

ERICSSON NIKOLA TESLA D.D.



ANNUAL REPORT 2004



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Ericsson Nikola Tesla d.d.



Social responsibility is an integral part of Ericsson Nikola Tesla's business strategy, which strengthens company's image, competitiveness and contributes to the prosperity of our community.



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we apply globally accepted
quality standards in all our
business areas.



55 years of successful operation »»

55 years of successful operation

Ericsson Nikola Tesla (ETK) is a Croatian company and the largest specialized provider of modern telecommunications products, solutions and services in Central and Eastern Europe. The company has been in business for fifty-five successful years. The company today, ten years after Ericsson became its major shareholder, is an expert center in the field of information and communications technology and a significant constituent part of Ericsson in the market unit Central Europe.

The company was founded on May 13, 1995 pursuant to the governmental transformation and privatization program and due to Ericsson participating as the major shareholder. According to the present ownership structure, Ericsson holds 49.07 percent of shares, small shareholders hold 48.73 percent, the Croatian Privatization Fund holds 0.88 percent of shares and there are 1.32 percent of treasury shares.

Ericsson and Ericsson Nikola Tesla have built a close partnership for over decades; Ericsson Nikola Tesla has its roots in the former company Nikola Tesla founded in 1949, the company that concluded the first licensing agreement with LM Ericsson in 1953 and that is therefore among the oldest licensing partners of the Corporation.

The mission and strategy of the company are in line with the new market principles and they are focused on customers, employees, shareholders and own reputation. In its mission Ericsson Nikola Tesla emphasizes that they *wish to understand customers' needs and business opportunities, to offer to them integrated information and communications solutions for their operations by being faster and better than any competitor and to be a competitive software and services supplier within the Ericsson Corporation. In doing so Ericsson Nikola Tesla will generate profit and prosperity for all its shareholders and other stakeholders.*

Core business

Since its incorporation into Ericsson, ETK has transformed into a modern company entirely oriented to »brainware« production. It believes in a world that will provide full communication availability as an individual right of every human being, the right to exchange messages with voice, data and images any place and any time to increase the quality of living and to better use existing resources. Accordingly, Ericsson Nikola Tesla has defined its core business, also in compliance with corporate standards.

The activities of the company include research and development, and the design of total communications solutions and services, including the information and communications (ICT) solutions. We speak of the design, planning, and engineering of multi-service, mobile (GSM, GPRS and UMTS systems), transport and business communications networks and of the development of applications and services based on the mobile Internet for regional and global operators of fixed and mobile telephony, large businesses and Internet services providers (ISP). To comply with recent market requirements the company emphasizes its role of a system integrator, which is a new business and strategic dimension for the Ericsson Corporation as well. Ericsson Nikola Tesla also actively participates in the informatization and internetization of large governmental systems, such as the Croatian health care system (e-government).

Ericsson Nikola Tesla provides its customers with Ericsson's entire telecom products, solutions and services portfolio.

Towards business excellence

Measured by its performance the company ranks among the top Croatian companies. For the tenth consecutive year it was among the best performing companies in Croatia and in the last two years it was positioned as the third among the largest Croatian exporters.

To accomplish this Ericsson Nikola Tesla has for years now devoted much attention to quality management in all its operations. This was recognized on local, regional and global level and, consequently, the company and its leading executives were awarded much prestigious recognition. Among some hundred awards and certificates we mention only the most significant ones.



In 2003 Ericsson Nikola Tesla obtained the award *Recognized for Excellence* from the European Foundation for Quality Management (EFQM) as the first company in Croatia and the first in the Ericsson Corporation. For several years now the company has held *The Quality System Certificate* based on the standard ISO 9001:2000. The company put much effort into getting *The Environmental Management System Certificate* (ISO 14001). Prior to that the company participated in Ericsson's global environmental management system certificate. The last in the series was *The Occupational Health and Safety Management System Certificate* based on the standard OHSAS 18001. With these certificates Ericsson Nikola Tesla is among the very few companies in the Ericsson Corporation and it is unique in Croatia.

Ericsson Nikola Tesla also obtained *The Golden Marten* (2002) as the best large company in Croatia. In 2004 the company collected some more awards: *The Golden Plaque* given by the Croatian Chamber of Commerce, *The Golden Share* in the award category of highest price increase, further the recognition *The Discovery of the Year* for outstanding performance and recognizability in the markets of Eastern Europe according to East Capital and also the recognition *The Best Company in Croatia* according to the analysts' house Finance Central Europe (FCE) with headquarters in London.

Intellectual capital – the most valuable asset

Business accomplishments of Ericsson Nikola Tesla in domestic, foreign and internal Ericsson markets are founded primarily on the large intellectual capital of the company and on modern leadership. Result-oriented, competent and motivated employees focused on the achievement of objectives and the winning culture prevailing in the company are the competitive advantages of ETK in a demanding global telecom market and a prerequisite for its further successful operation.

On December 31, 2004 from the total of 1094 employees in the company 84 percent had university degree, 8 percent held a master's or a doctor's degree. The company provides scholarship for some 14 percent of employees now engaged in postgraduate studies. The age structure of employees shows that 396 employees (36 percent) are younger than 32 years of age, whereas the gender structure is 30 percent of female employees and 70 percent of male employees – quite a good ratio considering the global standards in telecommunications.

Position within the Ericsson Corporation

Owing to its resources, to the knowledge and skills of its associates and to the way of working and style of management Ericsson Nikola Tesla is today well-positioned and recognized as a strong Ericsson's

center for total communications solutions within the region Central Europe, Middle East and Africa. The company is also a strong research and development center, one of only twenty in the Ericsson Corporation. In addition to the Croatian market the company also has marketing and sales responsibilities in several dozen countries worldwide. The global concept leaves the door wide open to cooperation with Ericsson's market units in other regions.

Ericsson Nikola Tesla is also Ericsson's global center for software production, delivery and integration, one of Ericsson's Mobility World centers in the market unit Central Europe and the regional leader in e-systems.

Objectives and vision of the company

Ericsson Nikola Tesla will continue its activities in order to secure its position in Ericsson and to broaden its business platform. The company will continuously adjust to new situations, develop and improve communications standards and technologies, it will endeavor to be the provider of cutting edge communications systems, concepts and services in the Croatian and foreign markets and it will increase its cost efficiency.

Prioritized activities of ETK are, besides strengthening of regional and global position in the telecom world, bettering the achieved business excellence level, the development of employees competence and empowerment, retaining its position of the preferred employer, also to assume the leading position in the new economy in Croatia, including the internetization process, to build further a positive company's image and to promote ETK as a socially responsible entrepreneur that operates in compliance with the principles of sustainable development.

As a socially responsible entrepreneur Ericsson Nikola Tesla sponsors and donates to numerous educational, scientific, cultural, humanitarian and sports events in Croatia.

With such business policy and strategy, over the last ten years Ericsson Nikola Tesla secured valuable and attractive business deals in the field of telecommunications. In that period the company employed several hundred young specialists, thus retaining them in the country, but with the door wide open to the global telecom business.





We support principles of sustainable development as a basis for the future of present and coming generations.

growing stronger »»

Growing stronger

The year 2004, in which Ericsson Nikola Tesla celebrated the 55th anniversary of its foundation, was yet another successful business year for the company, characterized by a growth of orders booked and sales volumes, as well as by a solid income before taxes.

In comparison with the year 2003 Ericsson Nikola Tesla's performance in 2004 includes the following achievements:

- 11% up in net sales;
- 45% up in orders booked, including the first UMTS order from VIPnet;
- 24% up in income before taxes;
- positive cash flow for the sixth consecutive year;
- a trend of internal stability, confirmed by the annual employee survey, Dialog, carried out for the sixth year in a row.

The overall satisfying result basically originated from earlier actions, i.e. the program of improvements spanning several past years, in combination with strong sales efforts and cost-saving activities in 2004.

Ericsson Nikola Tesla's position as a regional and global competence centre within Ericsson was significantly strengthened during the year, mainly due to employees' expertise and creativity in urgent situations and our way of working.

- R&D Centre secured long-term assignments from Ericsson R&D Corporate. New areas of responsibilities include increased volumes. New recruitments were executed and more employees are still needed.
- Customer Solutions & Sales Support Centre was very successful throughout the year, which resulted in more responsibilities and assignments within the Ericsson Group.
- Global Service Delivery Centre (GSDC) for Software Supply & Integration also received more assignments within the global Ericsson community.
- Ericsson Nikola Tesla supplied EDGE enhancements to VIPnet's existing GSM network, with national coverage. EDGE represents the last phase in the development of data communications within GSM standard and according to 3G Partnership Project, an international standardization body, EDGE is a part of the 3G mobile telephony.
- Exports to the markets of the Commonwealth of Independent Countries (CIS), Bosnia and Herzegovina and Montenegro, on which Ericsson Nikola Tesla has traditionally been very successful, reached record levels in 2004. The success is to

be related to earlier years of investments and the relationship with the customers based on trust.

- The Mobility World Centre established cooperation with more networked associate partners and, as a result, a number of new mobile applications were developed.

- The cooperation of Ericsson Nikola Tesla with the state establishment was put on a firm foundation with the start of the e-health project (e-system for primary health care). Based on its competencies in e-systems Ericsson Nikola Tesla is well positioned to take the local and regional lead in this business segment.

Over the year 2004 Ericsson Nikola Tesla was honored by many VIP visits but one of them was particularly significant for company's position both within the Ericsson Group and the Croatian economy: Carl-Henric Svanberg, Ericsson's CEO and president, was invited to Croatia in June 2004 by the Croatian president, Stjepan Mesić, who had visited Sweden and Ericsson's headquarters in Stockholm in October 2003. During his stay in Croatia Mr. Svanberg met not only the Croatian president, but also the Croatian prime minister, Ivo Sanader. He, however, spent the most of the official part of his visit in Ericsson Nikola Tesla, attending meetings with the company managers and talking to ETK employees, based on



which he concluded that Ericsson Nikola Tesla “is at the forefront of what we do at Ericsson”.

The year 2004 was also yet another year of awards and recognitions among which the two stand out: East Capital's *Discovery of the Year 2004* and Finance Central Europe's *The Best Company in Croatia*. Ericsson Nikola Tesla's managers received important awards as well and among them the most prominent two were granted to Gordana Kovačević: *The Best Croatian Manager 2004* and also *The ICT Manager of the Year 2004*.

Croatian telecom market in 2004 was characterized by the entrance of new strong telecom players and both fixed and mobile areas experienced a business growth. Increased competitiveness was therefore established as the only way to secure long-term success at the local telecom market.

Prioritized activities

Our focus areas during the year 2004 included those defined in earlier years, with the addition of two other activities - the relationship with shareholders and actions aimed at securing our position within the Ericsson Group regarding hosted functions:

- Financial, with main focus on cash flow, customer financing and costs optimization.

- Human Resources, Legal Affairs & Organization activities with the continuous focus on competence



shift and restructuring. Performance management and enhanced action/training to constantly build professional, business and human competencies for all employees were teamed up with the focused management planning process in order to further develop leadership skills of our managers and potential manager candidates, reinforced with the ETK Assessment Centre and Leadership Core Curriculum training.

- Business, with a revitalized focus on the Croatian market and strong focus on our export markets.

- Image, with very strong marketing communication in focus and different media involved. Ericsson Nikola Tesla actively participated in different exhibitions in Croatia and abroad, round table discussions and different initiatives of the Croatian Government.

- Relationship with shareholders, a new position - Investor Relations was introduced, which resulted in a much better understanding and cooperation between the company and different shareholder groups.

- Hosted functions, with new responsibilities in the R&D area and extended assignments in communications services and solutions, also contributing to overall company's success in 2004.

Business result - better than budgeted

Orders booked were much better than budgeted, the company was the most successful in CIS and neighboring countries and those countries were followed by Croatia, featuring home customers – T-HT and VIPnet. Orders booked amounting to MHRK 1605 are to be compared with the result achieved in 2003: MHRK 1108. Net sales also went up, especially in the same markets in which orders booked were increased. The sales in 2004 amounting to MHRK 1552 are to be compared with the sales in 2003, which amounted to MHRK 1404.

Operating cash flow was positive (+MHRK 141) for the sixth consecutive year.

Income before taxes was better than forecasted, an increase from MHRK 202 (2003) to MHRK 250 was noted.

Total operating expenses, selling and administrative costs in 2004 increased in comparison with 2003, mainly due to new provisions for bad debts, including provisions for some risky markets.

People - our main assets

The number of employees increased from 1020 to 1094, i.e. the headcount grew by 74 people.

During the year 36 people left the company, either as a result of outsourcing or as redundant or by mutual consent.

The annual labor turnover index in 2004 was the lowest since 1990: 3.4%.

During the year 2004 there were 110 new starters, out of whom 102 with a university degree. The competence profile in the company shows that 84% of all employees are graduates with a university degree. More than 470 employees are under 34 years of age and most of them found their first employment in our company. The ratio between female and male employees is 30% to 70%.

In our company we are fostering the winning spirit, performance-driven culture, and we are grooming behavior that is a prerequisite of our success, like passion to win, dedication to customer success, value added teamwork, as well as fast and urgent creativity.

We constantly measure our results and we focus on possibilities to improve the overall capacity of our organization and our employees' competencies. By doing so we wish to create value for our customers and, consequently, for our shareholders. One of the measuring tools is the employee survey, Dialog. The 2004 Dialog result positioned us within the category of the best in class companies in our industry environment.

We have been recognized to be one of the best employers in Croatia because we are providing good working environment, career development and competitive earning opportunities for our employees. Currently we have more than 150 employees involved in postgraduate studies.

Summary

The year 2004 was a year with a number of positive results, excellent orders booked and sales volumes, as well as with good income before taxes.

The company continued the transformation into an information and communications technology company with a very good position to continue its successful business journey.

Ericsson Nikola Tesla d.d is a company with excellent workforce and a company culture with passion to win. I feel proud that I had the opportunity to lead such a company over the past six years. I would like to express my gratitude to company's shareholders who granted me their trust over this period, which I consider to be the crown of my career. I am extremely satisfied with company's results under my presidency, which are attributable to highly competent and dedicated people working in it. I am positive that they are a true guarantee of the future prosperity of Ericsson Nikola Tesla.



Åke Enell

*President of Ericsson Nikola Tesla
until December 31, 2004*





Communication is a basic human need and right.

facing new challenges »»

Facing new challenges

The honor of presiding over the company such as Ericsson Nikola Tesla entails great responsibility considering the high value of company's collective intellectual capital and the long tradition of its successful business operation. To continue the line of Ericsson Nikola Tesla's successes is a true challenge that towers above all other plans. Professionalism, result orientation, perseverant commitment to excellence in everything we do, respect for each other, as well as for our business partners and customers have carried this company over all obstacles that may have turned up on its way. In 2005, the year in which we expect to come across numerous new challenges, we shall therefore resort to the very same code of conduct that has driven our success over past years.

Continuity

Ericsson Nikola Tesla, as a well-organized and a well-managed organization, is strongly driven by a wish to prosper and to support the prosperity of its customers, business partners and the community it operates in. Such company culture implies the continuity of basic operational and business principles that were applied in all company's activities over 55 years of its existence. The change at the company's leading position at the beginning of its 56th year of operation will not influence this continuity. It means that the teamwork, flexibility in adoption of new market trends and corporate policies, as well as the creation of prerequisites for customers' growth will continue to play the most important constitutive elements of Ericsson Nikola Tesla's business strategy.

Bearing this in mind we perceive the year 2005 as a period of new opportunities for company's business growth. All three cornerstones of Ericsson Nikola Tesla's operation – home market, export markets and internal market within the Ericsson Group offer abundance of business opportunities and in its further operation Ericsson Nikola Tesla will actively pursue them.

The goals for 2005 therefore include the following:

- establishment of business partnerships with new players on the home market and export markets, both within the fixed and mobile telecom segments;
- pursuit of new responsibilities and strengthening of the image of a responsible and loyal partner within the Ericsson Group;
- growth of business at the home market, which includes obtaining a reference within the e-health



area as the first step towards the export of e-systems solutions;

- strengthening the leading position in the region as a system integrator and a service provider, especially in the sphere of professional services;
- maintaining exports at the same level as in 2004 or slightly below it;
- acquiring the position of a preferred supplier within the ICT industry in Croatia and in company's export markets.

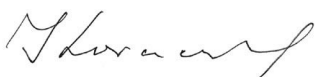
In order to reach the planned goals for the year 2005 Ericsson Nikola Tesla will continue to adjust to new market trends. Furthermore, the company will seek simpler and more efficient ways to do business and thus it will contribute to the increased cost efficiency of its operation. Competence development has always been one of elements of our business success and it will continue to be so throughout 2005.

Taking you forward

The prioritized activities of Ericsson Nikola Tesla in 2005 will involve focused investments into people, company's main assets. The intellectual capital of the company will continue to grow through employees' strategic competence development and through recruitment of new employees with a university degree, mainly electrical and computing engineers. Also, the list of priorities of Ericsson Nikola Tesla will include action programs aimed at securing tighter partnership with existing company's customers, as well as at expanding the customer base. Cost-efficiency program will continue to be the backbone of company's profitability. Last but not least Ericsson Nikola Tesla will pursue the innovativeness in doing business in order to achieve maximum competitiveness in the tough telecom arena.

By adopting principles of new economy our company has confirmed that it is able to lead the Croatian economy as a role model of a modern supplier of sophisticated and advanced communications solutions and services. Teamwork, inspiring working environment, visualization of individuals and teams that most contribute to company's success, knowledge sharing and competence development as well as cooperation permeated by trust and ethic behavior and motivating leadership will be our internal tools by which we shall realize our plans.

Telecommunications is a complex industry in which players need to constantly implement strategic improvements in order to survive in the increasingly competitive environment. Ambitious plans to lead at the telecom market require even more than that. They require innovative insight into current telecommunications trends that can keep the company one step ahead of others. By its former operation Ericsson Nikola Tesla has proven that it is a mature organization capable of meeting the most severe challenges. Therefore in the year 2005, in spite of the complexity of the industry that we operate in and owing to our traditional winning mentality, we shall persevere in weathering all obstacles that may come between us and our action points. We shall justify the trust granted to us by company's shareholders, keeping the company at the path of success and proving once again that Ericsson Nikola Tesla can make a difference in its local environment, in the region and within the Ericsson Group.



Gordana Kovačević
President of Ericsson Nikola Tesla
as of January 1, 2005





By using modern communications technologies we consistently contribute to improved quality of life, better use of resources and we reduce impact on the environment.



business performance in 2004 »»

Business performance in 2004

2004 was the year during which all three cornerstones of Ericsson Nikola Tesla's business set-up contributed to success and two major financial objectives - to generate profit and positive business cash flow - were achieved again. To five Balanced Scorecard perspectives (Financial, Customer, Productivity & Efficiency, Competitive Position & Innovation and Employees), we have added Shareholders perspective, an area where we were also successful in the past year.

Prosperous year

In 2004 Ericsson Nikola Tesla managed to grow and develop its business in practically all areas of business operations. The company met its main objective to grow within the possibilities of its financial and business markets. In 2004 we took the decisive step into the 3rd generation of mobile telephony, together with one of our domestic operators and we saw the advent of yet another GSM operator in the Croatian marketplace, as well as a number of new fixed operators.

In neighboring countries, especially in Bosnia and Herzegovina, business blossomed and we substantially contributed to the increase of the telecom standards of the region.

An important growth area in 2004 was our export to Russia, Belarus and Kazakhstan, where some exceptional GSM deals, combined with higher than expected wireline business levels gave very good results. There is quite a challenge in these export markets, as they are mainly based on wireline business (which does not share the high growth potential of the wireless market), but we are exploring a number of new business models, including customer and project financing and, of course, focusing on broadband and the necessary and hopefully inevitable internetization. Some of these markets, however, present quite high political and country risks and we secured ourselves against these risks by increasing our provisions for doubtful debts.

In the area of research & development new and extended assignments (with Ericsson) secured growth and stability, also for the future.

Within the enterprise we witnessed that the governmental sector demands a very different approach from the private one and that time and different types of competences are crucial factors. Results will not come overnight.

All in all, for Ericsson Nikola Tesla, the balance of all three cornerstones and all business aspects will continue to be a key to success. In 2004 all areas contributed to the increase of orders booked and net sales. In the future this balance will most likely lead to a long-term slow but steady growth in volumes and stability in financial results. Bottom-line results in 2004 were better than predicted due to the fact that we managed to keep the same level of margins. The competition is extremely tough, but due to our well established customer relationships, our very high quality of services and deliveries as well as our competences within the area of providing competitive communications solutions, the relationship between customer value for money and our cost efficiency resulted in margins that were on the same level as in 2003.

Financial management survey

Ericsson Nikola Tesla keeps a firm commitment to maintaining high cash flow levels, as a tool for making own business decisions that are necessary for reaching our ambitious goals. In 2004 the result was again very good, creating an important prerequisite for the future company operations. Without a sound cash situation, the increasing demand for customer financing in different ways cannot be met and a number of business opportunities would be outside of our reach.



In 2004 we achieved a positive cash flow of MHRK 141, generated by business operations. This was due to company's traditional focus on receivables collection, good margins maintenance and development of new customer-related financial set-ups.

The year 2004 was an extremely hectic year regarding the fluctuations of currencies. A special and concentrated effort was taken to prevent negative effects on our business result. Hedging, forwards and funds management were used to minimize risks, which couldn't be avoided in total due to very shallow Croatian market. Although we were not quite as successful as in 2003, due to the limitations of the kuna market, we achieved a good level compared to the big losses in 2002. However, this area should be constantly monitored, using all available tools to reduce risks.

We are continuously focusing on cost efficiency and actions are ongoing in all areas, especially regarding real estate and sourcing. The cost for vacant space was significantly reduced through the reconstruction of the premises and renting to different occupants, which further improved our liquidity for business purposes. The centralization of strategic sourcing in order to secure better terms and quality of service from suppliers was successful and we achieved substantial savings and increased standardization of contracts and conditions.

Our assets were managed as efficiently as usual. Inventory management was kept at levels lower than 20 days (16 days). Turnover of account receivables was at 144 days, mainly due to financing schemes. Excluding financing, the turnover of account receivables is at the level of 70 days. The goal of 90 days in total is yet to be achieved but the trend is slightly improving. On the liability side, our payment terms to suppliers remained tight up to 60 days.

Summary of financial items

- Orders booked MHRK 1,605 - an increase of 45% compared to 2003;
- Net sales MHRK 1,552 - an increase of 11% compared to 2003;
- Operational cash flow was positive by MHRK 141;
- Margins remained on the same level as 2003, if we include a provision that was moved to other operating expenses (risk provision for doubtful debts);
- Selling and general & administrative expenses compared to net sales were reduced from 8% to 7%;
- Other operating expenses increased due to higher risk provisions for doubtful debts regarding markets with high political and country risks;
- Return on sales before taxes was 16% - above our target of 10%;
- Profit before taxes was MHRK 250 - compared to 2003 it was 24% higher.

During 2004 Ericsson Nikola Tesla started working on establishing Shareholders as the sixth perspective in the follow-up of its objectives. We have taken our obligations as a company enlisted on the Zagreb Stock Exchange very seriously. The company has introduced and operationalized a function of Investor Relations and it has met all legal requirements regarding presentation of its business and financial results.

Emphasis was put on providing shareholders and the general public with full and timely information about all material facts that may influence the price of Ericsson Nikola Tesla shares. The Capital Markets Day was organized in order to strengthen the relations with the investment community and enable them to get the latest update of company operations and achieved results.

During the year, the share price increased by 236%. More than 398 thousand shares were traded in 2004, out of which 18% were traded on the Zagreb Stock Exchange and 82% on the Varaždin Stock Exchange. Total turnover amounted to MHRK 313.83.

Outlook

The year 2005 could be a year of opportunities but also a year of risks. The future will be determined by the convergence of technological platforms, the standardisation of currently still disparate systems and a further increase in the speed and quantities



of data transmission. The 3G world offers an array of choices for our customers and we are ready to meet their demands with determination and competence. Our competitors are no longer just traditional telecom suppliers, and they will not compete with traditional tools, as the customers have also been changing – they demand more flexible solutions, including different kinds of financing. Complex, but also customer-tailored solutions must be developed and implemented. Competition will be fierce, putting high pressure on our margins.

We in Finance will execute all new challenging tasks as a top performing financial arm of the company by effective risk management, by continuously driving cost efficiency, by strong operating discipline, profitable capital management and by providing flexible new models for customer and project financing solutions.

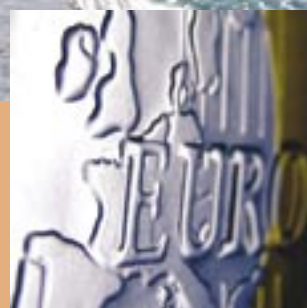


Maria Radtke
*Finance and Sourcing director
of Ericsson Nikola Tesla*



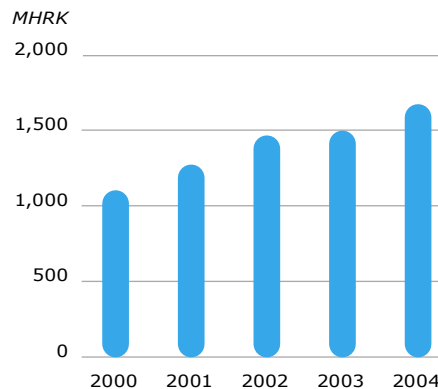


we employ young, creative people, mainly with a university degree, and we provide them with sophisticated jobs, competence development opportunities and the realization of their professional aspirations in Croatia.

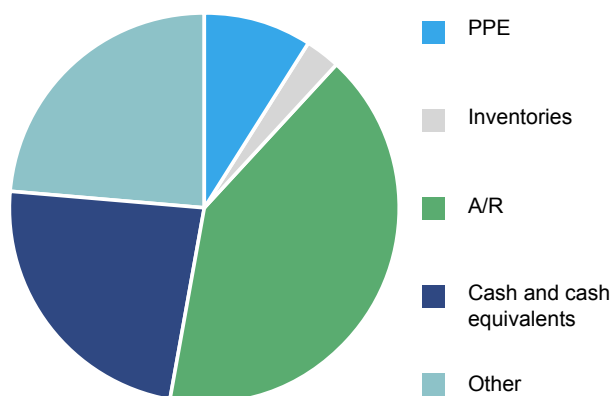


financial highlights in 2004 »»

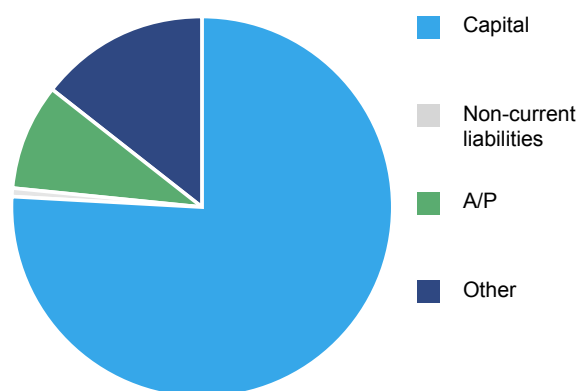
Total assets



Assets as at 2004-12-31



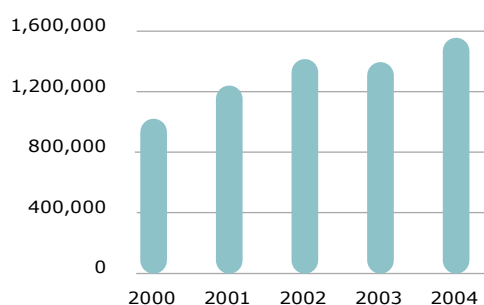
Equity and liabilities as at 2004-12-31



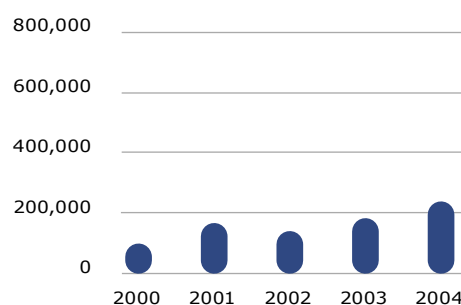
Assets	MHRK	2000	2001	2002	2003	2004
PPE		175.37	177.19	168.36	148.85	150.35
Inventories		60.00	41.06	102.93	74.42	48.53
A/R		356.86	516.58	610.53	472.95	687.53
Cash and cash equivalents		317.37	393.56	441.47	589.90	394.86
Other		125.81	91.31	159.76	199.36	396.76
TOTAL		1,035.41	1,219.70	1,483.05	1,485.48	1,678.03

Equity & liabilities	MHRK	2000	2001	2002	2003	2004
Capital		785.67	931.05	1,042.69	1,209.20	1,276.85
Non-current liabilities		4.41	8.44	7.50	7.21	7.38
A/P		119.11	106.26	186.80	121.68	151.39
Other		126.22	173.95	246.06	147.39	242.41
TOTAL		1,035.41	1,219.70	1,483.05	1,485.48	1,678.03

Sales revenue

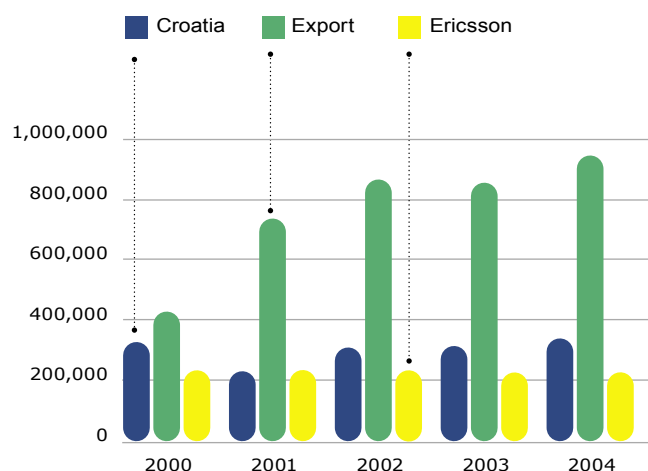


Profit for the year

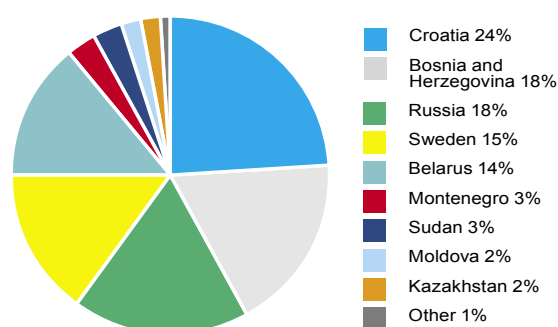


<i>KHRK</i>	2000	2001	2002	2003	2004
Sales revenue	1,038,589	1,238,177	1,414,135	1,404,016	1,551,661
Profit for the year	61,070	175,908	130,032	184,904	221,389

Three ETK Cornerstones



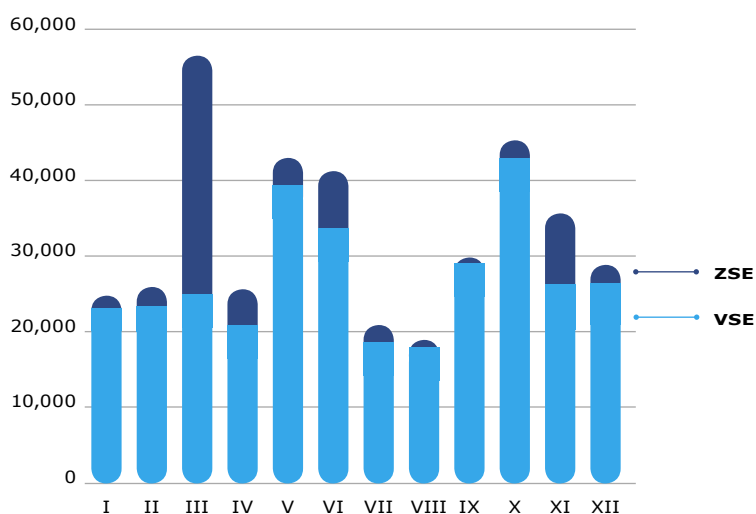
ETK top markets 2004



Market	<i>KHRK</i>	2000	2001	2002	2003	2004
Croatia		339,114	242,495	312,947	313,642	381,060
Export		453,475	746,682	870,065	866,005	944,269
Ericsson		246,000	249,000	231,123	224,369	226,332

ERICSSON NIKOLA TESLA SHARE INFORMATION

2004 share trade volume



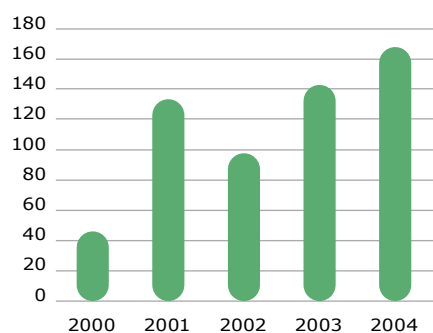
	Number of shares	
	Varaždin Stock Exchange (VSE)	Zagreb Stock Exchange (ZSE)
I	23,268	1,738
II	23,625	2,566
III	25,279	31,505
IV	21,030	4,737
V	39,546	3,671
VI	33,732	7,638
VII	18,747	2,359
VIII	18,471	718
IX	29,165	843
X	43,060	2,447
XI	26,366	9,475
XII	26,540	2,437

2004 share price trend



Share price and turnover	Zagreb Stock Exchange	Varaždin Stock Exchange
High (HRK)	1,536.00	1,550.00
Low (HRK)	440.50	440.02
Close - year end (HRK)	1,480.00	1,479.99
Turnover (MHRK)	49.99	263.84

Earnings per share



HRK	2000	2001	2002	2003	2004
Earnings per share	46.48	133.87	98.96	140.72	168.48



We set and maintain high standards in health and safety protection of users of communications equipment and services, as well as our employees.



people at people's service »

People at people's service

Two friends are talking:

- Listen man, I recently got myself a new Sony Ericsson mobile, you know one of those P910. What a cool device this is! It has everything and it can do everything. There's one thing I am worried about, though: now that I have such a powerful device I am constantly tempted to use it and I am not sure if it is safe to be on the phone so much. What do you say? You are working in Ericsson, right?

- Yes, Ericsson Nikola Tesla is a part of this story. Not directly, because we do not produce mobile phones, but we supply total information and communications solutions. You know, it's about public and business communications networks, software for telecom exchanges and the like. But as my company is a member of the Ericsson Group that has fifty percent share in Sony Ericsson joint venture, I know a little bit about it. Ericsson, you see, develops software for mobile phones in its laboratories in Lund, Sweden and it has, for years now, carried out research into the effect of radiation of mobile phones and base stations on human health and it has supported independent research in that area. You know Swedes, how thorough they are. When they calculate something you can bet it will come out right. Well, you see they have calculated that the level of these emissions is way below the limits

prescribed by globally accepted norms. You know how much I am on the phone each day. That's a part of my job. True, I don't have one of these latest models, like the one you mentioned - P910, but I am convinced that you can use it as much as you need to.

- What are you saying ... that Ericsson is so conscientious? I can't believe that there are companies like this any more.

- Well, so it is, I tell you. Ericsson has over a number of years been applying the program entitled Corporate Social Responsibility. And mind you, the key word here is "apply". In this case, it is not an empty word. It really is what it means! Hey, imagine the whole picture. My company is only one of about 140 Ericsson's companies in the world. And when we in Ericsson Nikola Tesla have a certified ISO 9001:2000 quality system, the certificate of the European Foundation for Quality Management (EFQM) – Recognized for Excellence, a certified system of environmental management, as well as a certified system of occupational health and safety management according to the norm OHSAS 18001, and don't make me go on, ... what do you think, how many different certificates are there in the whole Ericsson Group?

- Impressive, really. And what does this program include, what was it that you said ... something about responsibility?

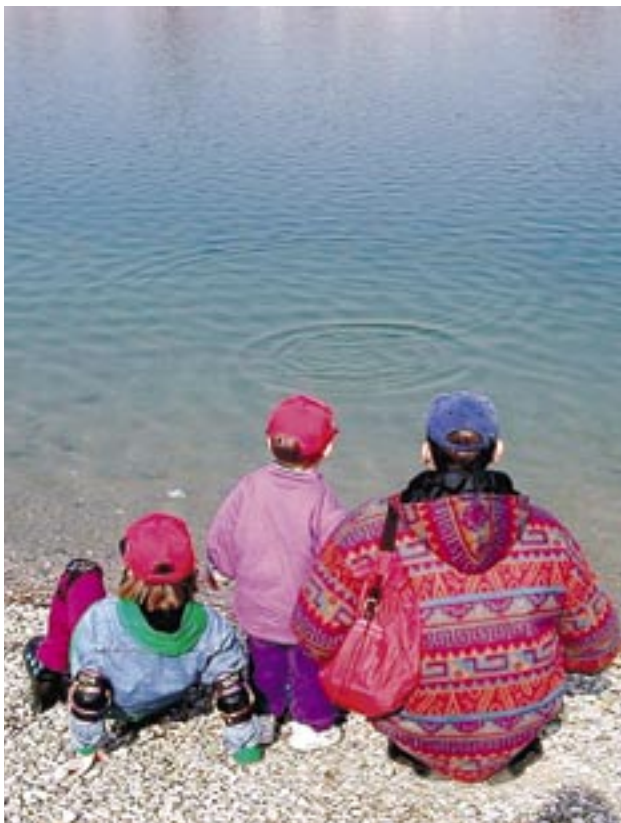
- Corporate Social Responsibility. That is the program that includes activities within several different areas. Are you ready to listen?

- OK, I asked, so shoot.

We are a part of community

Taking a more comfortable position in the chair the Ericsson man got ready to give his friend a lesson:

- Well, let's take one step at a time: Ericsson has been around at the global telecommunications market for over a century. It has always been at the top. Advanced technologies, innovative solutions, new patents every year, new generations of systems ... And you know how it is, once you get at the top you need to make extra effort to stay there. At least that's how they see things at Ericsson's and that is why they stick to the business strategy that will ensure reaching that goal. Well now, the program Corporate Social Responsibility is a part of this strategy. Keeping high standards in managing the corporation, care for employees and the community, firm partnership with customers and business partners, the relationship of trust with investors, careful environment management and sustainable development are elements of Ericsson's social responsibility. As you see, this is a pretty



complex issue and in Ericsson it is also considered to be important, so they really tried hard to deal with it properly.

Ericsson has issued a whole list of documents to define the principles of its business growth based on social responsibility. Constant improvements of the performance of Ericsson's products, services and solutions are a part of corporation's care not only about its own profitability, but also about the efficient use of natural resources, driving positive social changes, environment preservation and human healthcare. That is why I told you to use your new P910 as much as you wish.

My company also applies these corporate principles so I can tell you in more detail what it is like in Ericsson Nikola Tesla. First and foremost, we try to fully satisfy our customers' demands; we try even to exceed their expectations. Over several years Ericsson Nikola Tesla has been conducting self-evaluation based on the EFQM model. This approach brings good results, which is confirmed by the Charter for Promotion and Application of High Quality Standards in Croatian Economy, also granted to the company. Furthermore, the company accepts its social responsibility, which means that it recognizes the value and dignity of each person, that it operates taking care of safe and healthy environment, as well as that it promotes the productivity and the use of its technology accompanied by sound and fair market competition. In other words, the company expresses its respect for people and the community by responsible handling of resources. We are very efficient in the use of electricity, water, even paper. With numerous electronic applications, which support different company's business processes and which have been created by my colleagues, the paperwork is brought to the minimum. But, by now you must have got tired of my company stories ...

The power of good deeds

The friends looked into each other's eyes and the one not working in Ericsson said:

- Oh, no. I am listening very carefully and I simply cannot believe that there is such a company in Croatia. Go on, I'd like to know more.

- Well then, since you wish to know, Ericsson Nikola Tesla has in all its activities incorporated the awareness of its role in the society. The company takes part in sponsorship projects and different aid programs in Croatia on a regular basis and this was so last year, as well. Say, in 2004 the company marked its 55th anniversary by a symbolic donation to the Croatian organization for the rehabilitation of visually impaired children, Mala kuća, and there were also activities aimed at the improvement of the Croatian education system, informatization, integration of children and

grown ups with special needs into society and many more. At the beginning of this year we proved that we always react very fast when it really matters by joining the initiative of the Red Cross and the Red Crescent organizations in Croatia to collect funds for the countries of the Bengal Bay hit by tsunami. This gesture of good will placed my company at the forefront of the Ericsson corporate program called Ericsson Response, within which the corporation offers help in crisis wherever and whenever it may strike, mainly via enabling undisturbed communication in the area hit by disaster, which is the main prerequisite for solving the crisis.

- That's good to hear. I read something about it in the papers, too. Would you say that this is related to the recent growth of ETK share value, which has been all over the papers as well?

- Of course, all company's activities, and not only contracting profitable jobs, have an effect upon the share value. Take me, for instance. I am also an ETK shareholder. During 2004 I certainly had enough reasons to be satisfied. The value of the share kept rising and Ericsson Nikola Tesla won the award Discovery of the Year granted by East Capital, a leading independent asset manager specializing in Eastern European financial markets, for exceptionally good performance and strong image in East European markets. Also, Ericsson Nikola Tesla makes extra efforts to strengthen the relationship with investors and to increase their trust in company's management, which was obvious during the Capital Markets Day organized in October last year for the first time in



company's history. I was there and I got convinced that my company supports and engages in transparent, clear and precise definition and observation of the rights and responsibilities of all internal and external stakeholders, thus protecting the integrity of company's operation. There is a special name for that - Corporate Governance. That too, you see, is an element of my company's care of its community.

- Taking care of community interest, social responsibility, all that is fine. But tell me what is it like in your office? How much of this care is directed towards employees?

- Oh, that is a special story. Along with a whole range of employee benefits, such as flexible working time, remuneration based on the results of work, individual planning of annual assignments and professional development of each employee with competence development and other opportunities for promotion in the focus, much attention is paid to employees' healthcare and creation of a working environment stimulating creativity, initiative and expertise. Like most of my colleagues I spend a great deal of my time operating a personal computer, but my working place is thoroughly adjusted to that purpose. Not long ago I filled in a questionnaire about the ergonomic conditions at my working place and all my comments about the light, the height of my desk, as well as the position of my PC were taken into consideration. Besides that, I joined one of the fitness programs available on the company premises. The concept entitled Doctor at the Working Place opens up an opportunity for me to speak about health issues with one of the physicians working in company's medical clinic and I am also entitled to free-of-charge regular medical check-ups. The company also organizes for its employees expert lectures on different topics concerning health. I could tell you a lot about our common monthly birthday celebrations and our annual Family Day that gathers several thousand ETK employees and members of their families at the Jarun Lake. In one word – excellent!

- Yes, it sounds like a really great place to work. You know, I am listening to you all this time and I am wondering about something: you are an electrical engineer and, as far as I know, you work with changeable parameters within fixed and mobile networks. It is quite clear to me that you know a lot about Ericsson systems, but what I do not understand is how come that you know so much about company's social responsibility.

- Ha, is Ericsson Nikola Tesla a communications company or not? We do more than supply communications systems, solutions and services – we communicate. You mentioned that you read in papers about some of the things I have just explained to you. Well, if it is in the public press it certainly is on company's and corporation's intranet and it is also in company's papers which, can you imagine that, have been around for 40 years. These topics are also

discussed at unit meetings and presentations. Keeping the employees and the Croatian citizens informed about Ericsson Nikola Tesla's operation, strategies and plans is a part of company's social responsibility. But, if you wish to know more than I can tell you, just visit the Internet address www.ericsson.com and type Corporate Social Responsibility in the search field.

- Great, you really thought about everything. But tell me, what do you think about the transfer of Kranjčar from Dinamo to Hajduk ...

