

# Ericsson Nikola Tesla RCB Investors Conference

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# Ericsson Nikola Tesla Investors Conference

## Agenda

- Company overview
- Business environment
- Achievements 2006
- Outlook 2007



# Ericsson Nikola Tesla

An Information Communication Technology company

- Ranked at the top of Croatian economy for over five decades
- Five decades of cooperation with Ericsson and a decade of membership in the Ericsson Group
- Long-time presence at the markets of CEMA



# Our position in Croatia

- The company of “knowledge”
- Driver of the cutting edge information and communications technologies
- Almost the whole national wireline network and half the wireless network in Croatia is based on Ericsson’s products, solutions and services
- Partnership with key operators of wireline and wireless systems
- Enterprise and special systems offering, including e-systems



# Our position in Ericsson

- Marketing & Sales network
- Regional center for total communications solutions
- Regional and global center for services
- Regional center for System Integration
- Strong research & development unit
- Mobile Data Solutions Global Expertise Center
- Driver of e-systems portfolio



# Ericsson Nikola Tesla

## Business environment

# Business environment

## ■ Mobile

- Mobile market continues to grow, but very soon saturation can happen on some markets
- Mobile Broadband should be major driver for 3G rollout in the coming years
- Value added subscriber services

## ■ Wireline

- Most of countries liberalized now and new operators being added
- Flat to decreased sales development for most operators
- Broadband access is main driver for revenue growth

## ■ Enterprise & Governmental

- Converged Solutions and Services (SI/Managed Services)
- Enterprise Vertical Segments Solutions, incl. Services (Public Safety and Security, e-Health)
- Enterprise Solutions via Operators, Mobile Data and Services

## ■ General

- Evaluation to All- IP
- Expansion from 'traditionally strong areas' towards solution, services, expertizing
- High interest overall to reduce Opex
- Strong competition, new low price competitors on ETK markets
- Traditional sales will be decreasing, but new sales of services and multimedia segment will add value
- Global customer impact in the operator segment will increase



# Business environment

Fixed, Mobile and Internet penetration (%) in our markets

	FIXED	MOBILE	INTERNET
<b>Croatia</b>	<b>42</b>	<b>101</b>	<b>35</b>
<b>Bosnia and Herzegovina</b>	<b>36</b>	<b>41</b>	<b>8</b>
<b>Montenegro</b>	<b>28</b>	<b>99</b>	<b>13</b>
<b>Russia</b>	<b>30</b>	<b>106</b>	<b>22</b>
<b>Belarus</b>	<b>36</b>	<b>63</b>	<b>30</b>
<b>Kazakhstan</b>	<b>20</b>	<b>51</b>	<b>10</b>



# Business Environment - Croatia

- Fixed-voice license: currently 20 fixed licenses / 9 of them fulfilled conditions for commercial launch
- Consolidation trends in the fixed market segment showed up on the Croatian market (T-HT bought a 100% stake in Iskon)
- Fixed broadband, with new service offers, increases continuously
- Fixed Wireless Access (WiMAX) concession granting process continues (74 concessions in 18 counties so far)
- Mobile concession: currently 2 GSM 900 (T-mobile, VIPnet d.o.o.), 1 GSM 1800 (Tele2) and 3 UMTS concessions
- 41 ISP and 40 VoIP licenses: Strong competition
- 27 CATV licenses: 2 national and 25 local
- Real competition in mobile segment, intensive marketing campaigns, lower prices and simpler and transparent tariff models



# Business Environment

## Bosnia&Herzegovina and Montenegro

### BiH

- Market partially deregulated
- UMTS and WiMAX licensing expected in Q3/Q4 2007
- 3 licenses for GSM operators
- 3 licenses for fixed operators
- In total 7 new fixed operators got licenses for fixed network operators but still none of them started commercial operations
- 46 licenses for ISP
- 71 licenses for network operators

### Montenegro

- 3 licenses for 2G/3G operators (Telekom Srbije new operator)
- 1 license for fixed operator
- 7 licenses for ISP
- 4 licenses for communications networks
- 3 licenses for WiMAX
- 91 other licenses (broadcasting, public pay phones, radio-taxi service,...)



# Export markets – CIS

**CIS telecom market** is showing very healthy growth. The most important market driver is the growth of mobile services even in relatively underdeveloped regions

ETK main markets are **Belarus, Kazakhstan and Russia**

## Fixed, mobile and Internet market

- PSTN market showed rather slow development compared to mobile sector (~2 mln new lines per year)
- Privatization of incumbent operators in CIS is still pending. New strategic investors are expected to focus on higher efficiency and new services
- New long-distance operators are appearing after segment liberalization in Russia, Ukraine, Kazakhstan
- Consolidation and expansion of main players in mobile segment to CIS and beyond
- Broadband access and IP TV are the fastest growing segment



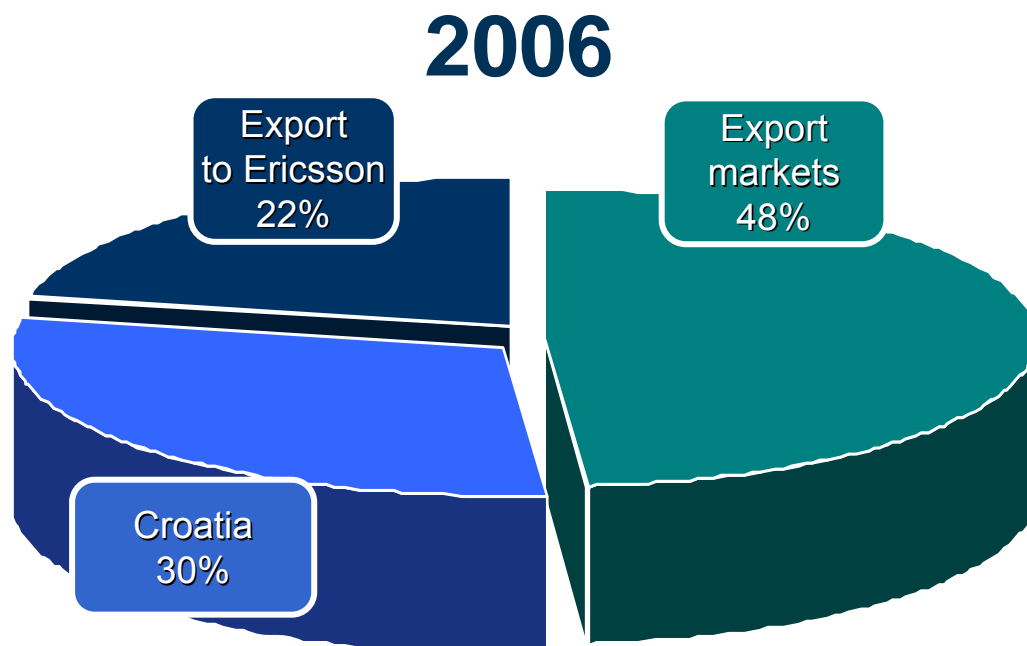
# Ericsson Nikola Tesla Achievements 2006

# 2006 in brief

- Stable operations continued, despite the competition and demanding customers
- A good year both in domestic and foreign markets, a number of strategic contracts and new customers
- KPI in compliance with plan or even exceeded
- Positioning as a strong R&D center and other expert centers in Global Ericsson
- Strong repositioning toward SI, Multimedia Solutions and new products and services mix
- We assumed a leading role in e-systems



# Three cornerstones of company operations



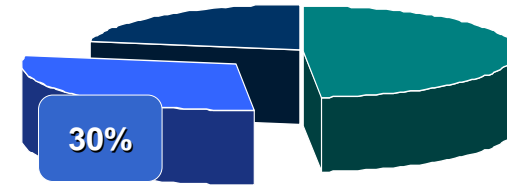
## Top markets

- Croatia
- Sweden
- Belarus
- Bosnia and Herzegovina
- Kazakhstan
- Russia
- Montenegro

	2002	2003	2004	2005	2006
Ericsson	231	224	226	296	358
Export	870	866	944	852	794
Croatia	313	314	381	476	483

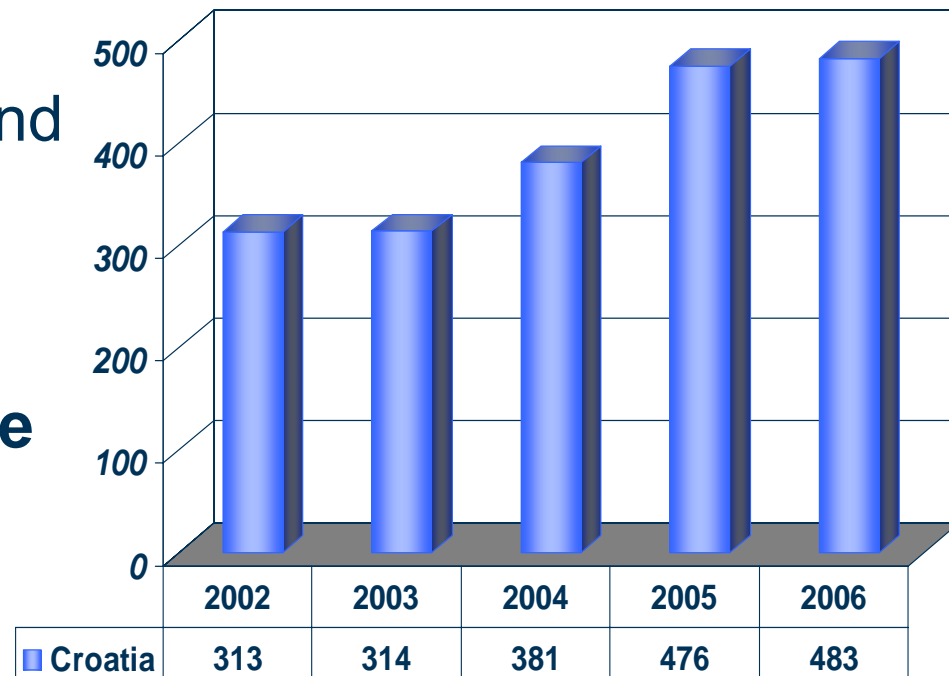
*Continuously High Customer Satisfaction Index*

# Domestic market



- Stronger position in domestic market
- Domestic sales **482,6 MHRK** (+1,4%)

- Collaboration continued and new contracts signed with major Croatian operators (**VIPnet, T-HT and Tele2**) and numerous enterprise systems customers





# Domestic market- key customers/activities

## VIPnet



- Strategic partnership in introducing new technologies
- By working closely with Ericsson Nikola Tesla, Vipnet is building its leading position in broadband Internet access and continues the 3G network evolution
- The cooperation on extending the first HSDPA (High Speed Downlink Packet Access) network in Croatia continues

## T- HT



- Fixed network modernization
- Building a network to enable large-scale introduction of broadband services and increased number of Internet users (IP, ADSL-EDA)

## TELE2



- GSM and UMTS networks
- New strategic contract for Managed Services
- Ericsson Nikola Tesla is the exclusive product and service provider

# Domestic market – Enterprise systems

- **Key customers:** Ministry of Defense (MORH), Ministry of Interior (MUP), Health Ministry, Electric Power Industry (HEP), Financial Agency (FINA), Croatian Railways (HŽ), Oil Industry (INA)
- National integrated primary health care system (e-Health) finished and officially put into operation on 20 Feb 2007
- Contract on cooperation with FileNet signed (*Business process management & Enterprise document management*)
- Major activities: e-systems, SI & services, public safety system (up “112”), mobile business solutions, IP solutions, consulting

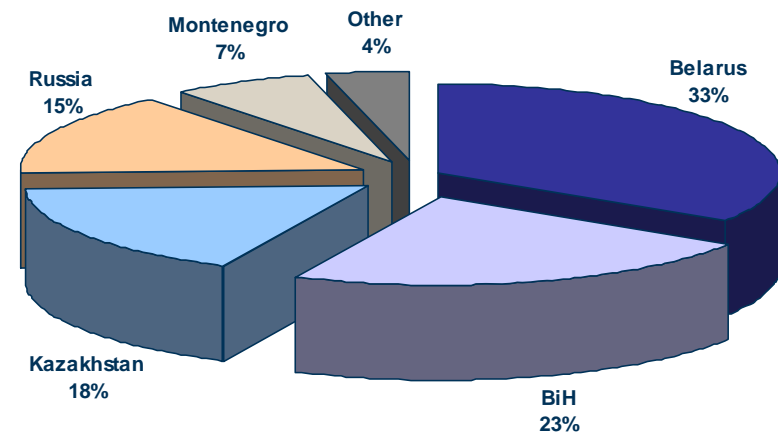
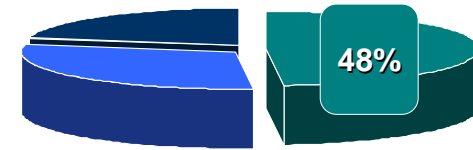


# Export markets

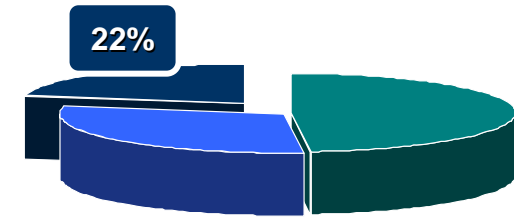
Export sales **793,7 MHRK**

## Top markets

- BiH and Montenegro **233 MHRK (-14,7%)**
  - Contracts for modernization and extension of mobile and fixed systems signed with operators **BH Telecom**, **HT Mostar/ HT Mobilne komunikacije** and **T-Com & T-Mobile Montenegro**
- CIS **548 MHRK (+2,8%)**
  - Contracts signed with mobile network operator **JV MDC Velcom** (250 MHRK) and fixed network operator **Beltelekom** in Belarus
  - Contract worth 206 MHRK with fixed network operator **TeleKRONA**, Kazakhstan.
  - Sales of solutions for modernization and extension of fixed and enterprise communication systems in Russia



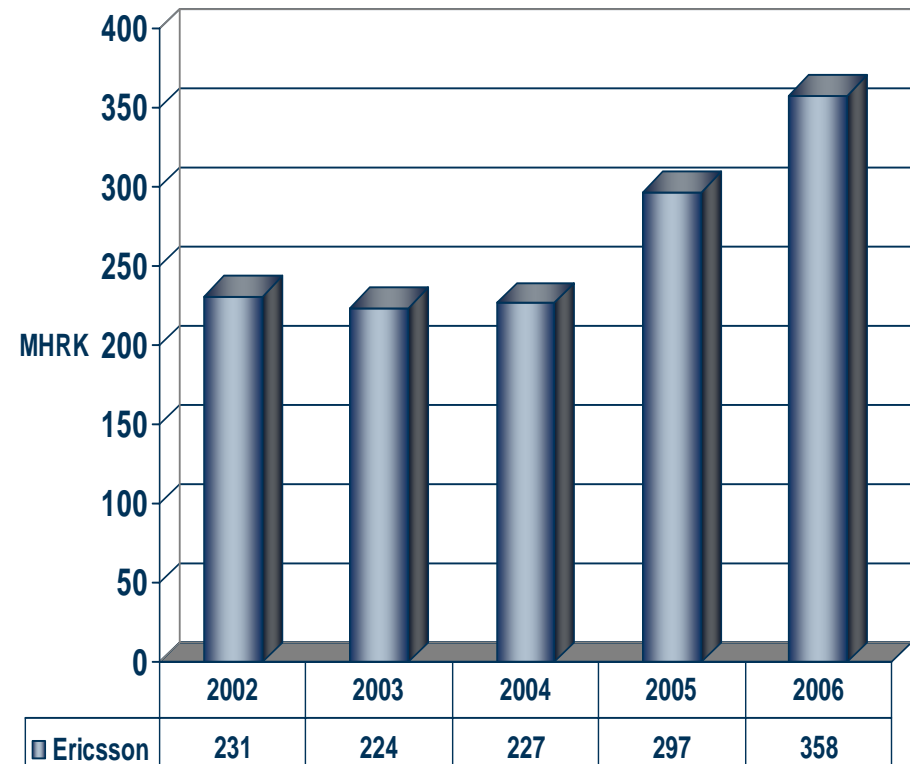
# Export to Ericsson



Services sales in internal Ericsson market show a considerable growth **357,8 MHRK (+20,7%)**

## Additional responsibilities:

- R&D - Integration-Verification (I&V) services, Cello Packet Platform (CPP), Development Unit Core Network Evolution (DCNE), ...
- GSDC - Network Rollout Primary Contact for EMEA South, new service and solution areas (IMS, IP, MMS,...)
- SI Unit - responsibility to provide hosting service in e-health system structures globally
- Enterprise Global Expertise Center – extended responsibilities



# ETK Scorecard 0612A

FINANCIAL	CUSTOMER	COMPETITIVE POSITION	INTERNAL EFFICIENCY	EMPLOYEE
 <p>Commitment</p> <p><u>ETK1: Orders booked</u> M. Radtke</p>	 <p>Commitment</p> <p><u>ETK4: New customers</u> M. Zivkovic</p>	 <p>Commitment</p> <p><u>ETK7: New Technology contracts</u> J. Jakovac</p>	 <p>Stretched</p> <p><u>ETK10: OPEX</u> M. Radtke</p>	 <p>Stretched</p> <p><u>ETK13: Dialog</u> A. Jozinec</p>
 <p>Stretched</p> <p><u>ETK2: Income before taxes</u> M. Radtke</p>	 <p>Commitment</p> <p><u>ETK5: Customer Satisfaction</u> T. Sichel</p>	 <p>Stretched</p> <p><u>ETK8: Service Sales</u> S. Lepri</p>	 <p>Commitment</p> <p><u>ETK11: Leading efficiency&amp;effectiveness</u> B. Dronjic</p>	 <p>Stretched</p> <p><u>ETK14: High Performance Sales Culture</u> J. Caric</p>
 <p>Stretched</p> <p><u>ETK3: ETK Cash Flow</u> M. Radtke</p>	 <p>Commitment</p> <p><u>ETK6: R&amp;D Projects and Products on time</u> A. Pane</p>	 <p>Stretched</p> <p><u>ETK9: Enterprise &amp; Governmental contracts Croatia</u> S. Ivezic-Torbarina</p>	 <p>Commitment</p> <p><u>ETK12: Partnering efficiency</u> H. Bencic</p>	
<b>SHAREHOLDERS</b>				

# Financial summary 2006

<b>MHRK</b>	<b>2005</b>	<b>2006</b>	<b>%</b>
Orders booked	1.608,0	1.623,6	1,0
Book-to-bill	1,0	1,0	
Sales revenue	1.624,5	1.634,1	0,6
Cost of sales	1.300,9	1.347,9	3,6
Gross profit %	19,9	17,5	
Result from operating activities	216,1	198,5	-8,1
Interest income and other financial income	64,5	93,5	45,0
Net foreign exchange losses	-12,1	-25,7	
Profit before financial cost and Income tax expense (EBIT)	268,6	266,3	-0,9
Financial cost	-0,2	-1,7	
Profit before tax	268,4	264,5	-1,5
Net profit	235,7	233,8	-0,8
EPS	178,8	177,6	
Operating cash flow	46,8	217,6	

***Continued solid performance***

# Balance sheet highlights

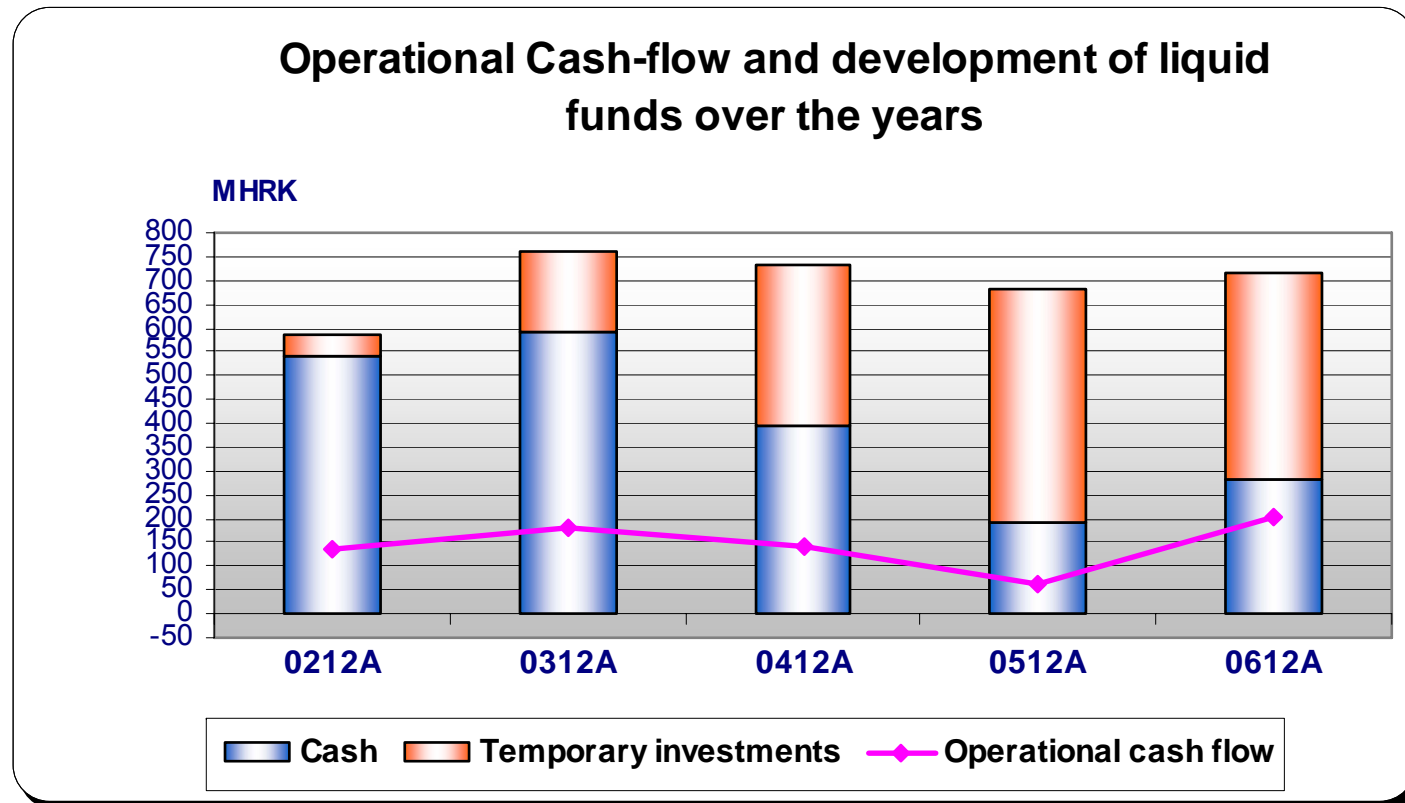
in HRK million

<b>Assets</b>	<b>2005</b>	<b>2006</b>	<b>%</b>
Cash and cash flow equivalents	192	281	46
Financial assets	492	437	-11
Inventories	31	31	0
Short term receivables from customers	670	560	-16
Other current assets	40	26	-35
Non current assets	477	608	27
<b>Total assets</b>	<b>1.902</b>	<b>1.943</b>	<b>2</b>
<b>Liabilities and shareholders equity</b>			
Current liabilities	404	365	-10
Non-current liabilities	7	6	-14
Shareholders equity	1.491	1.572	5
<b>Total liabilities and shareh. equity</b>	<b>1.902</b>	<b>1.943</b>	<b>2</b>
ATO (receivable turnover) days	140	189	
ITO (inventory turnover) days	12	10	
Current ratio	3,4	3,6	

***Operational excellence remains in focus***



# Cash and cash-flow development



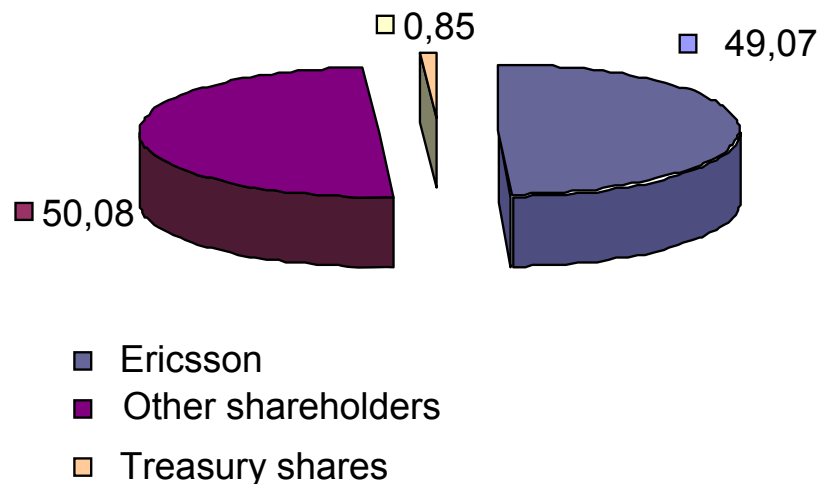
- The level of liquid funds has increased again, despite the redemption paid to shareholders at the beginning of 2006 (131,4 MHRK) and dividend payment of 25 MHRK
- Operating cash flow is positive by 217,6 MHRK, mainly because the 2006 Belarus contract was fully delivered during the year. This operating cash flow gives a solid base for future expansion and development.

# Financial targets

- Stable but moderate sales' growth
- Keeping the market share
- Balance the corner-stones
- Using the financial assets and available financial tools to develop business opportunities and secure growth (e.g. customer financing...)
- Continuous improvements in operating efficiency to control impact of price pressure
- Investments in competence development, new technology and customers
- Positive operational cash-flow from majority of the business



# Ownership structure, March 2007

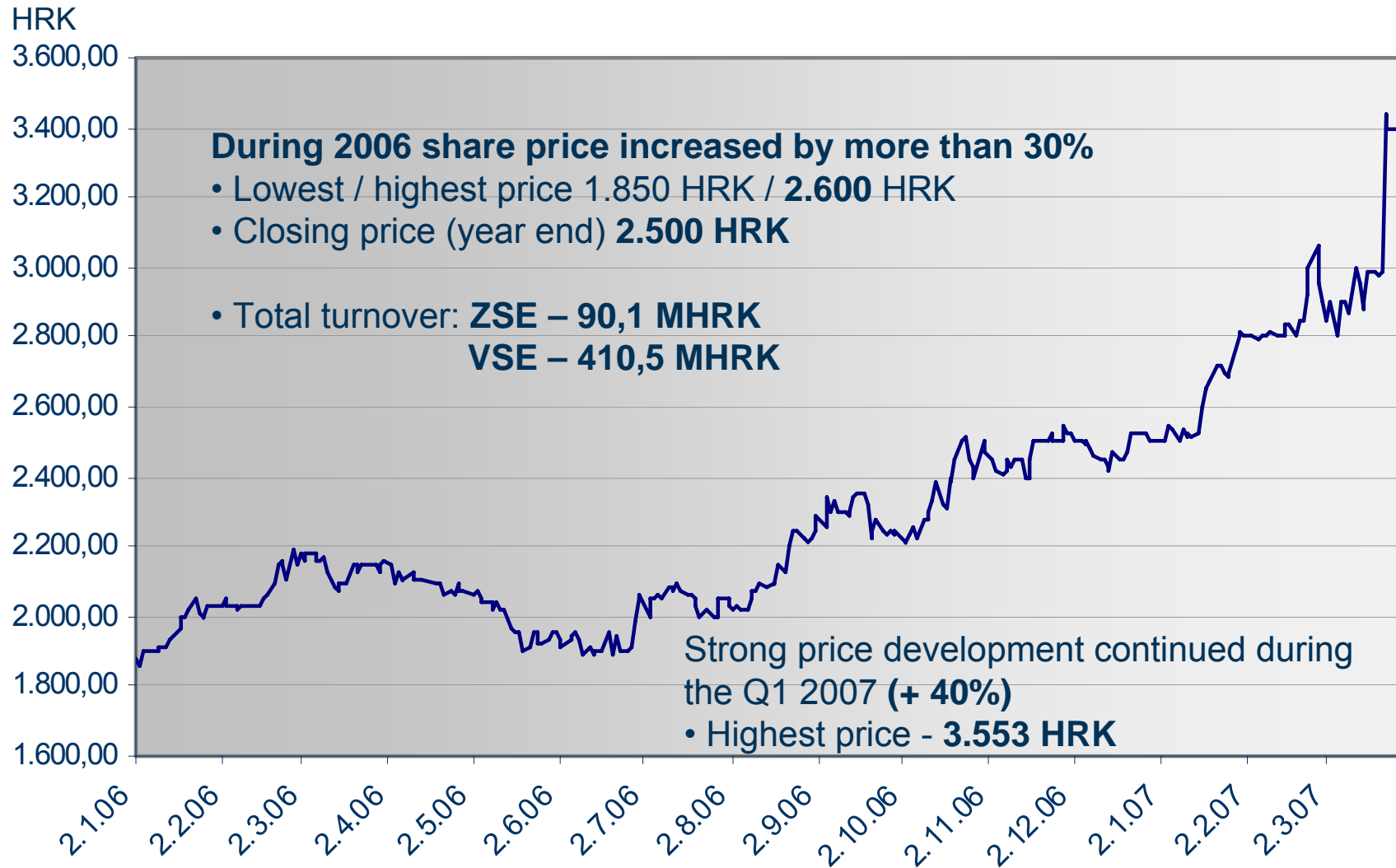


- Number of shareholders: 3382
- Total number of shares: 1.331.650

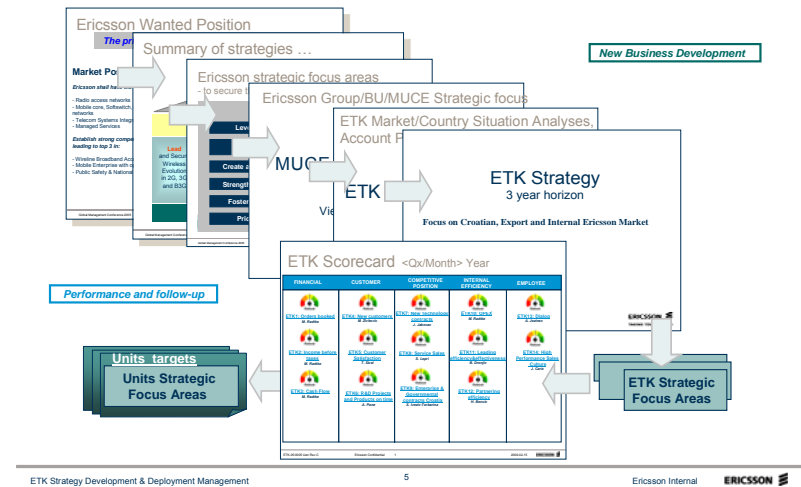
## Largest shareholders:

Telefonaktiebolaget LM Ericsson	49,07%
PBZ d.d / clients account	4,94%
Bank Austria Creditanstalt AG	2,96%
Hansabank clients account	2,87%
RBA d.d.	2,77%
Skandinaviska Enskilda banken	2,64%
RBA d.d / R5	2,33%
RBA d.d. / foreign legal entities	1,17%
Hypo Alpe Adria Bank d.d.	1,17%
Zagrebačka banka d.d.	1,16%
Erste & Steiermarkische bank /CSC	0,99%
Croatian Privatisation Fund	0,89%
Investors bank & Trust company	0,86%
Ericsson Nikola Tesla d.d.	0,85%

# Share price development 0601 - 0703



## From Ericsson wanted position to ETK Strategy and actions



# Ericsson Nikola Tesla Strategy Development & Deployment

New cycle 2007- 2009

# Wanted position

- **Market Position**

- Strengthen position on Croatian, internal Ericsson and Export Markets, focused on new technology/new markets

- **Customer**

- Keep/improve position of preferred ICT business partner on all markets through retention of existing and attraction of new customers.

- **Operations**

- Continuous focus on Operational Excellence
- Efficiency by using common resources, best practice and experience

- **People**

- Retain, attract and develop high performing, competent and motivated people



*Be perceived as a strong innovative ICT company*

# ETK strategy temple





# ETK Focus Areas

to secure implementation of the Strategy



<b>Units and Functions Programs &amp; Projects Processes</b>	<b>Improve perception and extend business volume in Multimedia, Enterprise and SI</b>	
	<b>Build a strong position in Broadband and IP technologies</b>	
	<b>Broaden R&amp;D responsibilities in future oriented areas</b>	
	<b>Strengthen position in Service segment</b>	
	<b>Accelerate Operational Excellence – improve competitiveness</b>	

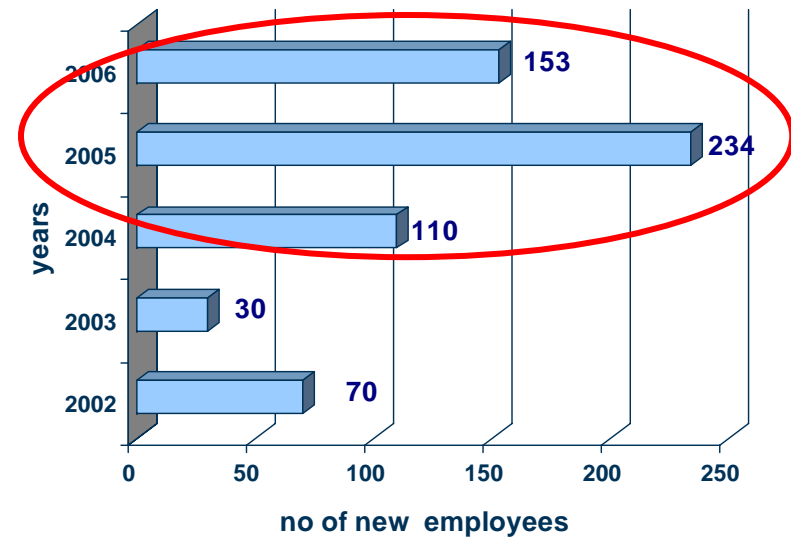
# People are key

We need everyone's energy and ideas

- A team of 1350 experts - 87% with university degree
- The number of people increased (500 new employed in the last three years)
- Opportunity to fulfill their professional aspirations in Croatia



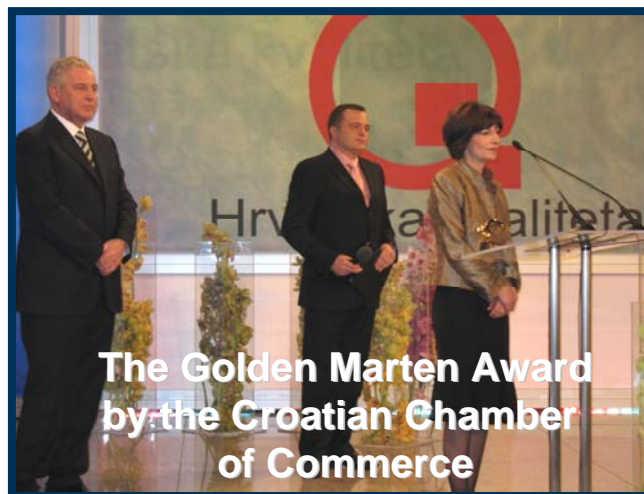
New employment in ETK (2002-2006)



# Awards and certificates



The Order of the Croatian Star with the effigy of Nikola Tesla.



The Golden Marten Award by the Croatian Chamber of Commerce



Entrepreneur of the Year 2006  
(Viewers of the Capital Network voted)



The Charter of the Republic of Croatia



ETK share had the highest turnover on the VSE

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