



COMPANY POSITION REPORT

2010 – STABLE OPERATIONS DESPITE CHALLENGING BUSINESS CONDITIONS

The year 2010 was a particularly demanding and tough one. The ICT industry could not avoid the unfavorable trends present in the wider economy, and the impact of this was manifested in a slower than anticipated realization of planned activities and strategic targets. This was especially evident in a slowdown of capital investments by telecom operators, decreased government investments into infrastructure projects within the ICT segment and decreased budget volumes of our business partners and other customers. A decline in orders during 2010 reflects a decrease in volumes from our domestic market, compensated by extended business activities in our export markets, primarily in Belarus and Bosnia & Herzegovina, as well as exports to Ericsson through R&D and other services. A decline in sales during 2010 further reflects the timing of orders booked and the impact of industry component shortages and Ericsson supply chain bottlenecks.

Despite the challenging environment in which we operated, we managed to maintain a good market position, continued to support our customers in modernization of their networks and in the introduction of new technologies and progressed with investments into new strategic projects and market segments. At the same time, we are able to report improved performance in terms of underlying profitability of operations and cash flow from operating activities and have further improved the strength of our balance sheet.

During 2010, the Company was exposed to additional business risk due to the restructuring of the biggest Kazakhstan bank, BTA, which caused the receivables write-off amounting to MHRK 126.5. Excluding this write-off, the Company result shows a net profit increase of 17 percent year-over-year which, in the given circumstances, is a creditable result. It is important to stress that regardless of the complex situation, we managed to collect approximately 60 percent of receivables, which helped us to further strengthen our financial and cash positions in 2010. At the same time, by solving the given case, the Company risk relating to customer financing was significantly reduced.

Throughout 2010, we responded to the challenging business conditions and increasingly strong competition by adapting the organization for new market and technology requirements, as well as to new organizational models and responsibilities within the wider Ericsson organization. Ericsson Nikola Tesla primarily operates within the Region Western & Central Europe but also retains responsibilities in other Ericsson regions, as well as for those segments of business and products which result from development and activities within the Company. The new organization encourages new and innovative ways of working with a common goal to be closer than ever before to our customers, grow business volumes in existing and new segments and drive improved profitability and cash flow.

In cooperation with our strategic customers, a series of ICT projects in Croatia and in our export markets were completed, thus showing that information and communication technologies are a driving force of economic recovery and development of the society as a whole. Let me just underline our activities on existing networks transformation into new generation networks, as well as taking part in preparations for implementing the state-of-the-art technologies in all our markets. We are also witnessing the operators' interest in the 4G mobile communication systems that will provide higher transmission speeds and extended range of services. During the year, we achieved significant results in terms of our responsibilities assigned in the global organization in the areas of Research and Development, Service Delivery Center and other centers of expertise. This segment is constantly growing and today represents 36 percent of the Company's sales revenue.

ICT technology implementation continues also in a non-operator segment, both in business systems and government administration. ICT solutions, such as e-health, Intelligent Transport Systems (ITS) and National Security/Public Safety (NS/PS), have a positive impact on operations, human lives and the environment. The best illustration for this is e-Health solution, our recognizable high-tech product. As of informatization of the Croatian health care system, another step forward in 2010 was implementation of new functionalities such as ePrescription, eReferral and eBooking. Moreover, Ericsson Mobile Health (EMH), a product aimed at remote patient medical monitoring, won the best innovation award and is ready for commercial operation.

In my last year's Company position report I emphasized that innovativeness in everything we do is the key to our future stable operations; only work aimed at creating new values may raise the stakeholders' satisfaction level and contribute to overall progress in the community. Concerning this, I would like to mention our Innovation Management program, implemented in all Company units, which resulted in almost 1000 various innovative proposals submitted during 2010. Some of the innovative solutions have already been implemented even at the global level. In 2010, we organized Innovation Day in Zagreb and Split, and the most prominent innovators and their best innovations were presented there.

We also marked the tenth anniversary of Ericsson Nikola Tesla Summer Camp, so far attended by almost 300 students, assisted by mentors from the Faculty of Electrical Engineering and Computing at the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture at the University of Split as well as from our Company. Their work resulted in 162 student projects and 82 prototypes.

In 2010, Ericsson Nikola Tesla yielded the following business results (2009 figures in brackets):

- Orders booked MHRK 1,311.3 (MHRK 1,386.2)
- Sales revenues MHRK 1,218.9 (MHRK 1,400.0)
- Net profit MHRK 24 (MHRK 128.4)
- Cash flow from operating activities MHRK 366.4 (MHRK 284)
- Motivational Company culture, confirmed by the annual employee survey Dialog
- Customer satisfaction, confirmed by the annual customer satisfaction questionnaire

- Satisfaction of shareholders, investors and the general public expressed by the award for transparent business operations and relations with investors offered by the Zagreb Stock Exchange and Poslovni dnevnik, and by the annual Grand Prix by the Croatian Public Relations Association for the Company's 60th anniversary project.

In brief, in 2010 we achieved solid net income and sound cash flow from operating activities. We continued to invest into development projects, preserved our jobs and held our market position primarily as Croatia's leading knowledge exporter.

OUTLOOK

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

The telecom market shows a tendency of core network transformation towards the next generation network with introduction of IMS architecture, as well as with the strong development and implementation of mobile broadband networks and next generation of optic access networks. Transformation of the current network will enable further development, delivery and growth of advanced services (such as IPTV, positioning services, etc.), with requirements for advanced convergent billing and charging services and complex network management systems.

Mobile technology broadband access will continue the intensive development primarily due to the growth in number of smart phones and tablets but also due to M2M networking trends. A significant growth of mobile network traffic will demand further extension of HSPA and introduction of LTE technology. By implementation of a broadband access based on HSPA+ (42 Mbps) and LTE trial network, Croatia joined the most developed countries in the world, where already today convergence of fixed and mobile network and achievements of the 4G mobile communication networks are present.

There is no doubt that our operating environment will remain challenging in 2011, so we should focus on further development of our business operations and risk management.

Having assessed operational risks for Ericsson Nikola Tesla in 2011, I would like to point out the following:

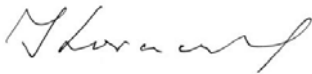
- Serious disturbances in the financial market and their negative impact; operators' investment slowdown regarding network development and decrease in non-operator investments regarding ICT projects;
- Consolidation among our customers and largest competitors with further impact on product and service prices;
- Increasing demand for customer financing;
- Negative impact of a strong HRK and changes in EUR and USD exchange rates;
- Shortage of industrial components in the world market and supply chain bottlenecks;

-
- Natural disaster that hamper production, supply and transport
 - Continued political uncertainty and instability in some markets.

Ericsson Nikola Tesla is operating in line with the current corporate policies and directives, the Croatian legislative regulations, as well as principles of corporate governance and business ethics. In the forthcoming period we shall strengthen our position in all business segments and in all Company markets, focusing on new customers and strategic projects. The mission and strategy of Ericsson Nikola Tesla are directed towards key stakeholders: customers, employees and shareholders. It is all about value creation, understanding the needs, sharing knowledge and the partnership among those included in various processes and activities. We shall focus on the three strategic goals: profitable sales growth, healthy margins and cash flow, as well as sales within the Ericsson group.

Innovativeness and a proactive approach towards users of our products and services, constant technology shifts, adjustment to market and competitive conditions are the imperative of our future business development. Ericsson Nikola Tesla is fully focused on achieving long-term, profitable growth whilst ensuring short-term stability and will endeavor to achieve this by making strategic business moves, by fully analyzing and reacting to all business risks, by ensuring optimal utilization and continual development of all its resources.

All other data, which need to be an integral part of the annual Company report pursuant to Article 250 (a) of the Company Act can be found in the enclosed 2010 Annual report, comprising the General Report, Social Report and Financial Statements as of December 31, 2010.

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

Gordana Kovačević

President

Ericsson Nikola Tesla d.d.