



COMPANY POSITION REPORT

2009 – Stable operations despite the crisis

The year 2009 brought many challenges. We have witnessed a decrease and slowing down in investments by our customers and business partners, as well as budget cuts and postponement of deals for network development or implementation of new functionalities in the ICT segment. Despite such complex conditions, Ericsson Nikola Tesla managed to maintain business stability. The most important impression one may get from the analysis of business operations in 2009 is the high rate at which our customers managed to adjust their activities to the new circumstances. In compliance with the current situation, Ericsson Nikola Tesla took a variety of measures and applied corresponding strategies, business, organizational and financial models to considerably reduce business risk.

Although I am well aware that in the forthcoming year the business environment will be more demanding, our customers still have growing needs for new services and broadband access. This means that the process of introducing new technologies will surely continue. I consider this to be of utmost importance for the further development of our business operations. The ICT industry, as the driving force behind the development of all other sectors, has a positive impact on people, business and environments. Living in times of shifting and repositioning, the key enabler of further development is a proactive approach, speed of adjustment to new circumstances and innovativeness. Only activities which create added value may contribute to the satisfaction of all parties and improvements for society as a whole.

In 2009, Ericsson Nikola Tesla achieved creditable results. Despite the complex situation, and decreased volume of business, especially in export markets, we managed to maintain financial stability and profitability. We continued with strong marketing and sales activities in all our markets and with investments in development projects where such measures are necessary for further development of the Company business. During the year, we implemented optimization and cost efficiency programs at all levels in the Company. Thus, wherever possible, considerable savings were achieved and the business results improved.

When analyzing the results for 2009, one should bear in mind that the Croatian Government introduced a variety of antirecession measures at the mid-year point. This directly and indirectly influenced the telecom sector as a whole; users, operators and suppliers. The impact was felt through a reduction in purchasing power which, in turn, slowed down investment plans or had a negative impact on the volume of business operations.

On the other hand, the Croatian telecom market continued to build and develop 2nd and 3rd generation mobile systems, as well as implement Internet broadband access and fiber-optic networks. We see our future in the continued growth of the mobile Internet and the shift to new generation networks.



During 2009, the Company took further steps as a system integrator for complex ICT projects, and in some such as e-health we signed important contracts. Ericsson nominated e-Health Croatia solution for the SMART 2020 – the report of independent and non-profit organizations Climate Group and Global E-sustainability Initiative. We are proud that our project is amongst 25 ICT solutions of global importance enabling economies with low CO2 emissions and positively influence the quality of life and the environment. As such Ericsson Nikola Tesla proved to be an innovative ICT leader and socially responsible entrepreneur.

Last year, we managed to preserve and even to increase our responsibility and activities in the areas of Research and Development, Global Service Delivery Center and other centers of expertise. The proportion of our business relation to these activities is constantly growing and today represents some 30% of sales in our total business results. This was expected, due to planned growth in our labor force in the past years including 2009, as well as due to additional responsibilities, recently assigned by the Ericsson Corporation.

The Company Innovation Management program being improved over a number of years, yielded results in many areas in 2009. The innovation contest showed improvement in encouraging employees towards segments within the Company's scope of interest. Such an encouraging environment in the Company culture also improved the perception of Ericsson Nikola Tesla as an innovative and proactive organization of motivated and creative employees. As a part of our Company reward and motivation program we acquired an additional 8,893 treasury shares for distribution among employees.

Ericsson Nikola Tesla yielded the following business results in 2009 (2008 figures in brackets):

- Orders booked MHRK 1,386 (MHRK 1,757.5)
- Sales revenue MHRK 1,400 (MHRK 1,800.1)
- Net profit MHRK 128.4 (MHRK 204.4)
- Cash flow from operating activities MHRK 284 (MHRK 342.4)
- Motivational Company culture, confirmed by the annual employee survey Dialog
- Customer satisfaction, confirmed by the annual customer satisfaction questionnaire
- Shareholder satisfaction, confirmed by the Zagreb Institute of Economics survey.

In brief, in 2009 we achieved solid net income and sound cash flow from operating activities. We continued to invest in development projects, preserved our labor force levels and held our market position primarily as Croatia's leading knowledge exporter.

We are approaching a new business cycle aware of complex and dynamic trends which are the main features of the ICT industry and e-business.



Having assessed operational risks for Ericsson Nikola Tesla in 2010, I would like to point out the following:

- Serious disturbances in the financial market and their negative impact, also investment slowdown regarding network development
- Further pressure on product and service prices
- Increasing demand for customer financing
- Increased collection risk in respect of already financed projects
- Consolidation among our customers, largest competitors with further impact on prices
- Decrease in investments in ICT projects by both industry and society
- Negative impact of a strong HRK and changes in EUR and USD exchange rates.
- Continued political uncertainty and instability in some markets.

In view of increasingly demanding and shifting environment, rapid technology development, customers' new requirements and strong competition the company will continue to focus on risk management, customer intimacy with maximum effort put in sales of the total product and services portfolio (e2e concept). In doing so, we will take care about speed, efficiency and flexibility on both organizational and individual levels.

We share Ericsson's leading position in technology. We shall strive to improve our operations, to preserve our market position and retain previously awarded responsibilities based on the knowledge and proactive approach of our specialists.

The year 2010 will be even harder and more demanding. The chances for success lie with those who drive lead and best exploit the changes they are faced with.

All other data, which need to be an integral part of the annual Company report, in compliance with the Article 250a of the Company Act are to be found in the Annual Report for 2009, which is comprised of the General Report, Social Report and Financial Statements as of December 31, 2009.

Gordana Kovačević, MSc

President of Ericsson Nikola Tesla d.d.

A handwritten signature in blue ink, appearing to read "Gordana Kovačević".

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