
ERICSSON NIKOLA TESLA D.D.

Report on Company's business situation and comments on the financial statements for 2009

Highlights:

- Orders booked MHRK 1,386
- Sales revenues MHRK 1,400
- Gross margin 13.3%
- Operating profit MHRK 65.7
- Finance income MHRK 61.1
- Net profit MHRK 128.4
- Earnings per share HRK 98.1
- Return on sales 9.1%
- Cash flow from operating activities MHRK 284.0
- Proposed dividend in the amount of HRK 120 per share

In the evaluation of the Company's performance Gordana Kovačević, President of Ericsson Nikola Tesla, pointed out the following:

„During 2009 Ericsson Nikola Tesla operated under very demanding and changing market conditions. We witnessed a slowdown of investments by operators, as well as budget cuts and postponement of deals regarding network development and implementation of new functionalities in the ICT segment. In response to the market situation, Ericsson Nikola Tesla undertook clear measures and applied appropriate strategies as well as organizational and financial models aimed at minimizing business risk.

Despite difficult business conditions, Ericsson Nikola Tesla secured its market position, maintained financial stability and achieved profitability. With 66% of sales achieved at export markets, we have held our position of a large Croatia's exporter, and concerning the structure of the given export the company is still considered the leading Croatia's knowledge exporter.

The strong focus on the Company's cash position was also successful. We continued with strong marketing and sales activities in all our markets and with investments in development projects having in mind that such measures are necessary for the Company's future business development. I would like to point out that the e-Health Croatia solution was listed by SMART 2020 (the report of independent and non-profit organizations Climate Group) among 25 ICT solutions of global importance which could help in realization of an economy with low CO2 emissions and positively influence the quality of life and environment.

During 2009, we undertook various measures in order to ensure an increasingly strong focus on cost, working capital and operational efficiency. Optimization and cost efficiency programs were implemented across all levels of the Organization and resulted in considerable savings which contributed to the business result.

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. We shall therefore continue to be highly focused on risk management, be innovative and fully customer-oriented in order to achieve long-term profitable growth and, at the same time, maintain short-term stability.”

Financial highlights:

- Orders booked and Sales revenues declined 21% and 22% respectively when compared to the previous year. These declines reflect a significant reduction or postponement of operators' investments, primarily in export markets.
- Sales revenues can be broken down by business segment as follows: Networks with network rollout services MHRK 922.5 (65.9% of total Sales revenues), Professional services MHRK 416.3 (29.7%) and Multimedia MHRK 61.2 (4.4%).
- Gross margin of 13.3% (2008: 16.7%). The decline in Gross margin primarily reflects changes in product mix, investments in development projects and the impact of restructuring costs.
- Distribution & Administrative expenses of MHRK 109.9 are reduced by 15.4% compared with the previous year. (17.4% decline when restructuring costs are excluded).
- Operating profit totals MHRK 65.7 (2008: MHRK 162.9). The year over year decline reflects reduced Gross Profit offset by a reduction in Distribution & Administrative expenses.
- Net finance income of MHRK 61.1 (2008: MHRK 49.1). Net finance income in the current year primarily includes interest income and amortization of discount.
- Net profit totals MHRK 128.4 (2008: MHRK 204.4).
- Net Cash from Operating activities of MHRK 284.0. Cash and cash equivalents total MHRK 414.9.
- Disclosure about Credit Risk:
As of the Balance Sheet date, total balances outstanding in respect of Customer loans and receivables was MHRK 808.5 (2008: MHRK 922.0). In the current economic climate there is increased risk and uncertainty with regards the ultimate collectability of some of these balances. At December 31, 2009, impairment allowances totaling MHRK 30.1 were provided in respect of these balances.

Business situation on major markets

The domestic market accounts for 34%, export to other countries for 36% and exports to Ericsson for 30% of total 2009 Sales revenues.

During the year, the key operators in our domestic market, T-HT, Vipnet and Tele2 continued to invest into development and modernization of telecom networks and services, although these investments were less compared to the previous year. Accordingly, 2009 Sales revenues of MHRK 481,7 in the domestic market shows a 13.4% year over year decline.

Activities with T-HT included the building of broadband access network infrastructure based on optical fibres and modern access networks (ADSL), building of backbone networks and the transformation of the wireline voice network into a new-generation network.

In addition to the further extension and modernization of 2G and 3G infrastructure, the Company collaborated with Vipnet in the delivery of Core Networks and transmission systems. At the end of the year, HSPA+, a transitional technology towards LTE standard, i.e. 4G mobile technology, was put into commercial operation.

Activities with Tele2 continued on 2G and 3G infrastructure and the implementation of new functionalities, with special emphasis on mobile broadband access. Tele2 Hrvatska was among the first operators in the world to implement Ericsson's all-IP concept into its HSPA network.

As regards the Enterprise business, intensive activities on upgrading the national ICT primary healthcare system and realization of Cadastre and Land Database joint information system were ongoing. A radar communications system for vessel traffic control, being the first one of its kind in Croatia, was delivered to Lučka uprava Rijeka (Port of Rijeka Authority).

Exports to other countries totaled MHRK 495.2 compared to Sales revenues in 2008 of MHRK 823.9.

In the regional markets, Sales revenues of MHRK 265.0 are down 36.4% year over year. Although operators almost stopped investing in the first half of the year, levels of investments increased during the second half of the year.

The Company's long-standing cooperation with BH Telekom was confirmed with several new contracts for 2G and 3G network expansion as well as core network upgrade. In addition, modernization of wireless and wireline telecom networks as well as service network expansion were agreed.

Ericsson Nikola Tesla and HT Mostar signed a contract for mobile network expansion and upgrade with 3G functionalities.

Delivery of equipment for 2G and 3G network expansion as well as additional transmission equipment was contracted with T-Mobile Montenegro, while expansion of fixed network as well as further broadband access expansion was agreed with T-Com Montenegro.

In the Commonwealth of Independent States (CIS), Sales revenues of MHRK 230.1 are down 43.4% year over year. The Company has a broad customer base in the CIS market, but collaboration with Velcom, one of the leading mobile operators in Belarus, and with Megafon, the Russian mobile operator, should be highlighted. We would also like to point out the contract for delivery of an end-to-end IPTV solution signed with MagtiCom, the biggest Georgian mobile operator.

During the year, the Company signed a number of contracts with both traditional and new business partners, including contracts for expansion and modernization of wireline telecom networks, solution delivery for a wireline broadband network and delivery of cutting-edge IP-oriented solutions for enterprises.

With regards [exports to Ericsson](#), we increased our activities during the year. Sales revenues of MHRK 423.2 show a 0.8% increase year over year and relate primarily to activities in research and development, Global Service Delivery Center and other expert centers.

Development and start-up of a new generation of mobile switching products (MSS6.0 MSC-S Blade Cluster) and respective implementation support played a leading role among many activities of the Research and Development Center. The Center obtained full responsibility for verification, maintenance and implementation support for the entire TSS (Telephony Softswitch) product line for wireline networks. The Center was also given responsibility for verification and maintenance of integrated telecom platform (IS).

A new radio access interface product, RXI HCS, was developed and a new WCDMA solution was designed enabling Ericsson to set a record data transfer rate and spectrum efficiency. Research projects were successfully continued in terms of further innovations and prototypes that should lead to new products and business development.

The Global Service Delivery Center Croatia (GSDC) obtained the responsibility for customer support and integration services for APIO product group (APZ Central Processor and APG Input-Output Unit) and for integration and consulting services relating to products used in transport networks. The GSDC also obtained responsibility for wireline systems delivery in Eastern Europe and Central Asia and also in the region Asia Pacific. New responsibilities regard wireless systems, more specifically the core network design. To increase efficiency and optimize cost, GSDC specialists developed a tool for dimensioning and pricing access services.

The Customer Solution & Services unit confirmed its SDMM level 1 (Ericsson's Service Delivery Maturity Model) relating to delivery of complete solutions and services. The maturity model implements best leadership practices applied in the areas of human resources, service delivery and the development of a business-oriented culture.

Business outlook 2010

Despite current economic slowdown and continuous (technology) shifts there is a rising user demand for new services and broadband access. Accordingly, new technologies will be steadily introduced and used. To achieve our strategic goals we will continue modernizing the existing wireline and wireless networks with emphasis on convergence and broadband access. We will offer the latest IMS, HSPA+, LTE/SAE and network management systems. As far as services are concerned we will concentrate on business growth in managed services, system integration and consulting. In multimedia focus will remain on IPTV, converged billing systems and other multimedia solutions. We will continue investing in development projects in selected industry & society ICT segments. We will also continue our intensive activities in the global organization through our participation in developing and creating new technologies.

Other information

At the meeting of February 24, 2010 the Supervisory Board of Ericsson Nikola Tesla approved the Managing Director's proposal to General Assembly (scheduled for 20 May 2010) about ordinary dividend payout to the amount of 20 HRK per share and extraordinary dividend to the amount of 100 HRK per share.

Ericsson Nikola Tesla major shareholders (as at 31 Dec 2009)

| | No. of shares | % of share capital |
|--|---------------|--------------------|
| Telefonaktiebolaget LM Ericsson | 653,473 | 49.07 |
| Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund (MPF) | 116,876 | 8.78 |
| Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG | 35,633 | 2.68 |
| Societe Generale-Splitska banka d.d. / Erste Plavi MPF | 34,982 | 2.63 |
| Hypo Alpe-Adria-Bank d.d. / PBZ Croatia osiguranje MPF | 30,015 | 2.25 |
| Societe Generale-Splitska banka d.d. / AZ MPF | 19,562 | 1.47 |
| Ericsson Nikola Tesla d.d. | 14,468 | 1.09 |
| PBZ d.d. / custodian client account | 12,658 | 0.95 |
| Erste & Steiermarkische bank d.d. / CSC | 12,344 | 0.93 |
| Croatian Privatisation Fund | 11,879 | 0.89 |
| Other | 389,760 | 29.26 |

Ericsson is the world's leading provider of technology and services to telecom operators. Ericsson is the leader in 2G, 3G and 4G mobile technologies, and provides support for networks with over 1 billion subscribers and has a leading position in managed services. The company's portfolio comprises of mobile and fixed network infrastructure, telecom services, software, broadband and multimedia solutions for operators, enterprises and the media industry. The Sony Ericsson and ST-Ericsson joint ventures provide consumers with feature-rich personal mobile devices.

Ericsson is advancing its vision of "to be the prime driver in an all-communicating world" through innovation, technology, and sustainable business solutions. Working in 175 countries, more than 75,000 employees generated revenue of SEK 209 billion (USD 32.2 billion) in 2008. Founded in 1876 with the headquarters in Stockholm, Sweden, Ericsson is listed on OMX NASDAQ, Stockholm and NASDAQ New York.



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.

*Communication
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