

Ericsson Nikola Tesla d.d.

Business results 2007 of Ericsson Nikola Tesla

Despite a very challenging year 2007, Ericsson Nikola Tesla's business results were better than planned with a volume exceeding the telecom market growth.

During 2007 the company strengthened its position in nearly all markets. Our major accomplishments were continued business with existing customers, entering new markets, broadening our customer base and positioning ourselves in new business segments. We strengthened our position as a system integrator in our traditional segment but also in the new ICT solutions, where we concluded significant contracts for integrated information systems in the Government administration, health care and enterprise segments. The company created a formal setting for recognizing, developing and awarding innovative work of both individuals and organizational units. Sales of knowledge in the Ericsson market in 2007 featured the completion of significant and complex global projects and new responsibilities acquired.

The company fully achieved its plans and even exceeded some of them, so that again we can talk about record-breaking orders booked and sales. Compared to 2006 the performance of Ericsson Nikola Tesla in 2007 is characterized by the following results:

- Orders booked increased 9.6%: 1,779.9 MHRK compared to 1,623.6 MHRK in 2006.
- Sales revenues increased 9%: 1,781.5 MHRK compared to 1,634.1 MHRK in 2006.
- Gross margin 15.3% compared to 17.5% in 2006. Drop in margin met the expectations; it shows, however, a decline stopping tendency. The lower margin is mainly due to continued changes in product mix and rising price pressure.
- Operating expenses (SG&A) on the level of 6.9% of sales revenues (6.7% in 2006). A slight increase is due to increased marketing and selling expenses related to new markets and new customers.
- Earnings before financial cost and taxes (EBIT) amount to 200.8 MHRK (266.3 MHRK in 2006) and is considerably higher than planned. The reason for this is that in 2006 we had an extraordinary, non-recurring gain due to fire insurance compensation of 36.6 MHRK. In addition, this year's earnings were influenced by the cost of treasury shares (within the employees awarding program), totaling 24.3 MHRK (5.8 MHRK in 2006).
- Net profit is 199.8 MHRK (233.8 MHRK in 2006). Highlight: positive impact of tax relief applied to research and development activities, related to new tax provisions.
- Positive cash flow from operations, amounting to 155.9 MHRK (217.6 MHRK in 2006)

Business situation in major markets

On corporate level Ericsson Nikola Tesla has the responsibility for more than a dozen countries in Europe, Central Asia and Middle East. In total sales 2007 the domestic market participates with 31 %, export with 69%. Knowledge export to Ericsson market participates with 23%. Major markets in 2007 were Croatia, Sweden, Belarus, Bosnia and Herzegovina, Russia, Montenegro, Kosovo and Kazakhstan.

Years-long rising trend in **domestic** sales revenues continued. Sales revenues 2007 in Croatia totaled 560.3 MHRK, up 16.1%

Over the period Ericsson Nikola Tesla and Vipnet successfully introduced cutting-edge communication technologies. In addition to the 3G infrastructure evolution with HSDPA (High Speed Downlink Packet Access) functionality, the company and Vipnet provided the first mobile VoIP service in the Croatian market. Also, we started to deliver pursuant to the long-term 2G and 3G core network contract; within this project Vipnet's network shall be migrated to the latest-generation core infrastructure.

T-HT and Ericsson Nikola Tesla continued to build a broadband access network (xDSL). During the year two highly modern and technologically completely different IP platforms were introduced in the peripheral and core part of IP network. Also the latest interconnection solutions for T-HT business users, based on Ericsson broadband access technology AnnexM, were introduced, the first of the kind in Croatia.

With the third Croatian mobile operator, Tele2, the company continued the strategic collaboration in GSM and UMTS network construction. With the OiV company we contracted extending the existing and delivery of new radio relay links.

Ericsson Nikola Tesla performed well in enterprise systems. The health care system in Croatia turned to ICT integration solutions – an integrated information solution in health care system was put into operation early in 2007. With the Port of Rijeka we signed a contract for a radar-based communication system for maritime traffic control. In addition, an integrated information system for the Land Records and Cadastral System of the Republic of Croatia was contracted, including system development and implementation.

In export markets (excluding the Ericsson market) total sales in 2007 amounted to 807.9 MHRK, up 1.8% compared to 2006.

In the Commonwealth of Independent Countries (CIS) we have to point out two major contracts: one with the mobile operator JV MDC Velcom in Belarus, for upgrading and modernization of GSM core network and base stations subsystems, and the other, very significant one, with Megafon, one of the three largest GSM operators in Russia, for a fixed transit network delivery.

Beside these strategically significant contracts the company concluded a number of contracts with its existing and new customers for fixed systems and enterprise solutions. Our sales revenues in CIS markets decreased 24% compared to 2006, primarily due to the saturation in fixed telephony, postponed contract performance and disturbances in global financial market; they total 418 MHRK.

In Bosnia and Herzegovina and Montenegro the company achieved good results. Very significant are the business deals with BH Telecom (the leading B&H telecom operator), regarding the GSM and fixed network expansion and modernization.

In Montenegro we concluded a contract with T-Mobile Montenegro for delivery of 3G and 2G equipment and services, this being the first contract for mobile 3G outside the Republic of Croatia. We continued business with T-Com Montenegro and signed a contract for extending the broadband fixed network based on Ethernet DSL Access technology and for network operation and supervision based on XMATE system. Sales revenues in these markets totaled 285 MHRK, up 22%.

A great success in terms of export development and new market presence was a contract in Kosovo market with the second mobile operator Ipko Llc. Ericsson Nikola Tesla and Ipko Llc started a new GSM network. A respective contract includes delivery, implementation and operation of GSM communication and transmission system with all related services. The collaboration between Ericsson Nikola Tesla and Ipko Llc was broadened with a Managed Services contract. Pursuant to this contract Ericsson Nikola Tesla will operate the operator's GSM network. During 2007 our sales revenues in this market totaled 104 MHRK.

Services to **Ericsson** provided by Research and Development Center (R&D) and Global Service Delivery Center (GSDC) and also by the Customer Solutions and Services unit account for an

increasing share in the company's overall business performance. The recruitment trend in Ericsson Nikola Tesla continued accordingly.

The R&D Center obtained new responsibilities related to integration-verification services; we also broadened our responsibilities and competence in IP technology. The Global Services Delivery Center got a project management responsibility for the southern EMEA region (Europe, Middle East and Africa). It means that GSDC Croatia is now the "primary contact" to manage all network delivery services in the stated area. Export to this market in 2007 was worth 413.3 MHRK, up 15.5%.

Outlook 2008

The company is well prepared for a leading position in the growing ICT market; by relying on its competence, market presence and partners the company will be able to offer high quality ICT solutions. When it comes to technology trends we expect increasingly more broadband access in mobile and fixed network and a gradual transition to new generation network architectures. Accordingly, we expect the broadband services implementation to continue at a fast pace with a corresponding growth of Internet subscriptions/ users. Modest growth is expected in mobile segment of global telecom market, with a pronounced share of data traffic. Higher transmission rates will enable mobile and fixed services convergence. Further telecom and multimedia industry convergence will be based on technological concepts such as IMS subsystem, mobile TV and Triple Play services. New market opportunities will occur in the integrated information segment of government administration and enterprises, with emphasis on top quality ICT solutions that are attuned to business needs and activities and enhance efficacy and competitiveness.

The company will continue positioning in strategic areas with defined activities oriented to new generation networks and services, multimedia solutions and system integration, with cost optimization on all levels. Expanding business in non-traditional telecom segments combined with our ability to do good business with customers and our strong commitment to research and development are the foundations on which to continue good performance.

Other information

At the meeting of March 17, 2008 the Supervisory Board of Ericsson Nikola Tesla supported the proposal given by the Managing Director to propose to the Shareholders Assembly (which will be held on May 27, 2008) the payout of regular dividend of 20 HRK per share and extraordinary dividend to the amount of 250 HRK per share.

Ericsson is shaping the future of Mobile and Broadband Internet communications through its continuous technology leadership. Providing innovative solutions in more than 140 countries, Ericsson is helping to create the most powerful communication companies in the world.

Ericsson Nikola Tesla, as an integral part of the Ericsson Group, supports the modern ways of communicating. The company's activities include marketing and sales, research and development, design of the total communications solution, services in the multi-service and mobile networks area including the mobile Internet and complex system integration in all business areas. The company provides innovative ICT solutions that constantly improve people's life and create new value.

For additional information, please contact:

Snježana Bahtijari

Company Communication Director
Ericsson Nikola Tesla d.d.
Krapinska 45
HR-10 0002 ZAGREB
Phone: + 385 1 365 4556
Mobile: +385 91 365 4556
Fax: +385 1 365 3156
E-mail: snjezana.bahtijari@ericsson.com

Orhideja Gjenero

Investor Relations Manager
Ericsson Nikola Tesla d.d.
Krapinska 45
HR-10 002 Zagreb
Phone: +385 1 365 4431
Mobile: +385 91 365 4431
Fax: +385 1 365 3156
E-mail: orhideja.gjenero@ericsson.com
E-mail: odnosi.investitori@ericsson.com

More about business results of Ericsson Nikola Tesla please find at: <http://www.ericsson.com/hr>