
ERICSSON NIKOLA TESLA D.D.

Management Report on Company's business situation and comments on the financial statements for H1 2010

Highlights:

- Orders booked MHRK 709.4
- Sales revenues MHRK 617.1
- Gross margin 18.8%
- Operating profit excluding impairment of receivables MHRK 72.5
- Operating loss MHRK 54
- Net loss MHRK 42.4
- Cash flow from operating activities MHRK 99.4

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

„The environment in which Ericsson Nikola Tesla operated in the first-half of this year continued to be both demanding and complex. The underlying business performance however continues to be stable. While Orders for the first half of 2010 are slightly down on the comparable period for 2009, we have secured new business opportunities in export markets and delivered Sales which are flat over the same period. Growth in our export markets (particularly Belarus and Bosnia & Herzegovina) is offset by a contraction in volumes in the domestic market reflecting continued delays in investments and ongoing significant price pressure. Our overall business has been and continues to be impacted by industry component shortages and Ericsson supply chain bottlenecks which lead to delays in deliveries.

During the period, as previously announced, the company recorded an impairment charge of MHRK 126.5 in respect of Customer Financing balances in Kazakhstan. As a result, we recorded an Operating loss of MHRK 54 during H1 2010. Excluding the impairment charge, an underlying Operating Profit of MHRK 72.5 shows a significant improvement compared with MHRK 5 in the same period of 2009.

Our Balance Sheet and Cash position at June 30, 2010 remains strong and can be further improved through the accelerated settlement of remaining amounts outstanding in respect of the impaired Kazakhstan receivables. We have already taken steps in partnership with Banks and Financial Institutions to secure all future significant Customer financing exposures are managed through these Financial institutions with no recourse to Ericsson Nikola Tesla.

In conjunction with the global Ericsson organization, Ericsson Nikola Tesla continually reviews its ways of working and business structure to ensure that it adapts to our changing business environment and that we are best placed to capitalize on future opportunities. Accordingly, in line with the new Ericsson regional organization which is at the final stage of implementation, Ericsson Nikola Tesla is positioned within the Region West and Central Europe (RWCE). This new regional organization replaces the market unit concept which has been in place for the last nine years. We believe that these changes present additional possibility to strengthen our organization and culture and to further improve our position in our chosen business segments. “underlined Gordana Kovačević.

Financial highlights

- Orders booked decreased by 8.4% year-over-year to MHRK 709.4. Increased Orders booked in Export markets and the Ericsson market were offset by a decrease in business volumes in our Domestic market.
- Sales revenues amounting to MHRK 617.1 are in line with the prior year. The Domestic market accounts for 27.6%, exports to other countries 36%, and exports to Ericsson 36.4% of total sales revenue. Increased volumes in the Export and Ericsson markets were offset by a decline in the Domestic market. Sales revenues were also negatively impacted by industry component shortages and Ericsson supply chain bottlenecks.
- Sales revenues can be further analyzed by business segments as follows: Network with network rollout services MHRK 353.5 (57.3% of the total Sales revenues), Professional services MHRK 241 (39.1% of the total Sales revenues), and Multimedia solutions MHRK 22.6 (3.6% of the total Sales revenues).
- Gross margin has improved year-over-year and amounts to 18.8% (H1 2009: 10.9%). This increase in the first half of 2010 can be contributed to favorable product mix, timing and volume of investments in development projects and a positive impact of the company's continued focus on operational and cost efficiency. We expect the positive impact related to product mix and investments in developing projects to reduce in the second half of 2010.
- Distribution and administrative expenses of MHRK 47.9 reduced by 28.5%, compared to H1 2009.
- Underlying Operating profit (excluding the impairment of Kazakhstan receivables) totals MHRK 72.5 (H1 2009: MHRK 5) and reflects improved Gross Margin and reduced Distribution and administrative expenses as noted above.
- Net finance income totals MHRK 11.6 (H1 2009: MHRK 38.5). The lower level of finance income primarily reflects unfavorable foreign currency deviations (euro kuna rate weakened from 7.306 at Dec. 31, 2009 to 7.19 at June 30, 2010) and smaller release of impairment reserves into finance income (amortization of discount).

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- The MHRK 126.5 impairment charge in respect of Kazakhstan receivables contributes to a Net loss of MHRK 42.4. Excluding this impairment charge, underlying business performance delivered a Net profit of MHRK 84.1 which is 93.2% improved year-over-year.
 - The company's liquidity remains strong. Net cash flow from Operating activities totals MHRK 99.4. After the 2009 dividend payment of MHRK 158.2, total cash, cash equivalents and financial assets at June 30, 2010 totals MHRK 470.4.
 - Major transactions with related parties during H1 2010 were as follows: sales of products and services MHRK 233.8 (H1 2009: MHRK 205.3), purchase of products and services MHRK 187.5 (H1 2009: MHRK 235).
 - Balances outstanding with related parties on June 30, 2010 were as follows: Receivables totaled MHRK 50.3 (end 2009: MHRK 58.9), Payables MHRK 40.1 (end 2009: MHRK 67.8).
 - Disclosure about customer financing risks:
In the current economic environment there remains uncertainty in respect of some Customer loans and receivables. However, following the impairment of Kazakhstan receivables the Company's credit risk has been significantly reduced. As of the Balance Sheet date, total balances outstanding in respect of Customer loans and receivables was MHRK 686.3 (end 2009: MHRK 808.5).

Business situation on major markets

Domestic market Sales totaled MHRK 170.6, a decrease of 30.7% when compared to H1 2009. This reduction in business volume primarily reflects a reduction and deferral of investments by our major customers as well as pressure on prices.

At MIPRO opening event, with our long-term partner Vipnet, we demonstrated the wireless data transmission at record rate of 42 Mbps, as a first run not only in Croatia but in this part of Europe. This was considered an important step in further development of wireless broadband data transmission, which will soon be commercially available to users in Croatia. The activities on extension and modernization of 2G and 3G infrastructure, and the cooperation in the core network and transmission systems continued.

The cooperation with Croatian Telecom (HT) has been successfully continued in the backbone network construction and transformation of wireline voice network into the new generation network. However, as the response to a regulatory decision by which the existing copper network regulation is being extended to optic access networks too, HT temporarily stopped the planned investments into optic access network.

The cooperation with Tele2 was confirmed by signing frame agreements pursuant to which Ericsson Nikola Tesla will continue to supply this operator with solutions and services in 2G and 3G networks. The dynamics of delivery depends on investments plans by operators, but

also on problems Tele 2 has been faced with when providing permits for new sites construction.

A considerable achievement in ICT for industry and society segment was in awarding ISO 13485:2003 for the development, production, marketing and sales of solutions in e-health and the registration of EMH (Ericsson Mobile Health) product pursuant to European directive for medical devices MDD 93/42/EEC.

It is important to emphasize the cooperation with the customer Ministry of Health and Social Welfare in upgrading the national ICT primary healthcare system. The project of Cadastre and Land Database joint information system has reached the final phase.

In export markets (except for Ericsson market) Sales totaled MHRK 221.7, representing an increase of 28.3% compared to H1 2009.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenues decreased by 9.4% amounting to MHRK 76.2, reflecting the reduced volume of investment by operators in Montenegro and Kosovo. However, business volume in Bosnia and Herzegovina increased year-over-year.

Ericsson Nikola Tesla signed a contract with BH Telecom on extension of 2G and 3G networks. Its realization will make BH Telecom ready for full transfer to all-IP network. This contract mean the continuation of operator's mobile network modernization, thus providing users with a number of attractive functionalities and maintaining the high service quality.

CIS market sales revenues totaling MHRK 145.5 show growth of 64% compared to H1 2009, primarily resulting from excellent achievements in the Belarus market.

The company has made new agreements in Belarus, Russian Federation and Moldova covering solutions in the segment of wireless, wireline and transmission networks as well as IP network oriented solutions for business users.

In the Ericsson market sales revenue of MHRK 224.8 represent an increase of 13.8% compared to H1 2009.

The Research and Development Centre continued to work inside projects developing new generation of mobile servers, as well as for the product line of fixed network servers. Dominant activities were related to "All IP" technology.

The transfer of activities in Ericsson Nikola Tesla R&D relating to the verification and maintenance of the integrated telecom platform (IS) was successfully completed. New jobs for radio network products were agreed.

The Global Service Delivery Centre Croatia (GSDC) was successfully certified by DNV (Det Norske Veritas), thus confirming the validity of the corporation certification pursuant to ISO 9001:2008 standard.

APIO products transfer (Central processor APY and I/O AGP units) from Spain and Finland to Croatia was successfully done. Thus the full APIO project was completed. T-Com Germany MMTel3.0 project is the first implementation which considers complete PSTN replacement with IMS network and our resources are involved both in solution design and integration phase. A comprehensive project on modernization and extension of mobile network (MSC-S and MGW) for Al Madar Libya was launched, and currently negotiations are going on for additional service deliveries.

Other information

At the Annual Shareholders Meeting that took place on May 20, 2010 a decision was made on ordinary dividend payout to the amount of HRK 20 per share and extraordinary dividend payout to the amount of HRK 100 per share. The dividend was payout on June 17, 2010.

Ericsson Nikola Tesla major shareholders (as at 30 June 2010)

	No. of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund	119,337	8.96
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	38,055	2.86
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	14,706	1.10
Ericsson Nikola Tesla d.d.	13,650	1.03
PBZ d.d. / State Street client account	10,680	0.80
Societe Generale-Splitska banka d.d. / custodian account	8,062	0.61
Other shareholders	388,528	29.17

Q2 2010 share price information:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market capitalization (in MHRK)
1,777	1,340	1,359.99	1,811.0

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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 June 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 30.6.2010

HRK '000

Item	AOP number	31.12.2009.	30.6.2010
1	2	3	4
ASSETS			
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	442.013	289.736
I. Intangible assets	003	4.425	3.875
II. Property, plant and equipment	004	146.351	137.998
III. Financial assets	005	6.923	6.938
IV. Receivables	006	272.019	128.630
V. Deferred tax assets	007	12.295	12.295
C) CURRENT ASSETS	008	1.109.059	955.442
I. Inventories	009	24.059	26.049
II. Receivables	010	549.192	458.941
III. Financial assets	011	120.873	162.813
IV. Cash and cash equivalents	012	414.935	307.639
D) PREPAYMENTS AND ACCRUED INCOME	013	1.371	7.289
E) LOSS ABOVE CAPITAL	014		
F) TOTAL ASSETS	015	1.552.443	1.252.467
G) OFF-BALANCE SHEET ITEMS	016	249.209	190.954
EQUITY AND LIABILITIES			
A) EQUITY	017	1.200.223	1.001.820
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	873.640
VI. Accumulated losses	023		
VII. Profit for the year	024	128.447	
VIII. Loss for the year	025		-42.364
IX. Minority interests	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	10.091	8.931
D) CURRENT LIABILITIES	029	194.829	119.991
E) ACCRUED CHARGES AND DEFERRED REVENUE	030	147.300	121.725
F) TOTAL EQUITY AND LIABILITIES	031	1.552.443	1.252.467
G) OFF-BALANCE SHEET ITEMS	032	249.209	190.954

INCOME STATEMENT

for the period 1.1.2010 to 30.6.2010

HRK '000

		2009		2010	
		Cumulative	Quarter	Cumulative	Quarter
		1	2	3	4
I. OPERATING INCOME	035	624.882	325.728	626.067	319.952
1. Sales revenues	036	616.340	321.513	617.072	314.177
2. Revenues from sale of own products and services	037				
3. Other operating income	038	8.542	4.215	8.995	5.775
II. OPERATING EXPENSES	039	619.915	332.325	680.066	401.814
1. Decrease in inventories of finished goods and work in progress	040				0
2. Increase in inventories of finished goods and work in progress	041	207	15.480	3.461	8.577
3. Raw material and consumables used	042	361.487	210.311	307.658	157.436
4. Staff costs	043	212.704	110.026	205.638	102.996
5. Depreciation and amortisation expense	044	32.224	16.139	28.744	13.993
6. Other costs	045	10.023	7.345	10.220	5.848
7. Impairment losses	046	2.170	3.315	131.040	129.891
8. Provisions	047				
9. Other operating expenses	048	1.514	669	227	227
III. FINANCIAL INCOME	049	41.646	25.071	18.533	9.344
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	26.271	9.572	12.759	6.419
3. Income from associates and ownership interests	052				
4. Unrealised gains	053				
5. Other financial income	054	15.375	15.499	5.774	2.925
IV. FINANCIAL EXPENSES	055	3.102	28.719	6.898	3.352
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	511	28.719	6.898	3.352
3. Unrealised losses	058				
4. Other financial expenses	059	2.591			
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	666.528	350.799	644.600	329.296
VIII. TOTAL EXPENSES	063	623.017	361.044	686.964	405.166
IX. PROFIT BEFORE TAX	064	43.511			
X. LOSS BEFORE TAX	065		-10.245	-42.364	-75.870
XI. INCOME TAX EXPENSE	066	8.702	2.049		
XII. PROFIT FOR THE PERIOD	067	34.809			
XIII. LOSS FOR THE PERIOD	068		-8.196	-42.364	-75.870

CASH FLOW STATEMENT

in the period 1.1.2010 to 30.6.2010

HRK '000

		30.6.2009	30.6.2010
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	073	43.511	-42.364
2. Depreciation and amortisation	074	32.224	28.744
3. Increase in liabilities	075		
4. Decrease in receivables	076	32.133	214.948
5. Decrease in inventories	077	2.197	
6. Other increase in cash flow	078		2.122
I. Total increase in operating cash flow	079	119.077	203.450
1. Decrease in liabilities	080	30.869	100.641
2. Increase in receivables	081		
3. Increase in inventories	082		1.990
4. Other decrease in cash flow	083	9.299	1.372
II. Total decrease in operating cash flow	084	49.180	104.003
A1) NET INCREASE IN OPERATING CASH FLOW	085	69.897	99.447
A2) NET DECREASE IN OPERATING CASH FLOW	086		
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of property, plant and equipment	087	62	28
2. Net disposal of financial assets	088		
3. Interest received	089	20.390	12.759
4. Dividend received	090		
5. Other cash flow from investing activities	091	33	
III. Total cash flow from investing activities	092	20.485	12.787
1. Purchases of property, plant and equipment and intangible assets	093	36.207	19.853
2. Purchase of financial instruments	094	680	40.584
3. Other cash flow used in investing activities	095		
IV. Total cash flow used in investing activities	096	36.887	60.437
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE IN CASH FLOW USED IN INVESTING ACTIVITIES	098	16.402	47.650
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	1.016	917
2. Dividend paid	104	91.758	158.160
3. Repayment of loans	105		16
4. Repurchase of treasury shares	106	11.380	
5. Other cash flow used in financing activities	107		
VI. Total cash flow used in financing activities	108	104.154	159.093
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES	109		
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES	110	104.154	159.093
Total increase in cash flow	111		
Total decrease in cash flow	112	50.659	107.296
Cash and cash equivalents at the beginning of the period	113	318.303	414.935
Increase in cash and cash equivalents	114		
Decrease in cash and cash equivalents	115	50.659	107.296
Cash and cash equivalents at the end of the period	116	267.644	307.639

STATEMENT OF CHANGES IN EQUITY

from 1.1.2010 to 30.6.2010

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	130.568	158.160	873.640
5. Profit for the period	121	128.447	0	170.811	-42.364
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	130.568	328.971	1.001.820
16a. Parent company share in subsidiary	133				
16b. Minority interest	134				