
ERICSSON NIKOLA TESLA D.D.

Management Report on Company's business situation and comments on the financial statements for first nine months 2010

Highlights:

- Orders booked MHRK 1,036.2
- Sales revenues MHRK 845.0
- Gross margin 18.3%
- Operating profit excluding impairment of receivables MHRK 85.3
- Operating loss MHRK 41.2
- Net profit excluding impairment of receivables MHRK 103.8
- Net loss MHRK 22.7
- Cash flow from operating activities MHRK 343.0

In the evaluation of Company performance, Gordana Kovačević, the President of Ericsson Nikola Tesla, stressed the following:

„Overall Ericsson Nikola Tesla results for the first nine months 2010 show a decrease in orders and sales year-over-year, but at the same time, an increase in Operating and Net profit of 172.5% and 30.3% respectively when excluding the impact of the MHRK 126.5 impairment of Kazakhstan receivables. This increase in Operating and Net profit primarily reflects favorable product mix and strong focus on operational and cost efficiency. Cash flow from operating activities of MHRK 343.0 was supplemented in the quarter by the collection of MHRK 149.9 of Kazakhstan receivables. At the quarter end, total cash including short-term financial assets amounted to MHRK 710.1.

Market conditions were characterized by mixed behavior as regards investment by operators and other customers. In our export markets we have achieved a considerable increase of orders booked, especially in Bosnia and Herzegovina and Belarus, largely offsetting the decline in orders booked in our domestic market. In Croatia as well as other countries in the region, orders are also impacted by state budget cuts and the postponement of strategic ICT projects. Overall sales revenues follows the trend described for Orders booked but is further negatively impacted by the industry component shortages and Ericsson supply chain bottlenecks, which according to our estimate account for approx. one third of year-over-year sales decline.

We continue with a strong focus on sales and marketing activities and the realization of key business deals and new business opportunities. We have continued with investments into

strategic projects and new segments, having in mind future directions/trends in industry of information and communications technology and e-business. I would like to highlight activities in relation to transformation of existing networks into new generation networks and participation in preparations for the introduction of state-of-the-art technologies. We have witnessed the interest of operators in 4G of mobile communications systems, which will enable higher transmission rates, larger system capacities and richer services portfolio. The extension of mobile broadband access will enable the larger potential for ICT solutions implementation, like healthcare and public administration informatization.

During the last quarter, we have continued to adapt the organization, adjusting to new market and technology requirements, as well as the new organization models and responsibilities within Region Western Central Europe within the global Ericsson organization. Ericsson Nikola Tesla aims to be integrated into all vital processes taking place within the Ericsson corporation and at the same time maintain responsibility for those segments of business and products, which are the results of development and activities by our company, such as e-health.

The new organization encourages new and innovative ways of working with a common goal to be more efficient, to be closer than ever before to our customers, to improve sales both in the existing and new segments and to increase margins and further strengthen cash flow”, underlined Gordana Kovačević.

Financial summary:

- Orders booked decreased by 3.5% year-over-year and total MHRK 1,036.2, while sales revenues decreased by 16.2% to MHRK 845.0. The overall Sales result reflects growth in CIS and Ericsson internal market offset by a decline in the domestic and regional markets.
- Domestic market accounts for 26.6%, exports to other countries 35.2% and export to Ericsson market 38.2% of total sales revenues.
- Sales revenues can be further analyzed by business segments as follows: Network with network rollout services MHRK 481.5 (57% of the total Sales revenues), Professional services MHRK 331.4 (39.2% of the total Sales revenues), and Multimedia solutions MHRK 32.1 (3.8% of the total Sales revenues).
- Gross margin of 18.3% has considerably improved year-over-year (first nine months 2009: 11.3%) but is slightly reduced compared to H1 2010: 18.8%. These movements primarily reflect product mix, timing and volume of investments in development projects and the positive impact of the company’s continued focus on operational and cost efficiency.
- Distribution and administrative expenses of MHRK 63.6 reduced by 27.3% year-over-year.

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- Operating profit excluding the impairment of Kazakhstan receivables amounts to MHRK 85.3 (first nine months 2009: 31.3 MHRK). This result reflects the net impact of higher gross margin (as explained above), reduced distribution and administrative expenses and additional restructuring costs of 7.9 MHRK in respect of early retirement.
 - Net finance income totals MHRK 18.5 (first nine months 2009: HRK 48.3). The lower level of finance income primarily reflects lower interest rates, unfavorable USD currency deviations and lower release of impairment reserves into finance income (discount amortization).
 - Impairment charge of MHRK 126.5 in respect of Kazakhstan receivables contributes to net loss of MHRK 22.7. Excluding the impairment, the result shows a net profit of MHRK 103.8 (30.3% increase year-over-year).
 - During Q3, an amount of MHRK 149.9 was collected in respect of the Kazakhstan receivables. Activities are ongoing to collect the remaining balance of MHRK 20.
 - Cash flow from operating activities totaled MHRK 343.0 reflecting the company's ongoing focus on working capital improvements and includes MHRK 149.9 in respect of the Kazakhstan receivables.
 - The company has a strong balance sheet with total assets of MHRK 1,266.1 and equity ratio of 80.8%. Total cash balances including financial assets increased to MHRK 710.1 at Sep 30, 2010 compared with MHRK 470.5 at Jun 30, 2010.
 - Major transactions with related parties were as follows: sales of products and services MHRK 328.6 (first nine months 2009: MHRK 306.4), purchase of products and services MHRK 245.6 (first nine months 2009: MHRK 380.6).
 - Balances outstanding with related parties on Sep 30, 2010 were as follows: receivables totaled MHRK 55.2 (end 2009: MHRK 58.9), payables MHRK 36.6 (end 2009: MHRK 67.8).
 - Disclosure on customer financing risks:
Following the impairment of KZ receivables and the collection of MHRK 149.9 during Q3, the company's credit risk is significantly reduced. As of Sep 30, 2010 balances outstanding in respect of Customer loans and receivables total MHRK 474.2 (at the end of 2009: MHRK 808.5). In the current economic environment there remains risk and uncertainty in respect of Customer loans and receivables.

Business situation on major markets

Domestic market Sales totaled MHRK 224.4. A decrease of 42.2% year-over-year primarily reflects a reduction and slowdown investments due to negative macroeconomic trends in Croatia, continued significant price pressure, regulatory issues and problems related to industry component shortages and supply.

The cooperation with Croatian Telecom (HT) mainly covers the building of the backbone networks and transformation of the wireline voice network into a new generation network. Investments in fiber infrastructure, which constituted a major part of HT capex last year, have been significantly reduced until the resolution on pricing and competition is reached.

Activities with Vipnet cover the extension and modernization of 2G and 3G infrastructure, as well as cooperation in the core network and transmission systems. The cooperation on introduction of the innovative technology solution continues. Vipnet is among the first operators in the world to test and demonstrate the new HD sound technology, based on Ericsson MSS and WCDMA technology, thus enabling crystal clear voice quality in their 3G network.

As of Tele2, activities on further extension of coverage and capacity of 2G and 3G networks continue with a special attention to the increase of data transmission rate and capacity of mobile Internet.

The major focus in the ICT for industry and society segment was on upgrading the national ICT primary healthcare system, the modernization of Croatian Railways (HŽ) infrastructure and the development of EMH (Ericsson Mobile Health) product. On the basis of EC Declaration on compliance, EMH was awarded the right to CE 0434 mark that confirms availability for sales and distribution of this product in the EU market. Also, by the decision of the Government Agency for Medical Products and Medical Devices of Croatia, EMH was entered into the Register of Medical Devices in Croatia.

In export markets (except for Ericsson market) Sales totaled MHRK 298.1, a decrease of 6.8% year-over-year.

In the regional markets (Bosnia & Herzegovina, Montenegro and Kosovo) sales revenues decreased by 42.2% amounting to MHRK 100.0. This reflects a slowdown of customers' investments and impact of component shortages and supply issues.

An improvement is expected in Q4 reflecting the increased level of Orders booked (up 26% year-over-year) and lower impact of component shortages and supply issues.

With BH Telecom, largest Bosnia and Herzegovina operator, the company signed contracts on 2G and 3G network extension and an upgrade of core network to the latest revision state. The realization of the given contracts will enable the extension of BH Telecom capability and capacity both in 3G network and IMS service offering platform, which is providing wireline and wireless networks convergence.

In the Montenegro market a contract was signed with Crnogorski Telekom (the member of Magyar Telekom and Deutsche Telekom group), covering the modernization of wireline network and the extension and upgrade of the existing 2G and 3G networks.



Cooperation with Kosovo mobile operator Ipko, which started with integration of the total GSM network, continued with a new three years contract covering software service and hardware support.

CIS market sales revenues totaling MHRK 198.1 show growth of 34.8% year-over-year, primarily due to excellent results in Belarus.

The company signed new contracts in Belarus, Russian Federation, Kazakhstan and Georgia, covering solutions in the segment of wireline and wireless systems, microwave solutions and IP solutions for business users.

[In Ericsson market](#) sales revenues totalling MHRK 322.5 represent an increase of 7.4% year-over-year.

The Research and Development Centre continued its activities in the development of the new generation mobile servers as well as servers' product lines related to the fixed network transformation. Expanding activities for radio network products are ongoing. A preparation for takeover of responsibilities relating to verification and integration within a group of broadband network access products has been done.

Service delivery center experts participated in many projects, such as: IMS rollout for DT SEE group in five countries, LTE projects in Vodafone Germany and Vodafone UK, T-Mobile Hungary 3G Audit and Optimization project, Telecom Austria IPTV delivery project as well as transport network Managed services project for Mobistar Belgium.

Other information

Ericsson Nikola Tesla major shareholders (as at Sep 30, 2010)

	<i>No. of shares</i>	<i>% of share capital</i>
Telefonaktiebolaget LM Ericsson	653,473	49.07
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund	119,779	8.99
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	40,489	3.04
Societe Generale-Splitska banka d.d. / Erste Plavi Mandatory Pension Fund	34,982	2.63
Hypo Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje Mandatory Pension Fund	30,615	2.30
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	19,562	1.47
PBZ d.d. / custodian client account	14,701	1.10
Ericsson Nikola Tesla d.d.	13,179	0.99
PBZ d.d. / State Street client account	12,230	0.92
Societe Generale-Splitska banka d.d. / custodian account	8,062	0.61
Other shareholders	384,578	28.88

Q3 2010 share price information:

<i>Highest (HRK)</i>	<i>Lowest (HRK)</i>	<i>Closing (HRK)</i>	<i>Market capitalization (in MHRK)</i>
1,400	1,231	1,318.51	1,755.8

Ericsson Nikola Tesla d.d.
Krapinska 45
Zagreb

OIB: 842147711
Tax No.: 03272699

Pursuant to the Articles 407 to 410 of the Capital Market Law (Official Gazette 88/08 and 146/08) the Managing Director of the joint stock company Ericsson Nikola Tesla d.d. Zagreb, Krapinska 45 gives the following:

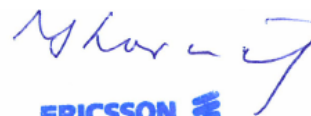
Statement of the Management Board responsibility

The accompanying financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statements also comply with the provisions of the Croatian Financial Accounting Law valid as of the date of these financial statements.

Unaudited financial statements for the period 1 Jan 2010 to 30 Sep 2010 present a true and fair view of the financial position of the Company and of its financial performance and its cash flows in compliance with applicable accounting standards.

Managing Director:

Gordana Kovačević, MSc



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PRESS INFO
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For more information about Ericsson Nikola Tesla's business performance, please visit:
<http://www.ericsson.com/hr>

Communication
Ericsson Nikola Tesla

BALANCE SHEET

as at

30.9.2010

HRK

Item	AOP number	31.12.2009.	30.9.2010
1	2	3	4
ASSETS			
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	442.014.048	179.152.527
I. Intangible assets	003	4.425.099	5.109.412
II. Property, plant and equipment	004	146.351.342	131.119.533
III. Financial assets	005	6.922.684	7.032.532
IV. Receivables	006	272.019.817	23.595.944
V. Deferred tax assets	007	12.295.106	12.295.106
C) CURRENT ASSETS	008	1.109.057.245	1.078.196.564
I. Inventories	009	24.058.674	17.756.408
II. Receivables	010	549.190.329	350.323.486
III. Financial assets	011	120.873.271	130.781.605
IV. Cash and cash equivalents	012	414.934.971	579.335.065
D) PREPAYMENTS AND ACCRUED INCOME	013	1.371.321	8.720.587
E) LOSS ABOVE CAPITAL	014		
F) TOTAL ASSETS	015	1.552.442.614	1.266.069.678
G) OFF-BALANCE SHEET ITEMS	016	249.208.566	227.295.381
EQUITY AND LIABILITIES			
A) EQUITY	017	1.200.223.076	1.022.524.809
I. Share capital	018	133.165.000	133.165.000
II. Capital reserves	019		
III. Reserves from profit	020	37.379.326	37.379.326
IV. Revaluation reserve	021		
V. Retained earnings	022	901.231.661	874.700.534
VI. Accumulated losses	023		
VII. Profit for the year	024	128.447.089	
VIII. Loss for the year	025		-22.720.051
IX. Minority interests	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	10.091.486	8.503.550
D) CURRENT LIABILITIES	029	194.828.340	131.063.003
E) ACCRUED CHARGES AND DEFERRED REVENUE	030	147.299.712	103.978.316
F) TOTAL EQUITY AND LIABILITIES	031	1.552.442.614	1.266.069.678
G) OFF-BALANCE SHEET ITEMS	032	249.208.566	227.295.381

INCOME STATEMENT

for the period 1.1.2010 to 30.9.2010

HRK

		2009		2010	
		Cumulative	Quarter	Cumulative	Quarter
		3	4	5	6
1	2				
I. OPERATING INCOME	035	1.021.204.774	396.323.023	856.288.091	232.776.764
1. Sales revenues	036	1.008.569.894	392.230.097	844.969.309	227.897.196
2. Revenues from sale of own products and services	037				
3. Other operating income	038	12.634.880	4.092.926	11.318.782	4.879.568
II. OPERATING EXPENSES	039	989.879.013	369.964.318	897.530.569	220.020.598
1. Decrease in inventories of finished goods and work in progress	040	8.646.325	8.853.734	683.200	4.144.459
2. Increase in inventories of finished goods and work in progress	041				
3. Raw material and consumables used	042	593.456.339	231.968.438	380.280.857	72.622.984
4. Staff costs	043	312.727.372	100.023.654	305.746.101	100.107.751
5. Depreciation and amortisation expense	044	48.333.273	16.109.737	42.595.147	13.850.729
6. Other costs	045	18.342.439	8.319.372	22.937.585	12.717.311
7. Impairment losses	046	5.116.496	2.946.923	135.393.587	4.354.879
8. Provisions	047				
9. Other operating expenses	048	3.256.769	1.742.460	9.894.092	12.222.485
III. FINANCIAL INCOME	049	49.373.384	12.813.391	25.024.165	6.937.810
1. Interest, foreign exchange gains, dividends and other income from related parties	050				
2. Interest, foreign exchange gains, dividends and other income from non-related and other entities	051	30.121.499	6.654.300	16.922.999	4.610.982
3. Income from associates and ownership interests	052				
4. Unrealised gains	053				
5. Other financial income	054	19.251.885	6.159.091	8.101.166	2.326.828
IV. FINANCIAL EXPENSES	055	1.051.280	3.034.848	6.501.738	50.466
1. Interest, foreign exchange losses and other expenses with related parties	056				
2. Interest, foreign exchange losses and other expenses with non-related and other entities	057	742.548	3.034.848	6.501.738	50.466
3. Unrealised losses	058				
4. Other financial expenses	059	308.732			
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	1.070.578.158	409.136.414	881.312.256	239.714.574
VIII. TOTAL EXPENSES	063	990.930.293	372.999.166	904.032.307	220.071.064
IX. PROFIT BEFORE TAX	064	79.647.865	36.137.248		19.643.510
X. LOSS BEFORE TAX	065			-22.720.051	
XI. INCOME TAX EXPENSE	066		8.702.123		
XII. PROFIT FOR THE PERIOD	067	79.647.865	44.839.371		19.643.510
XIII. LOSS FOR THE PERIOD	068			-22.720.051	0

CASH FLOW STATEMENT

in the period 1.1.2010 to 30.9.2010

HRK

		30.9.2009	30.9.2010
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	073	79.647.865	-22.720.051
2. Depreciation and amortisation	074	48.333.273	42.595.147
3. Increase in liabilities	075	8.303.304	
4. Decrease in receivables	076	37.880.525	423.018.450
5. Decrease in inventories	077	11.148.595	6.302.266
6. Other increase in cash flow	078	6.000.000	3.181.785
I. Total increase in operating cash flow	079	191.313.562	452.377.597
1. Decrease in liabilities	080		107.835.997
2. Increase in receivables	081		
3. Increase in inventories	082		
4. Other decrease in cash flow	083	632.239	1.524.517
II. Total decrease in operating cash flow	084	632.239	109.360.514
A1) NET INCREASE IN OPERATING CASH FLOW	085	190.681.323	343.017.083
A2) NET DECREASE IN OPERATING CASH FLOW	086		
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of property, plant and equipment	087	105.453	40.050
2. Net disposal of financial assets	088	3.272.129	
3. Interest received	089	27.044.406	16.922.999
4. Dividend received	090		
5. Other cash flow from investing activities	091	758.009	
III. Total cash flow from investing activities	092	31.179.997	16.963.049
1. Purchases of property, plant and equipment and intangible assets	093	42.256.563	28.063.417
2. Purchase of financial instruments	094		8.408.101
3. Other cash flow used in investing activities	095		109.848
IV. Total cash flow used in investing activities	096	42.256.563	36.581.366
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE IN CASH FLOW USED IN INVESTING ACTIVITIES	098	11.076.566	19.618.317
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issuance of financial instruments	099		
2. Proceeds from loans	100		
3. Other cash flow from financing activities	101		
V. Total cash flow from financing activities	102	0	0
1. Repayment of interest-bearing borrowings	103	1.357.670	822.993
2. Dividend paid	104	91.757.960	158.160.000
3. Repayment of finance lease	105	23.144	15.679
4. Repurchase of treasury shares	106	11.379.752	
5. Other cash flow used in financing activities	107		
VI. Total cash flow used in financing activities	108	104.518.526	158.998.672
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES	109		
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES	110	104.518.526	158.998.672
Total increase in cash flow	111	75.086.231	164.400.094
Total decrease in cash flow	112		
Cash and cash equivalents at the beginning of the period	113	318.303.296	414.934.971
Increase in cash and cash equivalents	114	75.086.231	164.400.094
Decrease in cash and cash equivalents	115		
Cash and cash equivalents at the end of the period	116	393.389.527	579.335.065

STATEMENT OF CHANGES IN EQUITY

from 1.1.2010 to 30.9.2010

HRK

Item	AOP number	Opening balance	Increase	Decrease	Closing balance
1	2				
1. Share capital	117	133.165.000			133.165.000
2. Capital reserves	118				0
3. Reserves from profit	119	37.379.326			37.379.326
4. Retained earnings	120	901.231.661	131.628.874	158.160.000	874.700.535
5. Profit for the period	121	128.447.089		151.167.140	-22.720.051
6. Revaluation of property, plant and equipment	122				0
7. Revaluation of intangible assets	123				0
8. Revaluation of financial assets available for sale	124				0
9. Other revaluations	125				0
10. Currency translation differences from investment in a foreign operation	126				0
11. Current and deferred taxes	127				0
12. Cash flow hedge	128				0
13. Changes in accounting policy	129				0
14. Prior year adjustment	130				0
15. Other changes in equity	131				0
16. Total increase / decrease in equity	132	1.200.223.076	131.628.874	309.327.140	1.022.524.810
16a. Parent company share in subsidiary	133				
16b. Minority interest	134				