries during the year in order to have them readily available if there is a need for the transfer of a part of the Company's operations to new entities. Up to the year-end, none of these companies started any operations and their balance sheets comprise only of paid-in cash by the Mother Company. Therefore, consolidated financial statements have not been prepared.

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Investments in associates

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During 1999, the Company entered into a joint venture with EXI Limited, Manchester, England, by founding a Company called EXI d.o.o. za usluge u telekomunikacijama, Zagreb. The Company's ownership interest is 25% and it will be reduced to 10% upon achievement of certain targets. This investment is carried at cost. If this investment were accounted for under the equity method, net income for the year would be HRK 373 thousand lower and net assets at year-end would be HRK 1,030 thousand higher than reported.

Notes to the financial statements (continued)

19

Long-term receivables

<i>HRK '000</i>	2002	2001
<i>Long-term portion</i>		
Foreign customers	66,060	94,512
Domestic customers	4,344	12,816
Receivables for sold apartments	4,945	5,827
Housing loans to employees	3,236	3,836
	78,585	116,991

The foreign receivables are due in either US Dollars or Euros. Domestic receivables and receivables from foreign customers are secured primarily by bank guarantees and letters of credit. The current portion of the long-term receivables is classified under current assets, receivables.

The long-term portion of domestic and foreign receivables is due in 2004 in the amount of HRK 62,712 thousand and in 2005 in the amount of HRK 7,692 thousand.

Receivables for apartments are stated at amortised cost and shown net of amounts due to the Croatian State.

During 1999 the Company approved housing loans to a small number of employees in the total amount of HRK 3.9 million. Interest rates on these loans are more favourable than the market interest rate. Repayment of each loan is linked to the counter value of Euro, repayments are made by deduction from monthly salary and the loans are secured with collateral on the house or apartment.

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Inventories

Inventories comprise the following:

<i>HRK '000</i>	Gross		Obsolescence reserve		Net	
	2002	2001	2002	2001	2002	2001
Raw materials	86,921	31,373	(8,922)	(5,985)	77,999	25,388
Work-in-progress and semi-finished goods	20,198	10,310	(123)	(300)	20,075	10,010
Finished goods	6,390	5,190	(1,533)	(678)	4,857	4,512
	113,509	46,873	(10,578)	(6,963)	102,931	39,910
Advances to suppliers	-	1,153	-	-	-	1,153
	113,509	48,026	(10,578)	(6,963)	102,931	41,063

Notes to the financial statements (continued)

21

Trade receivables

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	<i>HRK '000</i>	2002	2001
Foreign customers		201,575	168,082
Current portion of long-term receivables		189,193	229,568
Total foreign customers		390,768	397,650
Domestic customers		139,660	45,465
Current portion of long-term receivables		12,025	47,692
Total domestic customers		151,685	93,157
Provisions against doubtful accounts		(44,927)	(111,625)
		497,526	379,182

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Other receivables

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	<i>HRK '000</i>	2002	2001
Receivables from employees		80	587
Receivables for prepaid VAT		20,508	3,309
Other receivables		1,022	190
		21,610	4,086

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Current financial assets

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	<i>HRK '000</i>	2002	2001
Available for sale investments		90,920	35,322
Loans, deposits and guarantee deposits originated by the Company		852	6,113
Embedded forward currency rate agreements		8,380	2,839
		100,152	44,274

Available for sale investments comprise bonds of Croatian Health Insurance Fund (Hrvatski zavod za zdravstveno osiguranje) in the amount of HRK 19,926 thousand (denominated in Euro) with a maturity in 2004 and an interest rate of 8.5% p.a., Ministry of Finance bonds in the amount of HRK 16,239 thousand (denominated in Euro) with maturity in 2008 and an interest rate of 6.875% p.a., Ministry of Finance bonds in the amount of HRK 22,881 thousand (denominated in Euro) with maturity in 2012 and an interest rate of 6.875% p.a. as well as shares in investments funds in the amount of HRK 31,874 thousand (denominated in Euro). Their fair value is assessed at the balance sheet date by reference to quoted prices on the Zagreb stock exchange on 31 December.

Notes to the financial statements (continued)

24

Cash and cash equivalents

HRK '000	2002	2001
Cash and demand deposits	145,072	151,601
Time deposits with maturity up to 3 months	296,401	241,961
	441,473	393,562

Cash and cash equivalents comprise deposits in foreign currency 95% (2001, 96%) and in Croatian Kunas 5% (2001, 4%).

25

Equity

As at 31 December 2002, the share capital of the Company is represented by 1,331,650 ordinary shares, with a total registered value of HRK 399,495 thousand. The par value of one share is HRK 300.

The decrease in share capital in the amount of HRK 101,871 thousand is based on a shareholders' decision from 1998 and was paid out to shareholders during 1999 in the amount of HRK 101,067 thousand, and was registered at the court on 24 March 2000. The remaining balance of HRK 804 thousand relates to the own shares that the Company had at that date and is classified as Share premium.

The Company's shareholders as at 31 December 2002 are:

	Number of shares	Held
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Employees, pensioners and financial institutions	616,331	46.29%
Privatisation Fund	44,222	3.32%
Treasury shares	17,624	1.32%
	1,331,650	100.00%

A reserve for own shares was created prior to obtaining of own shares as required by the Company Law. Own shares were not disposed off within one year from their acquisition as required by the Company Law. After taking legal advice the Board is of the opinion that no material consequences to the financial statements can arise from this non-compliance.

The legal reserve is formed from 5% of net income per annum and up to 5% of share capital. The legal reserve may be used for covering of losses if the losses are not covered by current net income, or if other reserves are not available. The Company recorded the required level of legal reserves in the year 2000 and no further allocation of legal reserves is required.

The transformation reserve was created as a result of privatisation of the Company when a new appraisal of the Company was made. Following the introduction of IAS 39, Financial Instruments: Recognition and Measurement, available for sale investments are carried at fair value, receivables at amortised cost and all derivatives (e.g. embedded derivatives) have been recognised as assets or liabilities. As a result of this change the opening balance of equity (retained earnings) as at 1 January 2001 has been adjusted. Prior year comparative figures have not been restated.

Cash dividends authorised and paid were as follows:

HRK '000	2002	2001
HRK 14.00 per share for 2001	18,396	-
HRK 14.00 per share for 2000	-	18,396

The Board will propose a dividend of HRK 14.00 per share in respect of 2002.

Notes to the financial statements (continued)

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Employee benefits obligations

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The Company does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or Management. In respect of all of the Company's personnel such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian national pension fund to the Croatian employees upon their retirement. Additionally, during 2001 the Company signed an Annex to the Union Agreement with benefit regarding early retirement of employees.

However, the Company pays a one-time benefit amounting to HRK 8,000 for each employee who retires.

Additionally, the Company pays jubilee awards in respect of each 5 years of service, of an employee, starting from the 10th year and ending in the 40th year.

The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2002 were a 7% discount rate and a 1.5% rate of average employment turnover.

27

Long-term loans

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Long-term debt is represented by debt due to financial institutions, the settlement of which is pending the definition of debt deriving from the former Yugoslavia. Consequently, no due dates have yet been established, except for the amount of HRK 2,217 thousand (EUR 298 thousand) relating to Hermes Kreditversicherungs, A.G. (Germany) which will be repaid in the period from 1998 to 2003. This loan bears an interest rate of 7.9% per annum. The remaining amount of HRK 1,935 thousand relates to two loans from Crediop and Centrobanca Italy that bear interest that is declared by the Treasury of Italy plus a margin of 0.4% per annum.

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Current financial liabilities

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	HRK '000	2002	2001
Current portion of long term-loans		201	169
Embedded forward currency rate agreements		19,444	4,416
		<u>19,645</u>	<u>4,585</u>

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Accounts payable and other short-term liabilities

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	HRK '000	2002	2001
Trade payables		28,033	22,910
Liabilities towards employees		33,399	35,224
Liabilities for taxes and contributions		3,350	290
Other current liabilities		158	336
		<u>64,940</u>	<u>58,760</u>

Liabilities to employees include a bonus salary of HRK 17 million (2001, HRK 19 million).

Notes to the financial statements (continued)

30 Provisions

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Provisions relate to current provisions for penalty costs and warranty costs. Movements in provisions were as follows:

HRK '000	Warranty reserve	Penalty reserve	Total
Balance, 31 December 2001	8,435	13,709	22,144
Provision made during the year	14,102	1,004	15,106
Provision reversed during the year	(2,325)	(3,239)	(5,564)
Provision used during the year	(4,712)	-	(4,712)
Balance as at 31 December 2002	15,500	11,474	26,974

The warranty reserve is established to cover the expected warranty claims on products sold during the year. The penalty reserve is created to cover the expected claims from customers in respect of delays in deliveries of products and services having occurred during the year. These provisions have not been discounted as the effect of discounting is not material. Warranty and penalty costs were expected to be incurred in the next financial year.

31 Accruals and deferred income

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HRK '000	2002	2001
Advances from domestic customers	2,135	3,338
Advances from foreign customers	55,602	44,463
Deferred income	52,125	16,377
Accrued restructuring costs	3,993	1,226
Other accrued charges	42,825	19,642
	156,680	85,046

Advances from foreign customers include HRK 16 million in advances received in the years 1989-1992 from the post and telegraph companies of the former Yugoslavia. During 2000 and 2001 new contracts were signed with these companies and deliveries took place. These advances are carried at cost, as there is significant uncertainty as to when they will be utilised. Deferred income mainly represents amounts due to customers under construction contracts for work not performed.

Notes to the financial statements (continued)

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Balances and transactions with related parties

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Balances with Ericsson Group companies may be summarised as follows:

HRK' 000	Receivable		Payable	
	2002	2001	2002	2001
Ericsson Telecom (ETX)	792	7,875	7,664	39,873
Ericsson Radio System (Access) (ERA)	18,395	12,195	86,587	27,986
Ericsson AB (EAB)	-	-	38,898	-
Ericsson Microwave Systems (EMW)	-	-	630	1,965
Ericsson Utvecklings Alvsjo (UAB)	1,734	2,478	8	-
Ericsson Telefonaktiebolaget LM (LME)	53	-	3,417	1,875
Ericsson Business Consulting (EBC)	-	-	3,942	5,680
Ericsson TEI Roma (TEI)	1,202	441	-	-
Ericsson Corporatia AO (ECR)	27	9	815	1,201
Kongsberg Defence Communication	-	866	-	-
LM Ericsson Limited (LMI)	10	-	2,106	2,315
Ericsson SP Z.O. (EPO)	-	-	4,093	-
Ericsson Network Technologies AB (ECA)	-	-	3,352	-
Ericsson Telecomunicacoes S.A.(EDB)	-	-	5,354	-
Ericsson Global IT services AB (GIS)	-	-	925	-
Ericsson Austria Gmbh-Lim.Liab.Comp.	2,002	-	-	-
Ericsson Sverige AB (ESE)	1,084	-	-	-
Ericsson SA LTS (ESA)	11,812	-	-	-
Other	5,491	6,205	979	2,452
	<u>42,602</u>	<u>30,069</u>	<u>158,770</u>	<u>83,347</u>

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Total purchases of goods and services from Ericsson Group companies during 2002 amounted to HRK 682 million (2001, HRK 542 million including licence fees) and sales to Ericsson Group companies amounted to HRK 231 million (2001, HRK 249 million). The transactions have been directly negotiated between the involved parties and agreed on an individual basis.

The Company pays licence fees on sales of AXE and other products. No other charges are made for the use of the corporate identity and other corporate services.

Total remuneration to executive management in the year amounted to HRK 11,981 thousand (2001, HRK 12,262 thousand) and is included in staff costs (note 5). The members of executive management held 1,301 ordinary shares at year-end (31 December 2001, 2,413 shares).

The Company is not using derivative financial instruments. Risk management policies that relate to short-term and long-term customer financing, cash management and debt and payables can be summarised as follows:

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is mainly exposed to US dollars and partly to Euro, as a substantial proportion of receivables and foreign revenues are denominated in these currencies. Risk management relies on attempts to match, as much as possible, revenues in each currency with the same currency expenditure.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Company maintains its liquid funds mainly on short-term notice, the risk is limited to investments in bonds of Ministry of Health, Ministry of Finance and shares in Investment funds (note 23), as well as long-term deposit at Zagrebačka banka (note 16).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Significant risk is associated with the high level of trade receivables, mainly because of the inability of customers to obtain outside funding of the projects. Therefore, the Company is financing customers to a certain extent, which exposes it to a significant risk. New customers are only accepted on satisfactory completion of a detailed credit check of the customer and a review of the related country risk. Outstanding credit arrangements are monitored at least once a month. Provisions for doubtful accounts are evaluated monthly and changed if needed. Additionally, there is credit concentration risk as the Company has a significant portion of receivables from several customers. At 31 December 2002, the five biggest customers represent 45% of total net trade receivables (2001, 48%). Management of this risk is concentrated in the diversification of the customer base through new products and services offered to new customers.

Additionally, the Company is exposed to risk through cash deposits in the banks. Management of the risk is focused on dealing with banks in foreign ownership that deal with Ericsson on a world-wide basis or with banks that are listed on the international financial markets and on contacts with the banks on a daily basis. Therefore, the Company considers that its maximal exposure is reflected in the amount of trade receivables (notes 19 and 21) and other receivables (note 22), net of provision for doubtful debts.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company has no commitments in financial instruments, the risk lies only in its daily operations. The Company has a strong focus on its cash flow with daily updates on actual development and monthly updated forecasts. Due to the strong liquidity position of the Company, the risk is low.

Fair value estimation

The fair value of securities included in available-for-sale is estimated by reference to their quoted market price at the balance sheet date. The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date.

The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, long-term receivables, trade and other payables and long-term borrowings.

The carrying amount of cash and cash equivalents and of bank deposits approximates their fair value due to the short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables, including provisions, which are all subject to normal trade credit terms approximate their fair values. It is not practicable to determine the fair value of advances received from post and telegraph companies of the former Yugoslavia due to the uncertainty of timing of their utilisation (note 31).

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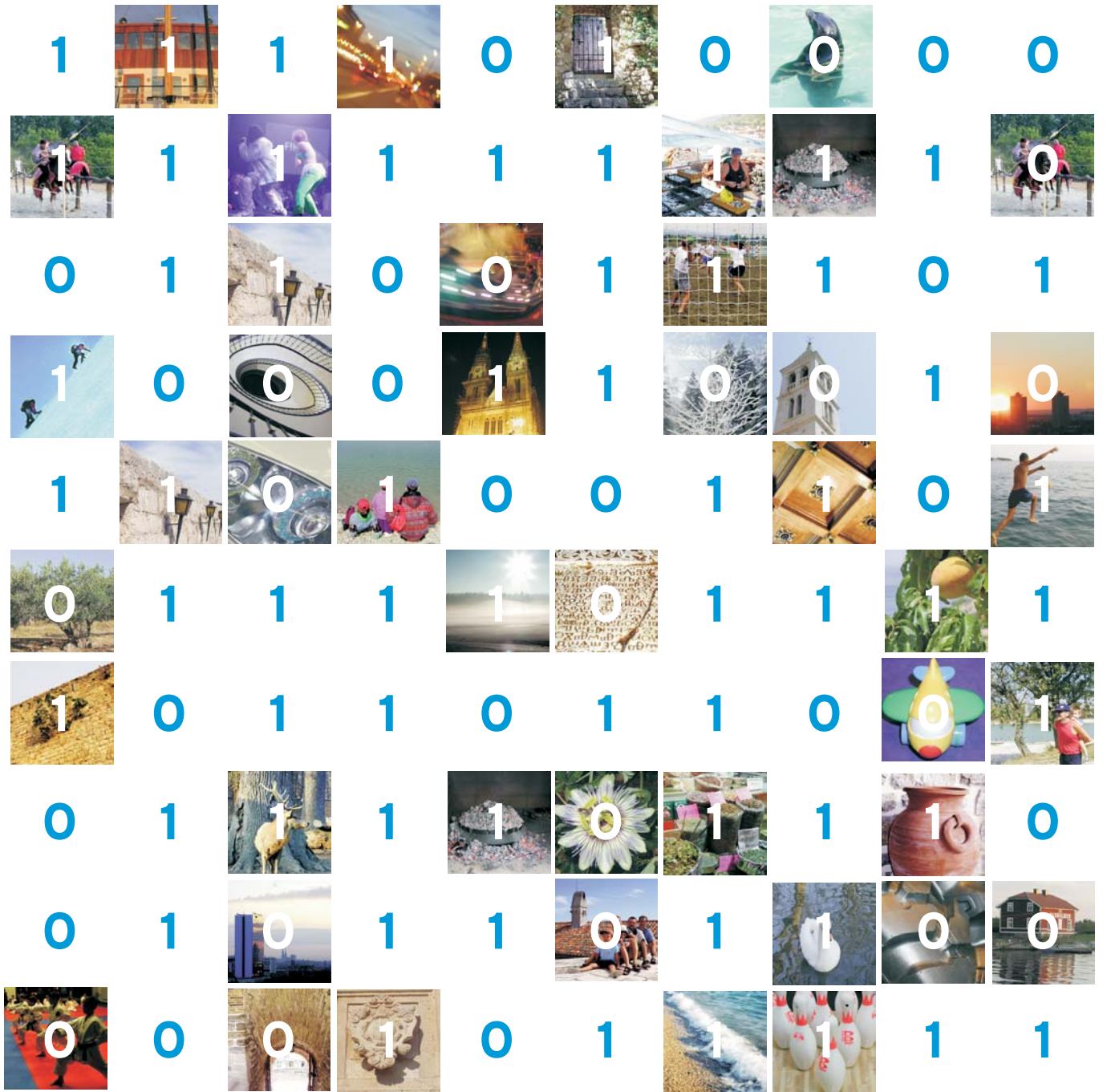
Notes to the financial statements (continued)

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Contingent liabilities

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In December 1999 the Company received a notification of the suit brought against it by a number of small shareholders. According to the suit, the Zagreb Commercial Court was required to declare certain decisions of the General Assembly, held on 18 June 1998, null and void. The Company has submitted its answer to the suit. After having taken the appropriate legal advice, the Company's Board is of the opinion that no material liabilities for the Company can result from this lawsuit.



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Annual Report ISSN 1334-1413
EN/LZTBA 105 004 R1
Printed: 500 copies
Communication



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