
ERICSSON NIKOLA TESLA D.D.

Report on the Company's business situation and comments on the financial results for the year ending Dec 31, 2010.

Highlights:

- Orders booked MHRK: **1,311.3**
- Sales revenues: **1,218.9**
- Gross margin: **16.9%**
- Operating profit excluding write off of receivables: MHRK **111.3**
- Operating loss: MHRK **15.2**
- Net profit excluding write off of receivables: MHRK **150.5**
- Net profit: MHRK **24**
- Cash flow from operating activities: MHRK **366.4**
- Proposed dividend HRK 20 ordinary and HRK 170 extraordinary dividend per share

In the evaluation of the Company's performance, Gordana Kovačević, the president of Ericsson Nikola Tesla underlined the following:

"During 2010 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 slow down 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 5% year-over-year 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 13% 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.

As previously announced, the company has written off MHRK 126.5 in respect of Customer Financing balances in Kazakhstan. Even after this write off, the company achieved a Net profit of MHRK 24 during 2010 and the underlying Net Profit (excluding this write off) of MHRK 150.5 represents an increase of 17% year-over-year and a Return On Sales ("ROS") of 12.3%. Further, with the accelerated collection of MHRK 150 from the remaining part of the Kazakhstan receivables, Cash and Cash equivalents at Dec 31, 2010 increased to MHRK 674.

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 organization models and responsibilities within the wider Ericsson organization. Ericsson Nikola Tesla belongs to Region Western & Central Europe within the global Ericsson group but also retains responsibility within 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" underlined Gordana Kovačević.

Financial summary:

- Orders booked decreased by 5% year-over-year and totaled MHRK 1,311.3, while sales revenues decreased 13% to MHRK 1,218.9. The overall sales result reflects a decline in our domestic and regional markets, partially offset by growth in the CIS markets and activities with Ericsson.
- Domestic market accounts for 27.9%, export to other countries 35.6% and export to Ericsson market 36.5% of total sales revenues.
- Sales revenues can be further analyzed by business segments as follows: Network infrastructure including network rollout services MHRK 779 (64% of total Sales revenues), Professional services MHRK 394 (32% of total Sales revenues) and Multimedia solutions MHRK 46 (4% of total Sales revenues).
- Gross margin of 16.9% has considerably improved year-over-year (2009:13.3%), reflecting favorable 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.

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- Distribution and administrative expenses of MHRK 91 reduced by 17% year-over-year.
 - Operating profit excluding the write off of Kazakhstan receivables amounts to MHRK 111.3 and has increased MHRK 45.6 or 69% when compared to 2009. This result reflects the net impact of higher gross margin (as explained above), reduced distribution and administrative expenses and additional restructuring costs of 14 MHRK in respect of early retirement.
 - Net finance income totaled MHRK 41.2 (2009: MHRK 61.1). The lower level of finance income reflects declining interest rates and a lower release of impairment reserves into finance income (amortization of discount).
 - Despite the write off of Kazakhstan receivables and the decreased net finance income, the company achieved a net profit of MHRK 24. Excluding the write off, the result shows a net profit of MHRK 150.5 (17% increase year-over-year) which represents a net income return on sales (ROS) of 12.3% (2009: 9.2%).
 - Cash flow from operating activities totaled MHRK 366.4 (2009: 284) reflecting the ongoing focus on working capital improvements and includes MHRK 150 collected in respect of Kazakhstan receivables.
 - The company has a strong balance sheet with total assets of MHRK 1,425.2 and an equity ratio of 75%. The total of cash and cash equivalents and financial assets increased to MHRK 737.2 compared with MHRK 535.8 at the end of 2009. This represents an increase of 38%.
 - Major transactions with related parties were as follows: sales of products and services MHRK 445.1 (2009: MHRK 436.4), purchase of products and services MHRK 418 (2009 MHRK 532.3).
 - Balances outstanding with related parties on Dec.31, 2010 were as follows: receivables totaled MHRK 75.4 (end 2009: MHRK 58.9), payables MHRK 94.8 (end 2009: MHRK 67.8).
 - Disclosure on customer financing risks:
Following the write off of Kazakhstan receivables, the collection of MHRK 150 of remaining Kazakhstan receivables and collection of other outstanding loans and receivables during 2010, the company's credit risk is significantly reduced. As of Dec 31, 2010 balances outstanding in respect of Customer loans and receivables totaled MHRK 452.7 (2009: MHRK 808.5).
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Business situation on major markets:

Domestic market Sales totaled MHRK 339.7, a year-over-year decrease of 29.5%. This is reflective of the negative macroeconomic trends in Croatia that resulted in reduced levels of investments by operators, a special tax imposed on mobile network services, regulatory issues, and increasingly strong price pressure by our customers. As noted, previously there was also an impact of industry component shortages and Ericsson supply chain bottlenecks.

The cooperation with Croatian Telecom (HT) mainly covers the building of the backbone networks, broadband internet access, transmission systems and transformation of the wireline voice network into a new generation network based on IMS (IP Multimedia Subsystem) architecture. During Q4 Ericsson Nikola Tesla and HT successfully demonstrated the first LTE network trial in the region with some attractive services supported by this state-of-the-art technology in the mobile communications world (mobile reporter, mobile multiplayer gaming and IPTV based transmission of HD and 3D TV content via a mobile network). LTE technology enables the spreading of fast Internet access to areas that so far, have not been covered by mobile broadband access. It also enables data transmission at the rate of 100 Mbit/s in download that is several times higher than currently applied in the commercial mobile network in Croatia. When fully implemented, an LTE network provides considerably higher transmission rates than 100 Mbit/s, however, the currently available user terminal equipment cannot support such high rates.

Activities with Vipnet during 2010 covered the extension and modernization of 2G and 3G infrastructure and further cooperation in core network and transmission systems and the introduction of new technology solutions. After the successful demonstration of a wireless data transmission at the rate of 42 Mbit/s in the first half of 2010, the given rates became commercially available to users, at first in Osijek, and afterwards in other Croatian towns. In a cooperation with Ericsson Nikola Tesla, Vipnet also managed to provide its users with the new HD sound technology enabling considerable improvement of voice quality in the 3G network.

The successful cooperation with Tele2 in extending and modernizing 2G and 3G infrastructure, with a special attention to the mobile Internet, was confirmed by extension of a frame agreement on delivery of solutions and services in Q1, 2010. Our agreement on managed services was also extended in Q4.

The major focus in the ICT segment for Industry and society was on upgrading the national ICT primary healthcare system, realization of Cadastre and Land Database joint information system and the modernization of Croatian Railways (HŽ) infrastructure. The Company's EMH (Ericsson Mobile Health) product aimed at remote patient medical monitoring is ready for commercial operation and activities have started within the Ericsson organization for placing the product to the market.

In export markets (except for Ericsson market) sales totaled MHRK 434.4, a decrease of 12.3% year-over-year.

In the regional markets (Bosnia & Herzegovina, Montenegro and Kosovo) sales revenues decreased by 23.9% and totaled MHRK 201.7. This decrease primarily reflects timing of project realization. Orders booked in Bosnia & Herzegovina and Montenegro increased year-over-year by 18% and 15%, respectively. In Kosovo however, Orders booked decreased as a result of reduced investments by operators.

With BH Telecom, the company signed a two year contract on support and maintenance service delivery for the total BH Telecom network. In addition, several important contracts were signed on extension and modernization of 2G and 3G networks, as well as on BH Telecom core network upgrading to the latest release. In Q4, the company signed agreements on upgrading activities in the wireline network of BH Telecom by implementation of the new generation fixed node and integration of the system for network management.

In the beginning of 2010, Montenegro operator, Crnogorski Telekom, and Ericsson Nikola Tesla signed a frame agreement to define the cooperation over the next four years in the segment of modern SW solutions for mobile systems. In addition, the delivery of support services for fixed and mobile network, was agreed. During the year, supplementary contracts for the fixed network modernization (PSTN centralization and ADSL network extension), 2G and 3G mobile network extension, including the HSPA+ solution realization, as well as the supervision system modernization and new functionalities of charging system in real time were signed. Besides, the company agreed the construction of geographically redundant center for mobile network (Disaster Recovery Site Solution).

The company also continued cooperation with Kosovo mobile operator Ipko that started with the integration of the total GSM network. New activities cover the HW and SW support service delivery for the next three years.

Sales to CIS markets show an improvement of 1.1% year-over-year and totaled MHRK 232.7. This reflects excellent results in the Belarus market Total orders booked also increased by 14% year-over-year.

Besides the cooperation with the leading Belarus mobile operator Velcom, on the extension and modernization of 2G network, the increased volumes also reflect a contract signed with Beltelekom in the segment of Internet technology (delivery of the equipment for the internet infrastructure capacity extension).

On the markets of the Russian Federation, Moldova, Georgia, Kazakhstan and Uzbekistan the company signed new contracts covering solutions in fixed network, delivery of microwave solutions in the broadband network and broadband access nodes as well as agreements on IP oriented solutions for business users.

[In the Ericsson market](#) sales revenues totaled MHRK 444.8, which represents a year-over-year increase of 5.1%.

The Research and Development Center completed the development of the new generation of mobile network servers (MSC R 14.1) with Ericsson Nikola Tesla employees contributing significantly with successful trials put into operation with several global operators. The new responsibility for the product lines of servers aimed for fixed networks (TSS) was successfully defined. This enables the company to play a considerable role and contribute to the network transformation, globally. The new responsibilities for verification and maintenance of the integrated telecom platform (IS), and verification and integration for the broadband network access product (GPON) were obtained. Preparations for extension of operations in development of the system for the radio network platform (CPP) were initiated.

Service delivery center experts were engaged in numerous projects, such as: IMS Deutsche Telekom NGF (largest IMS project in the Region Western and Central Europe, which covers the full migration of DT fixed network from PSTN to IMS), LTE project for Vodafone Germany and Vodafone Great Britain, T-Mobile Hungary 3G Audit and Optimization project, Telecom Austria IPTV delivery as well as a transport network managed service project for Mobistar Belgium.

[Business outlook 2011](#)

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, deliver 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. Significant growth of mobile network traffic will demand further extension of HSPA and introduction of LTE technology. By implementation of broadband access based on HSPA+ (42 Mbit/s) and LTE trial network, Croatia joined in this segment 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.

Regardless of the currently decreased budgets for ICT, the implementation of ICT technology should also continue in non-operator segment, both in business systems and government administration.

We expect the demands by end users and competitive environment will result in operator investments in broadband access, new applications and contents. Ericsson Nikola Tesla is well positioned to support customer demands with new technological solutions.

In the ICT segment for Industry and Society we shall continue with the development and upgrading of infrastructure systems as well as with activities aimed at capitalizing on investments already made in the e-systems segment.

Other information

Ericsson Nikola Tesla major shareholders (as at Dec 31, 2010)

	No. of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Hypo Alpe-Adria-Bank d.d. / Raiffeisen Mandatory Pension Fund	119,991	9.01
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	41,106	3.09
Societe Generale-Splitska banka d.d. / Erste Plavi Mandatory Pension Fund	35,132	2.64
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	15,344	1.15
PBZ d.d. / State Street client account	14,580	1.09
Ericsson Nikola Tesla d.d.	9,288	0.70
Societe Generale-Splitska banka d.d.	8,062	0.61
Other shareholders	384,497	28.87

2010 share price information:

Highest (HRK)	Lowest (HRK)	Closing (HRK)	Market cap. (in MHRK)
1,777	1,181	1,361	1,812.4

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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 31 Dec 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:

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Communication

Ericsson Nikola Tesla