

The business results of Ericsson Nikola Tesla in 2008

The 2008 results of Ericsson Nikola Tesla meet the planned figures; the operations were stable and with a tendency toward moderate growth, despite a very demanding year characterized by global financial crisis as well as complex and dynamic situation in the ICT industry. The company's focus on well-chosen strategic areas, innovative solutions and internal synergy proved to be crucial for the stable operations. We achieved higher sales revenues and profit and retained a sound margin. Activities aiming at maintaining high cash flow produced good results.

In technological aspect the year behind us will be remembered by positive trends in the ICT industry, including a strong expansion of mobile broadband and exponential growth in mobile users' number worldwide. We continued our positioning in the markets home and abroad by carrying out defined and systematic actions relating to the new generation networks and services, multimedia solutions and system integration. We strengthened relations with our traditional customers and we also signed contracts with new customers. Our broadened product portfolio ensured strong support when offering total communication solutions to our customers and partners.

A great deal of activities and earnings achieved in 2008 were connected with the research and development centers and other expert centers in the global organization. This segment in our operations recorded an additional growth due to its new responsibilities and new employment.

In 2008 we concentrated on further operating expenses reduction by optimizing our business processes and focusing on risk management; by doing so we took into account the business conditions and our strategic goals in defined markets.

Key performance indicators 2008:

- Orders booked 1757.5 MHRK (1779.9 MHRK), 1% down year-over-year
- Sales revenues 1800.1 MHRK (1781.5 MHRK), 1% up year-over-year
- Gross margin 16.7% (15.3%). Higher margin resulted from the successful project realization in the services domain, good product mix and cost-optimization activities.
- Operating profit 163.3 MHRK (137.5 MHRK), 19% up year-over-year
- Profit before tax 212 MHRK (200.5 MHRK), 6 % up year-over-year and considerably higher than planned figures
- Net profit 204.4 MHRK (199.8 MHRK), 2% up year-over-year
- Strong cash flow from operating activities: 342.4 MHRK (155.9 MHRK)
- New employment (176 specialists); we invested considerable financial means into workplaces, training and work tools.

Therefore, in 2008 we maintained financial stability and profitability, retained jobs, strengthened the innovative approach and motivational company culture and our market position.

Major markets

In the total sales revenues 2008 the domestic market accounts for 31%, knowledge export to Ericsson for 23%, and export to other countries for 46%.

In **domestic market** we continued our collaboration with the strategic partners Vipnet, T-HT and Tele2 in introducing cutting-edge communication technologies in their networks.

In addition to further 2G and 3G infrastructure evolution and expansion, Ericsson Nikola Tesla collaborates with Vipnet within a long-term frame agreement for 2G and 3G Core Network; pursuant to this the Vipnet network is being migrated to the latest-generation core network infrastructure. T-HT and Ericsson Nikola Tesla collaborate in broadband access network, IP network, transmission systems and multimedia services, specifically for IPTV Head-end equipment. T-HT and Ericsson Nikola Tesla also signed a contract for the IPTV stream and picture quality measurement system, the first of the kind in the country. The company continued its longstanding collaboration with the mobile operator Tele2 Croatia with an exclusive-supplier contract. Pursuant to this Ericsson Nikola Tesla has been delivering communication solutions and services for GSM and UMTS systems upgrading and also the transmission equipment.

The sales in the enterprise domain are weaker due to the postponed realization or start of projects, mainly in the government administration and in government-owned enterprise segment.

Revenues in domestic market total 556.4 MHRK, slightly down year-over-year (560.3 MHRK).

In Ericsson Nikola Tesla's **export markets (without knowledge sales in Ericsson market)** the sales in 2008 total 823.9 MHRK, which is 2% up year-over-year.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) the company achieved excellent business results. Total sales revenues increased 7.2% year-over-year to 417 MHRK, out of which 224.9 MHRK alone were achieved in Bosnia and Herzegovina.

A remarkable success is the contract for the implementation of 3G HSPA solution in the BH Telecom network, signed end of 2008. Over the year Ericsson Nikola Tesla and BH Telecom concluded several contracts for the expansion and modernization of wireless and wireline telecom networks and for the service network expansion. With the operator HT Mostar the company agreed a GSM wireless network expansion and upgrading the GSM radio access network. In addition, a contract for the healthcare networking information service was concluded with the Teaching Hospital Mostar.

In Montenegro the company contracted the Emergency Call Center – Center 112. It is about the turn-key solution that includes all required hardware and network components and also the system and application software.

In the Kosovo market work on GSM network expansion for the mobile operator Ipko was continued. The company strengthened its position in the market by signing a contract with a new customer, the operator PTK (Post and Telecommunications of Kosovo J.S.C.), for the wireline broadband access to the Internet contents and services based on the cutting-edge VDSL2 technology.

In the Commonwealth of the Independent States, CIS, the longstanding cooperation between Ericsson Nikola Tesla and FE VELCOM, the first GSM operator in Belarus, continued with a contract for a major GSM network expansion, including the delivery of switching, radio and

transmission equipment and services. Over the year the company signed a number of other contracts in the CIS market, both with its traditional and with new business partners: The contracts include the expansion and modernization of wireline telecom networks, solution delivery for a wireline broadband network and delivery of the cutting-edge IP-oriented solutions for enterprises. The sales revenues in the market total 406.9 MHRK, down 2.7% year-over-year, primarily due to global financial crisis, but also because of postponed realizations.

Knowledge sales to Ericsson by Research and Development Center (R&D) and Global Service Delivery Center (GSDC) also by units responsible for customer solution and services, account for a significant share in overall business results. Export to Ericsson in 2008 totals 419.7 MHRK, up 1.6% year-over-year.

R&D Center obtained additional responsibilities regarding the Integration and Verification services and broadened its responsibilities and competences in IP technology. The software development activities are oriented to the latest-generation network nodes and traffic routers for wireless and wireline users. Research is focused on several company projects covering a wide range of activities, from new ICT areas up to standardization and prototype solution realization.

The Global Service Delivery Center, GSDC Croatia, was certified for the second level of Ericsson's Service Delivery Maturity Model, SDMM. It is a complex matrix model where the maturity is viewed from three aspects – people management, delivery performance and organizational culture. GSDC additionally strengthened its position in wireless telephony by acquiring the authorization from Ericsson corporation for service delivery in wireless core networks domain. The Center also obtained a new responsibility as a global competence center for IMS (IP Multimedia Subsystem).

Outlook 2009

Regarding the technology trends, we expect further development of IP-based core networks, growth in broadband access to wireless and wireline networks and migration to new-generation network architecture. Accordingly, we expect that a dynamic broadband services introduction would continue and the number of Internet users would grow. The convergence of wireless and wireline services and further convergence of telecom and multimedia industry are in progress. The forthcoming fast moving developments in the ICT industry will instill new ways of communication and work. We think that the implementation of ICT solutions ensures cost-efficiency, transparency and improved decision-making.

We are optimistic about the long-term developments in our industry; however, in view of the global recession it is reasonable to expect lower investments and also that doing business would now be even harder. That is why we adopted measures intended to ease the impact of recession on our operations in risk-prone areas. Early in 2009 we carried out organizational changes to improve operational efficiency, the way we work and risk management, and also to get focused on our strategic priorities. As a well-performing and stable organization the company endeavors to maintain its position with flexible business strategies, technology leadership, excellent workforce and Ericsson brand.

Other information

At the meeting of March 10, 2009 the Supervisory Board of Ericsson Nikola Tesla approved the Managing Director's proposal to General Assembly (scheduled for 26 May 2009) about ordinary dividend payout to the amount of 20 HRK per share and extraordinary dividend to the amount of 50 HRK per share.

Ericsson is the world's leading provider of technology and services to telecom operators. The market leader in 2G and 3G mobile technologies, Ericsson supplies communications services and manages networks that serve more than 250 million subscribers. The company's portfolio comprises mobile and fixed network infrastructure, and broadband and multimedia solutions for operators, enterprises and developers. The Sony Ericsson joint venture provides consumers with feature-rich personal mobile devices.

Ericsson is advancing its vision of 'communication for all' through innovation, technology, and sustainable business solutions. Working in 175 countries, more than 70,000 employees generated revenue of USD 27 billion (SEK 209 billion) in 2008. Founded in 1876 and headquartered in Stockholm, Sweden, Ericsson is listed on OMX Nordic Exchange Stockholm and NASDAQ.

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.

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