The business results of Ericsson Nikola Tesla in 2005

In 2005, the year of its 56th anniversary, Ericsson Nikola Tesla (ETK) performed well again. It was the year of further business growth, the year that created new and strengthened old partnerships, the year of stronger regional and global positioning within Ericsson with subsequent demand for employment of young specialists, the year of permanent adjustment to market situation and of continued orientation to business and operational excellence.

The operations of Ericsson Nikola Tesla are founded on high-quality performance and commitment of all employees, on their professionalism and competence. The way we work at the company is characterized by innovative approach, creativity, teamwork and openness towards new ideas and business opportunities, efficiency and healthy entrepreneurship.

In this way Ericsson Nikola Tesla contributes to increased satisfaction of its customers, also to higher profit and growth for its shareholders and other stakeholders.

Last year was characterized by strong market competition, especially from the Far East, by demanding customers, pressure upon margins, but also by new business opportunities.

In 2005 the company completely fulfilled its plans and even exceeded some of them so that the year 2005 was again a record year in terms of sales and profit.

In 2005 Ericsson Nikola Tesla achieved the following results:
- Net sales up 4.7%: 1,624.5 million HRK in 2005 compared with 1,551.7 million HRK in 2004
- Orders booked were on the record 2004 level, up 0.2% (1,608 million HRK in 2005, and 1,605 million HRK in 2004).
- Gross margin: 20% in 2005 (23% in 2004)
- Operating margin: 14.5% in 2005 (14.0% in 2004)
- Profit before taxes up 9%: 268.4 million HRK in 2005 compared with 246.3 million HRK in 2004
- Net profit up 8%: 235.7 million HRK in 2005 compared with 217.4 million HRK in 2004
- Positive cash flow from operating activities: +47 million HRK
- Stable and motivating company culture which has been confirmed for the seventh successive year in Dialog, the annual Employee Satisfaction Survey
- Customer satisfaction stated in the annual Customer Satisfaction Survey.

Such performance is based a great deal on perseverance and consistent work with customers. Meant are the offered new business models and innovative solutions based on high technology, customer financing, the adjustment of activities to plans and needs of customers, and activities aimed at extending the customer data base. Much attention was paid to cost optimization and accordingly the sales, administrative and general expenses decreased from 7.4% to 7.0% of sales revenues. Emphasis was put on external suppliers management whereby transparency and competitiveness were crucial in cost optimization.

In risk management the company applied new methods pursuant to the revised policy of reservations for trade receivables. Based on a thorough analysis, adequate reservations for long-lasting, high-risk receivables were defined that should cover all risks. We recognized a considerable drop in risk on receivables from Belarus because the payments started in accordance with the defined plan, with a shorter payment collection period which led to diminished reservations and non-recurring positive effects in 2005 amounting to 43.5 million HRK.

Business situation in major markets
On corporate level Ericsson Nikola Tesla has the responsibility for several dozens of countries in Europe, Middle East and Africa. In total sales of Ericsson Nikola Tesla u 2005 the domestic market participated with 29%, the export market with 71%. In total export, the internal Ericsson market accounts for 18% of sales, whereas export to other countries accounts for 53%. Major single markets last year were: Croatia, Sweden, Belarus, Bosnia and Herzegovina, Kazakhstan, Russia and Montenegro.
We have to emphasize that since 2004 the structure of products and systems sales has considerably changed. Mobile systems achieved a rise from 30 % to 40 %, and services in fixed and mobile network a rise from 35 % to 42 % of total sales. The services are one of the future key areas. The expected growth in demand for broadband access to the Internet is a good business opportunity and a challenge in the field of fixed and mobile telephony.

In 2005 the sales of Ericsson Nikola Tesla in Croatia went up 25% compared with the preceding year. In domestic fixed and mobile systems market the company continued a good cooperation with its strategic partners T-Hrvatski telekom and VIPnet. The company also established a cooperation based on a partnership with the new customer, Tele2, the third mobile operator in Croatia, for whom the company is the only equipment provider. The sales of business communications to large enterprises went up as well (Croatian Railways, the Ministry of Defense of the Republic of Croatia, Vodatel, Croatian Electric Power Industry, Croatia Airlines and other) so that in this business area the company had the best year ever.

When speaking of export markets of Ericsson Nikola Tesla beside the internal Ericsson market, the total sales in 2005 amounted to 852 million HRK. In the Commonwealth of Independent States (former Soviet Union) the company performed outstandingly again. Significant business agreements were signed in Belarus with the operator JV MDC Velcom. In Kazakhstan the company concluded the best-ever business agreement as it signed an agreement with the new customer TOO TelecomNet worth 39 million EUR covering the delivery, implementation and integration of the equipment for the construction of a multi-service network. In Russia, however, the sales went down because our large customer, Svyazinvest, reduced its investments into fixed network, compared to 2004.

In Bosnia and Herzegovina Ericsson Nikola Tesla signed agreements in mobile and fixed telephony systems with its longtime business partners Eronet from Mostar and BH Telecom from Sarajevo and also with the operator Telekom Srpska. In Montenegro Ericsson Nikola Tesla signed an agreement with Monet, the mobile network operator, for the upgrading of the GSM network. Based on excellent results over a couple of years Ericsson Nikola Tesla obtained broader responsibilities on Ericsson’s internal market in the research and development area and also in the Global Service Delivery Center. Consequently there was an increased demand for new employment. In the course of 2005 the company employed 230 new associates, a rise of 17% compared with the preceding year. The export to Ericsson’s internal market went up 31% compared to preceding year and it amounts to 297 million HRK.

Business outlook for 2006

Ericsson Nikola Tesla will strengthen its strategic positioning in all markets, with emphasis on the Croatian market where the company will improve its relations with present customers and build relations with the new ones by offering the latest ICT solutions and technologies. It will also continue its orientation to export growth on internal Ericsson market and in the markets of Central and Eastern Europe, Central Asia and Africa. ETK will actively pursue and use all business opportunities, even those that exceed the core business but can be fulfilled with the existing competence and resources. Ericsson Nikola Tesla will operate as a strong research and development center with global responsibilities in the Ericsson Group and secure increased sales of services, in addition to the activities of the Global Service Delivery Center. Another objective of the company is to further build and improve its position as the leading competence center for total communication solutions. For Ericsson Nikola Tesla it is also of importance to retain its standing as the best employer and socially responsible entrepreneur.

Great effort will be required to accomplish all these objectives in an environment that features strong competition and is permanently under pressure to reduce prices and to meet the need to supply the customers with best solutions at optimized cost. Therefore, 2006 and the following years will be the years of business opportunities in domestic, export and Ericsson’s internal markets but also the years bringing along business risk.
**Other information**

At the meeting of March 6, 2006 the Supervisory Board of Ericsson Nikola Tesla supported the proposal given by the Managing Director to propose to the Stockholders Assembly the payout of dividend to the amount of 19 HRK per share.

**The Year of Nikola Tesla**

The year 2006 was on national level declared to be the year of Nikola Tesla as it marks the 150th anniversary of the birth of this scientific genius. Ericsson Nikola Tesla will take part in the national Nikola Tesla celebration project:

- as the co-organizer of the conference titled “Life and work of Nikola Tesla”,
- by establishing the Annual Scholarship Ericsson Nikola Tesla for research in electrical engineering and computing
- by supporting the renovation of the permanent display of the Nikola Tesla cabinet in the Technical Museum in Zagreb.

The company also started a series of activities to mark the Year of Nikola Tesla that will take place during 2006 (annual donation by the company and similar).

Company Communication
Ericsson Nikola Tesla

CONTACT:

**Snježana Bahtijari**
Communication Director (ETK/A)
Ericsson Nikola Tesla
Zagreb, Krapinska 45
p.p. 93
HR-10 002 Zagreb

Phone: +385 1 365 4556
Mobile: +385 91 365 4556
Fax: +385 1 365 3156

mailto: snjezana.bahtijari@ericsson.com
mailto: etk.company@ericsson.com

**Orhideja Gjenero**
Investor Relations Manager (ETK/A)
Ericsson Nikola Tesla
Zagreb, Krapinska 45
p.p. 93
HR-10 002 Zagreb

Phone: +385 1 365 4431
Mobile: +385 91 365 4431
Fax: +385 1 365 3156

mailto: orhideja.gjenero@ericsson.com
mailto: odnosi.investitori@ericsson.com

More information about operations of Ericsson Nikola Tesla please find at:
[http://www.ericsson.com/hr/investitori/](http://www.ericsson.com/hr/investitori/)