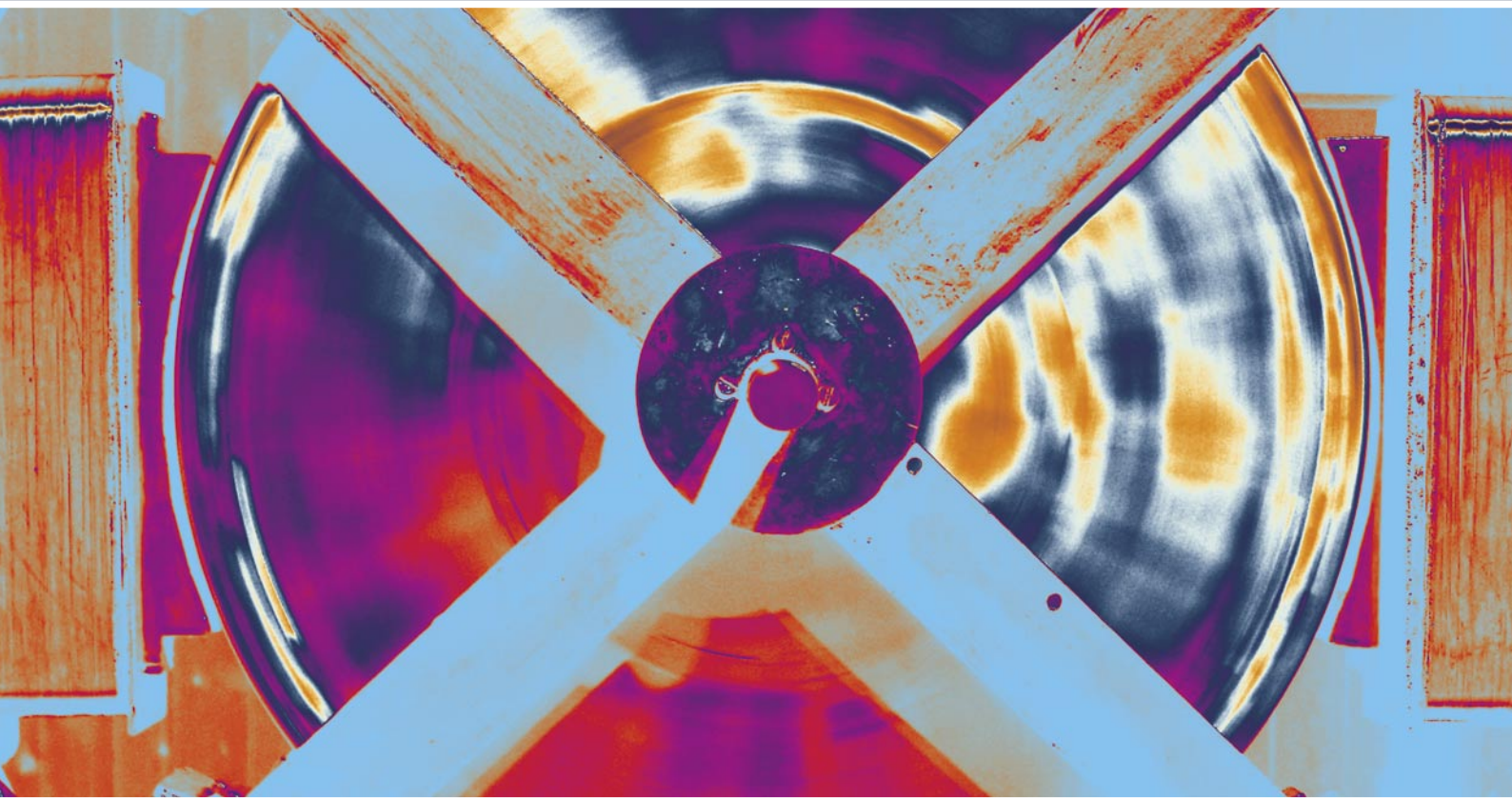


Operations



A three-phase AC induction motor with a squirrel cage rotor

MARIA RADTKE, FINANCE AND SOURCING DIRECTOR OF ERICSSON NIKOLA TESLA, ADDRESSES OUR SHAREHOLDERS

Exceeding expectations and investing in the future

Ericsson Nikola Tesla accelerated the implementation of its organic growth strategy, creating value for stakeholders by building and expanding a number of customer and client relationships. Once again the company has managed to satisfy all of its stakeholders, especially concerning the financial indicators.

Our employees are working together world-wide with Ericsson to create new opportunities to deliver the full power of Ericsson Nikola Tesla to our customers.

At the same time, the company is investing heavily in the future, but has been able to do so without depleting the cash reserves. The clouds on the horizon are increasing competition and growing pressure on margins. The solution, however, lies in the constant competence and expertise development, more creative and flexible customer solutions using the possibilities of cutting-edge technologies, finding new customers and, of course, clever asset management and cost efficiency.

Financial Management Survey

As always, the company's goal is not just to reduce costs, but also to accelerate organic growth and for that purpose we have focused on cost efficiency, positive operational cash flow and efficient management of assets, but also on creative and customer-oriented use of these assets.

Creative customer financing solutions were the key to one of our largest successes in 2005, TelecomNet located in Kazakhstan. This customer financing is over long-term tenor but the money is well invested and is an example of how Ericsson Nikola Tesla is putting its liquid funds to good use. The demand for customer financing solutions is growing, both inside and outside Croatia, and the company is using all its capabilities in terms of own balance sheet as well as its excellent bank relations to capture the most and the best customer deals.

Cost efficiency continues to be imperative, and operational expenses for Selling, General and Administrative activities have been further reduced from 7.4 to 7.0 percent of net sales. High focus is also put on managing external suppliers, using transparency and competition as important tools for cost reduction.

Cautious approach and damage limitation

To generate strong, consistent, sustainable organic growth in financial services, achieving excellence in sales and service is half the battle.



Maria Radtke

Creative customer financing solutions were the key to one of our largest successes in 2005

The key philosophy that our company is embracing is that managing risk is not about avoiding risk. It's about taking calculated risks in the pursuit of growth.

The other half is developing the art and practice of risk management as one of our main skills and competitive advantages. The key philosophy that our company is embracing is that managing risk is not about avoiding risk. It's about taking calculated risks in the pursuit of growth.

The company's trade provisions policy has been reviewed and new methods applied. We now have well-balanced provisions for long-term, high-risk receivables – provisions that cover all risks, and are thoroughly analyzed. We have recognised a considerable risk decrease in Belarus receivables because payment plans are now in place and the tenor of outstanding financing is shorter, which has led to lower provisions and a one-off positive effect in 2005 of +43.5 MHRK.

As regards the fire incident at the warehouse of Time Shuttle, our warehouse provider, it actually proved to be a great operational success. The company was fully operational the first workday after the damage occurred and we were also very successful in limiting the damage to our customers, as in less than two months after the damage occurred, more than 95 percent of all damaged equipment had been re-ordered and delivered to the customers. Furthermore, we expect that insurance coverage will fully compensate the losses. Complete direct losses are included in 2005 accounts and amount to 38 MHRK. The insurance payment is expected within the first half of 2006.

Well placed for future challenges

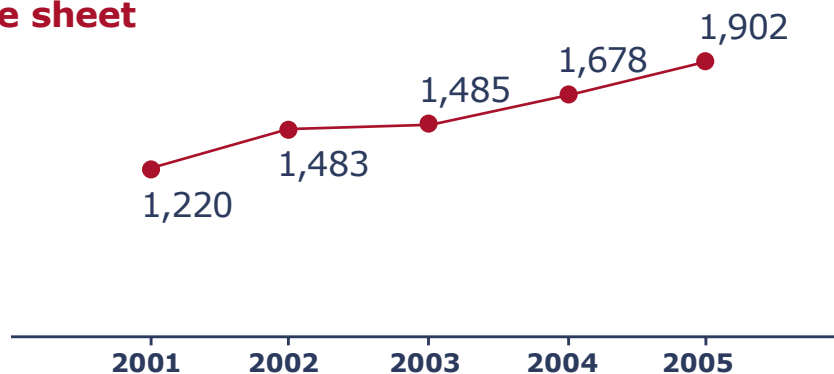
Focusing on creating positive cash flow, but also on using liquid funds for customer financing to capture major contracts is key to the future. The company will continue to push for continuous cost efficiency; it will have to protect margins and continue to free capital for major development of and investments in human resources and test equipment in the areas of R&D as well as other Ericsson services. We continue to face significant transition challenges and opportunities in the industry in 2006. Our already highly competent and vastly experienced people are our best investments in the future. Together with the company's unique combination of broad and varied customer base as well as extensive and advanced product portfolio, Ericsson Nikola Tesla is well placed for future challenges.



Maria Radtke
Finance and Sourcing director of Ericsson Nikola Tesla

FINANCIAL HIGHLIGHTS IN 2005

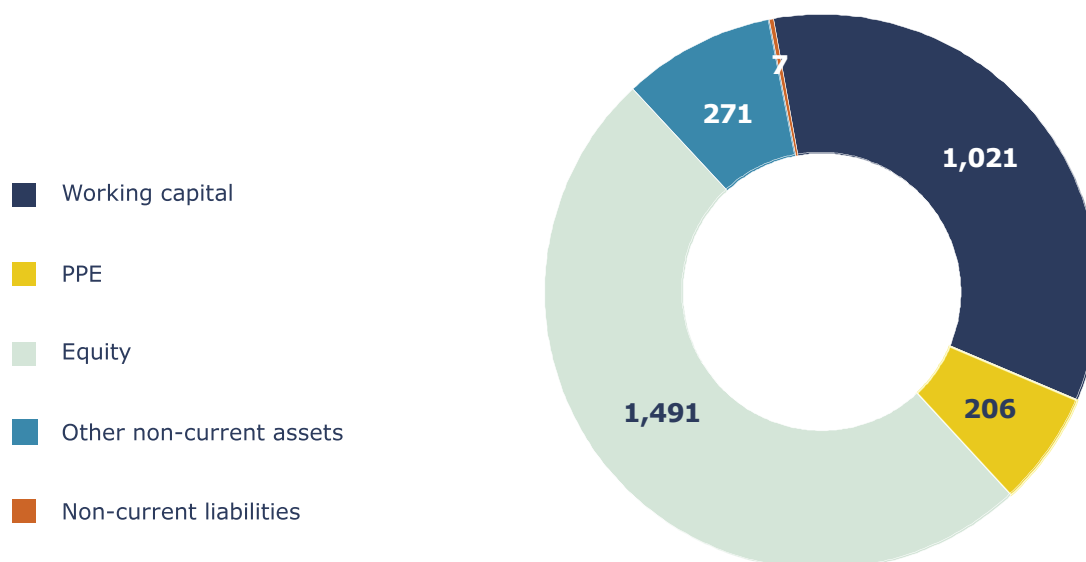
Balance sheet



MHRK	2001	2002	2003	2004	2005
Balance sheet total	1,219.70	1,483.05	1,485.48	1,678.03	1,901.77

MHRK	2001	2002	2003	2004	2005
Working capital	615.19	775.29	962.95	995.58	1,020.74
PPE	177.19	168.36	148.85	150.35	206.15
Equity	931.05	1,042.69	1,209.20	1,276.85	1,490.56
Other non-current assets	147.11	106.54	104.60	138.30	270.83
Non-current liabilities	8.44	7.50	7.21	7.39	7.16

Balance sheet structure as at 2005-12-31 (MHRK)

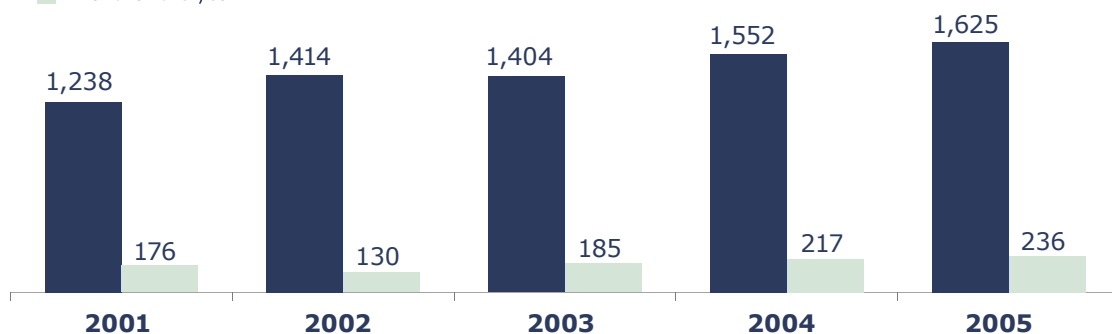


Sales revenue, operating profit and profit for the year

MHRK	2001	2002	2003	2004	2005
Sales revenue	1,238.18	1,414.14	1,404.02	1,551.66	1,624.52
Operating profit (EBIT)	182.40	219.15	171.34	217.74	234.92
Profit for the year	175.91	130.03	184.90	217.39	235.69

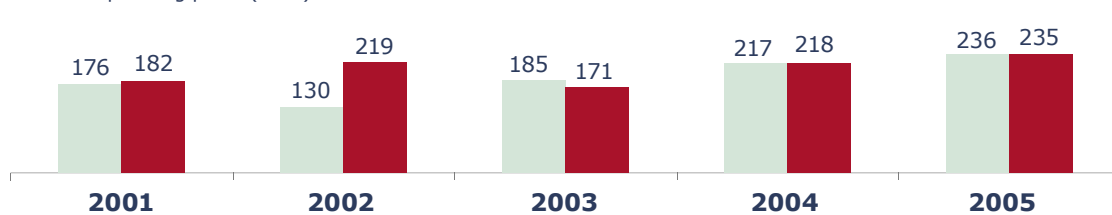
Sales revenue and profit for the year (MHRK)

- Sales revenue
- Profit for the year



Profit for the year and operating profit (MHRK)

- Profit for the year
- Operating profit (EBIT)



Net sales by market (MHRK)

Market	2001	2002	2003	2004	2005
Croatia	242	313	314	381	476
Export	747	870	866	944	851
Ericsson	249	231	224	226	297
	1,238	1,414	1,404	1,551	1,624

