
ERICSSON NIKOLA TESLA D.D.

Management Report on Company's business situation and comments on the financial statements for Q1 2010

Highlights:

- Orders booked MHRK 371.3
- Sales revenues MHRK 302.9
- Gross margin 16.7%
- Operating profit MHRK 27.9
- Finance income MHRK 5.6
- Profit before tax MHRK 33.5
- Earnings per share HRK 25.4
- Return on sales 11.06%
- Cash flow from operating activities MHRK 64.5

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

„Ericsson Nikola Tesla results for Q1 2010 show an increase of orders booked, sales revenues, operating profit and Cash flow from operating activities when compared to Q1 2009. Through a continued focus on risk management, working capital improvements and operational and cost efficiency, we have maintained our strong financial position and increased total cash assets. At the same time we have continued to provide our customers with quality business models and quick and efficient solutions.

During Q1 2010, we achieved a considerable increase in the business volume on export markets. Results for the Domestic market were weaker than expected and show a year-over-year decline which primarily reflects cuts in investments by T-HT and negotiations ongoing throughout the Quarter on the new frame agreement with Tele2. In the internal Ericsson market, sales show a year-over-year increase. The key to continued stable performance of Ericsson Nikola Tesla is a good balance between the given three market segments.

We consider the creation/design of ICT solutions for the industry and society segment, which create new value for the business and social community, of the utmost importance. I am proud that our solution Ericsson Mobile Health was presented to business partners and investors at the largest world exhibition of solutions in the mobile telecommunications sector – Mobile World Congress 2010 in Barcelona, and in the recent Annual General Meeting of Ericsson Shareholders.

Today's market environment is aware of fierce competition, quick development of new technologies as well as economic turmoil, which all result in numerous risks. We continue to witness strong product and services price pressure as well as cautious in investments and focus on OPEX by our customers. However, we see business opportunities in further growth of data traffic, existing networks transformation into the new generation networks based on IP and technology shifts from 2G to 3G, and toward 4G mobile telecom systems, i.e. LTE. Accordingly, we shall continue to invest into strategic knowledge development, innovation, new markets, customers and solutions for new business segments.

We shall also continue to analyze and to react to all business risks and be oriented to customers and their requirements, offering high-grade ICT solutions, which will enable growth and profitability of our customers, and our company as well“.

Compared to the Q1 2009 Ericsson Nikola Tesla performed as follows:

- Orders booked and Sales revenues increased by 5.9% and 2.7%, respectively. This primarily reflects considerable growth in business volumes in the CIS market as well as increased volumes of business with Ericsson.
- Domestic market accounts for 29.9%, the export to other countries 35.3%, and the export to Ericsson market 34.8% of Sales revenue.
- Sales revenues can be broken down by business segments as follows: Networks with network rollout services MHRK 174.9 (57.7% of the total Sales revenues), Professional services MHRK 114.3 (37.7% of the total Sales revenues), and Multimedia solutions MHRK 13.8 (4.6% of the total Sales revenues).
- Gross margin improved to 16.7%, (in Q1 2009: 15.0%), primarily reflecting product mix and the company focus on operational and cost efficiency.
- Operating expenses (SG&A) of MHRK 24.8 reduced by 35% year-over-year.
- Operating profit totals MHRK 27.9 (Q1 2009: MHRK 11.6). This reflects overall stable business volumes and the positive impact of the continued focus on costs and internal efficiency in improved Gross margin and reduced Operating expenses.
- Net finance income totals MHRK 5.6 (Q1 2009: MHRK 42.2). Previous year high level of finance income resulted from positive currency deviations, the higher release of impairment reserves into finance income (amortization of discount) and higher levels of interest income.
- Profit before tax totals MHRK 33.5. Despite the growth in operating profit, the lower net finance income results in a 37.7% decrease in profit before tax.
- Return on sales totals 11.06% (Q1 2009: 18.2%).
- The company liquidity remains strong. Net cash flow from Operating activities totals MHRK 64.5, and total cash and cash equivalents and financial assets increased to MHRK 601.3.

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- Transactions with related parties during Q1 2010 were as follows: sales of products and services MHRK 109.9 (Q1 2009: MHRK 99.1), purchase of products and services MHRK 111.4 (Q1 2009: MHRK 99.7).
 - Balances outstanding with related parties at the end of Q1 2010 were as follows: Receivables MHRK 50.9 (MHRK 58.9 as at 31 Dec 2009) Payables MHRK 36.9 (MHRK 67.8 as at 31 Dec 2009).
 - Disclosure about customer financing risk:
As of the Balance Sheet date, total balances outstanding in respect of Customer loans and receivables was MHRK 714.7 (end 2009: MHRK 808.5). In the current economic climate there is increased risk and uncertainty with regards the ultimate collectability of some of these balances.

Business situation on major markets:

Domestic market Sales totalled MHRK 90.4 of during Q1 2010, a decrease of 27.8% when compared to Q1 2009. This reduction in business volumes in Q1 2010 primarily reflects:

T-HT's decision to stop investments into a new optic fiber access network, an action driven by the regulators decision relating to the „bit stream“, by which the existing regulation of the wireline network will be extended to the optic fiber access network too. The cooperation in the building of backbone networks and the transformation of the wireline voice network into a new-generation network was successfully continued.

Ongoing negotiations with Tele2 on the extension of our existing frame agreement for the delivery of equipment and service. These negotiations have now been completed, and business volumes are expected to increase again during Q2.

Stable business volumes with Vipnet where activities on extension and modernization of 2G and 3G infrastructure and cooperation in the core network and transmission systems continued.

The major focus in the ICT for industry and society segment during the quarter was on upgrading the national ICT primary healthcare system, the project for modernization of Croatian railways (HŽ) infrastructure and realization of Cadastre and Land Database joint information system. Intensive new business winning activities are ongoing.

Export to other countries (sales to Ericsson not included) totalled MHRK 107.1 during Q1 2010, an increase of 50.1% compared to Q1 2009.

In the regional markets, (Bosnia & Herzegovina, Montenegro and Kosovo) sales revenues totalled MHRK 44.9, an increase of 6.8%.

During the quarter, Ericsson Nikola Tesla and Crnogorski Telekom signed contracts to define cooperation in the next four years. Thus, Crnogorski Telekom will be provided with state-of-the-art

Ericsson solutions both for core networks and for radio parts of the network. Also, this contract covers support services.

With the largest operator in Bosnia&Herzegovina BH Telecom, the Company signed a contract on two-year support services delivery and maintenance of their mobile, fixed and service network.

Sales to CIS markets in Q1 2010 of MHRK 62.1 show significant improvement when compared to MHRK 29.2 for Q1 2009. Continued business with the leading Belarus mobile operator Velcom was supplemented during the quarter by the contract signed with Beltelecom, the fixed telephony operator, on the delivery of the equipment for the extension of Internet infrastructure and for provision of support services. Our solution offers Beltelecom users new level of services and is also the cornerstone for demanding services, like IPTV.

The strong position Ericsson Nikola Tesla has achieved within Ericsson Corporation, primarily in the research and development, service delivery and units responsible for total solutions and services, influenced the increase in business volume in [the Ericsson market](#). Sales revenues of MHRK 105.4 represent a year-over-year increase of 7.3%.

The Research and Development Centre continued its activities in the segment of network infrastructure products and in the development of the new generation mobile servers, interfaces, elements for radio access network, as well as for the support in the product line of fixed network server. The knowledge transfer relating to new responsibilities for the verification and maintenance of the integrated telecom platform (IS) is currently going on, and all preparations for wider including into the latest development activities of the all IP- network are already done.

The Global Service Delivery Centre Croatia (GSDC) has fully completed the transfer of all activities for APIO products (central processor APZ and APG input/output units). Currently, our Centre is engaged in all activities in APIO group product area aimed for the customer support, consulting and system integration for Central and Eastern Europe, Middle East and Africa (CEMA) and Western Europe regions. Also, an agreement on Managed Services Transfer for transport networks was signed with Ericsson Belgium.

[Other information](#)

The Annual Shareholders Meeting will take place on 20 May 2010. All shareholders and their proxies who register their presence/representation at the Meeting not later than 13 May 2010 are entitled to attend and to vote.

The dividend shall be paid out to all shareholders who seven days prior to the Annual Shareholders Meeting (i.e. on 13 May 2010) have Company shares registered on their securities account in the Central Depository&Clearing Company. As the entire accounts settling and shares registration procedures take three days, the last day shares need to be purchased on Zagreb Stock Exchange is Monday, 10 May 2010, so that shareholders can be registered on the securities account of the Central Depository&Clearing Company on 13 May 2010.

Shareholders who sell their shares after 10 May 2010 will retain the right to dividend payment. Dividend will be paid out by 19 June, 2010.

The Agenda of the Annual Shareholders Meeting with all proposed decisions has been published at the website <http://www.ericsson.hr/investitori> and in the Official Gazette no. 39/2010.

Ericsson Nikola Tesla major shareholders (as at 31 March 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	116,957	8.78
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	35,650	2.68
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	30,015	2.25
Societe Generale-Splitska banka d.d. / AZ Mandatory Pension Fund	19,562	1.47
PBZ d.d. / custodian client account	15,168	1.14
Ericsson Nikola Tesla d.d.	14,343	1.08
Croatian Privatisation Fund	11,879	0.89
Erste & Steiermarkische bank d.d. / CSC	9,941	0.75
Other shareholders	389,680	29.26

Q1 2010 share price information:

<i>Highest (HRK)</i>	<i>Lowest (HRK)</i>	<i>Closing (HRK)</i>	<i>Market capitalization (in MHRK)</i>
1,518.99	1,313.21	1,475.01	1,964.2

Ericsson Nikola Tesla d.d.
Krapinska 45
Zagreb

OIB: 84214771175
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 March 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





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

31.3.2010

HRK '000

Item	AOP number	31.12.2009.	31.3.2010
1	2	3	4
ASSETS			
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	442.013	423.938
I. Intangible assets	003	4.425	4.063
II. Property, plant and equipment	004	146.351	138.389
III. Financial assets	005	6.923	6.892
IV. Receivables	006	272.019	262.299
V. Deferred tax assets	007	12.295	12.295
C) CURRENT ASSETS	008	1.109.059	1.097.988
I. Inventories	009	24.059	27.963
II. Receivables	010	549.192	468.751
III. Financial assets	011	120.873	153.211
IV. Cash and cash equivalents	012	414.935	448.063
D) PREPAYMENTS AND ACCRUED INCOME	013	1.371	8.976
E) LOSS ABOVE CAPITAL	014		
F) TOTAL ASSETS	015	1.552.443	1.530.902
G) OFF-BALANCE SHEET ITEMS	016	249.209	206.200
EQUITY AND LIABILITIES			
A) EQUITY	017	1.200.223	1.234.790
I. Share capital	018	133.165	133.165
II. Capital reserves	019		
III. Reserves from profit	020	37.379	37.379
IV. Revaluation reserve	021		
V. Retained earnings	022	901.232	1.030.740
VI. Accumulated losses	023		
VII. Profit for the year	024	128.447	33.506
VIII. Loss for the year	025		
IX. Minority interests	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	10.091	9.933
D) CURRENT LIABILITIES	029	194.829	161.712
E) ACCRUED CHARGES AND DEFERRED REVENUE	030	147.300	124.467
F) TOTAL EQUITY AND LIABILITIES	031	1.552.443	1.530.902
G) OFF-BALANCE SHEET ITEMS	032	249.209	206.200

INCOME STATEMENT

for the period 1.1.2010 to 31.3.2010

HRK '000

		2009		2010	
		Cumulative	Quarter	Cumulative	Quarter
		1	2	3	4
I. OPERATING INCOME	035	300.299	300.299	306.810	306.810
1. Sales revenues	036	294.827	294.827	302.896	302.896
2. Revenues from sale of own products and services	037				
3. Other operating income	038	5.472	5.472	3.914	3.914
II. OPERATING EXPENSES	039	288.735	288.735	278.947	278.947
1. Decrease in inventories of finished goods and work in progress	040	15.273	15.273		
2. Increase in inventories of finished goods and work in progress	041			7.698	7.698
3. Raw material and consumables used	042	151.176	151.176	163.035	163.035
4. Staff costs	043	102.678	102.678	102.642	102.642
5. Depreciation and amortisation expense	044	16.085	16.085	14.751	14.751
6. Other costs	045	2.678	2.678	4.373	4.373
7. Impairment losses	046	12	12	1.149	1.149
8. Provisions	047				
9. Other operating expenses	048	833	833	695	695
III. FINANCIAL INCOME	049	53.650	53.650	9.190	9.190
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	44.945	44.945	6.340	6.340
3. Income from associates and ownership interests	052				
4. Unrealised gains	053				
5. Other financial income	054	8.705	8.705	2.850	2.850
IV. FINANCIAL EXPENSES	055	11.458	11.458	3.547	3.547
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	38	38	3.547	3.547
3. Unrealised losses	058				
4. Other financial expenses	059	11.420	11.420		
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	353.949	353.949	316.000	316.000
VIII. TOTAL EXPENSES	063	300.193	300.193	282.494	282.494
IX. PROFIT BEFORE TAX	064	53.756	53.756	33.506	33.506
X. LOSS BEFORE TAX	065				
XI. INCOME TAX EXPENSE	066	10.751	10.751		
XII. PROFIT FOR THE PERIOD	067	43.005	43.005	33.506	33.506
XIII. LOSS FOR THE PERIOD	068				

CASH FLOW STATEMENT

in the period 1.1.2010 to 31.3.2010

HRK '000

		31.3.2009	31.3.2010
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	073	53.756	33.506
2. Depreciation and amortisation	074	16.085	14.751
3. Increase in liabilities	075		
4. Decrease in receivables	076	2.556	76.216
5. Decrease in inventories	077	19.930	
6. Other increase in cash flow	078		1.061
I. Total increase in operating cash flow	079	92.327	125.534
1. Decrease in liabilities	080	76.041	56.058
2. Increase in receivables	081		
3. Increase in inventories	082		3.904
4. Other decrease in cash flow	083	10.805	1.059
II. Total decrease in operating cash flow	084	86.846	61.021
A1) NET INCREASE IN OPERATING CASH FLOW	085	5.481	64.513
A2) NET DECREASE IN OPERATING CASH FLOW	086		
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of property, plant and equipment	087	19	21
2. Net disposal of financial assets	088	5.624	30.000
3. Interest received	089	10.818	6.340
4. Dividend received	090		
5. Other cash flow from investing activities	091		31
III. Total cash flow from investing activities	092	16.461	36.392
1. Purchases of property, plant and equipment and intangible assets	093	18.069	6.435
2. Purchase of financial instruments	094		61.292
3. Other cash flow used in investing activities	095	134	
IV. Total cash flow used in investing activities	096	18.203	67.727
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE IN CASH FLOW USED IN INVESTING ACTIVITIES	098	1.742	31.335
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	6	42
2. Dividend paid	104		
3. Repayment of loans	105		8
4. Repurchase of treasury shares	106	1.240	
5. Other cash flow used in financing activities	107		
VI. Total cash flow used in financing activities	108	1.246	50
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES	109		
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES	110	1.246	50
Total increase in cash flow	111	2.493	33.128
Total decrease in cash flow	112		
Cash and cash equivalents at the beginning of the period	113	318.303	414.935
Increase in cash and cash equivalents	114	2.493	33.128
Decrease in cash and cash equivalents	115		
Cash and cash equivalents at the end of the period	116	320.796	448.063

STATEMENT OF CHANGES IN EQUITY

from 1.1.2010 to 31.3.2010

HRK '000

Item	AOP number	Opening balance	Increase	Decrease	Closing balance
1	2				
1. Share capital	117	133.165			133.165
2. Capital reserves	118				0
3. Reserves from profit	119	37.379			37.379
4. Retained earnings	120	901.232	129.508		1.030.740
5. Profit for the period	121	128.447	33.506	128.447	33.506
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	163.014	128.447	1.234.790
16a. Parent company share in subsidiary	133				
16b. Minority interest	134				