
ERICSSON NIKOLA TESLA D.D.

Report on the Company's business situation and comments on the financial results for Q1 2011

Highlights:

- Orders booked MHRK **256.3**
- Sales revenues MHRK **307.6**
- Gross margin: **17.2%**
- Operating profit MHRK **29.9**
- Net profit: MHRK **31.9**
- Cash flow from operating activities: MHRK **60.7**

Gordana Kovačević, the president of Ericsson Nikola Tesla commented on the Company's performance:

„Overall Ericsson Nikola Tesla results for the first quarter of 2011 show a decrease in Orders of 31% year-over-year, but at the same time, a 2% year-over-year increase in Sales and an improvement in Gross Margin and Operating Profit. Other financial indicators remain strong and after Cash flow from Operating activities of MHRK 60.7 total cash including short-term financial assets has increased to almost MHRK 793 at the end of the quarter. The Equity ratio at the end of the quarter was 79.2%.

Decline in Orders booked year-over-year is primarily attributable to reduced Orders of MHRK 130 in our export markets which reflects significant Q1 2010 Orders with Beltelekom, Belarus of MHRK 65 and a postponement of Q1 2011 activities in other export markets such as Bosnia & Herzegovina in line with the current political climate. Increase in total sales revenue is attributable to a 39% increase in regional markets and a 12% increase in the Ericsson market which represents 38% of total sales for the quarter.

Activities in the Ericsson market remain strong and while we have made some adjustments to our pricing to remain competitive in the increasingly demanding global market, we have been awarded new responsibilities.

The challenging market conditions that prevailed in 2010 continued during Q1. Reduced investments in the domestic market reflect the decline of operators' revenues, saturated mobile market as well as existing penetration of both fixed and mobile broadband access. Adopting the Strategy of Broadband

Access Development in Croatia, regulation of optic fiber broadband access and the expected additional growth of mobile broadband due to the increase in number of smart phones and other broadband mobile devices, will influence the need for infrastructure in terms of both capacity and service quality.

The company constantly analyzes its ways of working and reviews the business organization in order to adapt to our changing business environment and changes in the global Ericsson organization. The strategic priority is to preserve and extend responsibilities in particular business segments and to secure new business opportunities and key deals.”

Financial summary:

- Orders booked decreased by 31% year-over-year and totaled MHRK 256.3, while sales revenues increased by 2% and totaled MHRK 307.6.
- Domestic market accounts for 27.7%, export to other countries 34% and export to Ericsson market 38.3% of total sales revenues.
- Sales revenues can be further analyzed by business segments as follows: Network infrastructure including network rollout services MHRK 166.1 (54% of total Sales revenues), Professional services MHRK 132.6 (43.1% of total Sales revenues) and Multimedia solutions MHRK 8.9 (2.9% of total Sales revenues).
- Gross margin improved to 17.2% (Q1 2010:16.7%). Although we have made some adjustment to our pricing in the Ericsson market, the volume of this business and mix of activities more than compensated at a Gross margin level. We expect the positive impact of these items to reduce during the year.
- Distribution and administrative expenses increased by 2% year-over-year and totaled MHRK 25.4 primarily reflecting an increase in the quarter of sales costs in relation to securing new business opportunities.
- Operating profit amounts to MHRK 29.9, an increase of 7% year-over-year, primarily reflecting increased volumes and the impact of the higher gross margin %.
- Net finance income totaled MHRK 2 (Q1 2010: MHRK 5.5). The lower level of finance income reflects the net impact of negative currency deviations on US dollar based customer receivables, decreased interest income and a lower release of impairment reserves into finance income (amortization of discount).

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- While Operating profit increased 7%, the decline in financial income means that net profit of MHRK 31.9 is 5% lower year-over-year. Return on sales (ROS) totals 10.4% (Q1 2010: 11.1%).
 - Cash flow from operating activities of MHRK 60.7 (Q1 2010: MHRK 64.7) was supplemented in the quarter by the collection of 57 MHRK of customer financing receivables in Belarus. The customer financing in Belarus was structured so that 100% of financing was provided by local financial institutions with no cash outflow from Ericsson Nikola Tesla. Payment was received in full during Q1 following final completion of this project.
 - The company has a strong balance sheet with total assets of MHRK 1,393.3 and an equity ratio of 79.2%. The total of cash and short-term financial assets has increased by 7.5% during the quarter to MHRK 792.8.
 - Major transactions with related parties were as follows: sales of products and services MHRK 113.2 (Q1 2010: MHRK 110.5), purchase of products and services MHRK 111.7 (Q1 2010: MHRK 101.2).
 - Balances outstanding with related parties at March 31, 2011 were as follows: receivables totaled MHRK 61.5 (end 2010: MHRK 75.4), payables MHRK 43 (at the end of 2010: MHRK 94.8).
 - Disclosure on receivables credit risks:
As of March 31, 2011 receivable balances outstanding in respect of Customer loans and receivables totaled MHRK 422.0 (end 2010: MHRK 517.5). Included in Accounts receivables are balances in respect of withholding tax, the full recoverability of which depends on the Company's future taxable profits. Non recoverability of these balances has the potential to reduce RoS.

[Business situation on major markets:](#)

Domestic market Sales totaled MHRK 85.3, a year-over-year decrease of 6%.

The cooperation with Croatian telecom (T-HT) continued with the project of network transformation into the new generation network and extension of the broadband Internet access. The key step forward was signing of the contract for IMS system implementation. This system will be the backbone of future core network aiming to offering end users numerous, valuable multimedia services and migration to total implementation of fixed and mobile convergent architecture .

Our partnership with Vipnet continued in the area of extension and modernization of 2G and 3G infrastructure with special importance given to introduction of the broadband wireless data transmission at the rate of up to 42 Mb/s, available now also in Zagreb area. The cooperation has continued on the core network modernization, as well as on transmission systems and introduction of new technology solutions.

With the mobile operator Tele2, we were intensively engaged in further building of 2G and 3G infrastructure, and the implementation of new functionalities, especially focusing on transmission rate increase and the mobile broadband Internet access coverage. Our successful cooperation was confirmed by the signing in January of a contract for support and maintenance services for mobile networks.

The major focus in the ICT for industry and Society Segment during the quarter was on upgrading the national ICT primary healthcare system, realization of Cadastre and Land Database joint information system, and on a project for modernization of Croatian railways (HŽ) infrastructure.

During the first quarter, a pilot project testing the EMH solution in clinical conditions was launched. to the pilot project is to confirm the safety, usefulness and simplicity of application, as well as the efficiency of EMH solutions in monitoring and treatment of cardiac and cardiology patients. There has been much interest in markets worldwide in relation to m-health systems and accordingly we continue to present the solution in relevant conferences and pilot projects within Croatia and abroad.

[In export markets \(except for Ericsson market\)](#) sales totaled MHRK 104.6, a decrease of 2% year-over-year.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo) sales revenues increased by 39%, totaling MHRK 62.5, primarily reflecting realization of deals agreed with BH Telecom and Montenegro Telecom in 2010.

Operators' investments in extension of mobile networks in the markets of Bosnia and Herzegovina, Kosovo and Montenegro, and the implementation of new added value services are expected during Q2 and Q3.

Sales revenues in CIS market decreased by 32% year-over-year to MHRK 42.1. Along with the realization of signed contracts from the previous year, the company has undertaken a number of marketing and sales activities during the quarter which are focused on securing new business on the modernization and extension of networks with both current and new customers.

[In the Ericsson market](#) sales revenues totaled MHRK 117.7, which represents a year-over-year increase of 12%. Results from the Ericsson business in the quarter also include activities in export markets concluded through Ericsson in the area of healthcare information systems.

Our Research and Development Center received overall responsibility for the development and integration of EVO ET cards that are important to support the TDM/ATM functionality in the new radio network generations. After the unlimited availability of the new generation of mobile network servers (MSC R14.1), in which development teams from our Centre took part, the quality of this product

development has been confirmed by customer satisfaction in commercial work. In addition, the activities on the transformation project of line servers for fixed network, according to the Global Service Organization (BUGS), are going on.

Within the Engagement Practices unit for Operator Segment in the area of the Configuration Product Management (CPM) new agreements were made on maintenance of packages for application systems Enabler 1.0, TSS 4.0, British Telecom 21C and United Kingdom TSS, as well as on the creation of a new package for Enabler 1.0 system, CN-G07. For this year, within the Product Packaging, activities were contracted to develop new and maintain existing packages for the above mentioned product groups.

Service Delivery Center experts delivered numerous projects reaching planned targets, quality and customer expectations. Some of the highlighted activities: IMS Deutsche Telekom (largest IMS project in the Region Western and Central Europe, which covers the full migration of DT fixed network from PSTN to IMS), Telekom Austria IPTV project, Transport Network Manage Services project for Mobistar Belgium, Messaging in One (MiO) delivery project for Vodafone UK, LTE project for Vodafone Germany and Vodafone UK (Design, Integration, Performance optimization, Operations & Maintenance Center), Deployment for Smart laptop in US and NCELL Management System automatic tool for SBM Japan, 3G Network Optimization for Vodafone India.

[Other information](#)

The Annual Shareholders Meeting will take place on 31 May 2011. All shareholders and their proxies who register their presence/representation at the Meeting not later than 24 May 2011 are entitled to attend and to vote.

The dividend, proposed in the total amount of HRK 190 per share (HRK 20 regular and HRK 170 extraordinary dividend per share) will be paid out to all shareholders who, seven days prior to the Annual Shareholders Meeting (i.e. on 24 May 2011), 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 the Zagreb Stock Exchange is Thursday, 19 May 2011, so that shareholders can be registered on the securities account of the Central Depository & Clearing Company on 24 May 2011.

Shareholders who sell their shares after 19 May 2011 will retain the right to a dividend payment. The Dividend will be paid out by 30 June 2011.

The Agenda of the Annual Shareholders Meeting with all proposed decisions was published at the Company website http://www.ericsson.hr/investors/actual_2011/notice_assembly.shtml and in the Official Gazette no. 42/2011.

Ericsson Nikola Tesla major shareholders (as at March 31, 2011)

	<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	121,486	9.12
Zagrebačka banka d.d. / custodian client account for Unicredit Bank Austria AG	39,551	2.97
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	16,290	1.22
PBZ d.d. / custodian client account	14,975	1.12
PBZ d.d. / State Street client account	14,330	1,08
Ericsson Nikola Tesla d.d.	9,116	0.68
Societe Generale-Splitska banka d.d.	8,062	0.61
Other shareholders	388,620	29.19

Q1 2011 share price information:

<i>Highest (HRK)</i>	<i>Lowest (HRK)</i>	<i>Closing (HRK)</i>	<i>Market cap. (in MHRK)</i>
1,650	1,355,05	1,643	2,187.9

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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 2011 to 31 March 2011 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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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

31.3.2011

HRK

Item	AOP number	31.12.2010	31.3.2011
1	2	3	4
ASSETS			
A) RECEIVABLES FOR REGISTERED UNPAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	153.025.109	160.724.108
I. Intangible assets	003	4.813.753	4.511.204
II. Property, plant and equipment	004	128.643.277	125.785.847
III. Financial assets	005	7.121.093	7.195.239
IV. Receivables	006	3.282.193	14.067.025
V. Deferred tax assets	007	9.164.793	9.164.793
C) CURRENT ASSETS	008	1.265.628.347	1.227.148.140
I. Inventories	009	44.773.808	56.926.765
II. Receivables	010	483.674.671	377.403.389
III. Financial assets	011	63.254.351	142.183.162
IV. Cash and cash equivalents	012	673.925.517	650.634.824
D) PREPAYMENTS AND ACCRUED INCOME	013	6.507.627	5.454.925
E) LOSS ABOVE CAPITAL	014		
F) TOTAL ASSETS	015	1.425.161.083	1.393.327.174
G) OFF-BALANCE SHEET ITEMS	016	221.374.495	211.170.147
EQUITY AND LIABILITIES			
A) EQUITY	017	1.071.024.008	1.103.429.406
I. Share capital	018	133.165.000	133.165.000
II. Capital reserves	019		
III. Reserves from profit	020	37.379.326	37.379.326
IV. Revaluation reserve	021		
V. Retained earnings	022	876.418.064	900.989.639
VI. Accumulated losses	023		
VII. Profit for the year	024	24.061.618	31.895.441
VIII. Loss for the year	025		
IX. Minority interests	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	8.237.488	8.344.280
D) CURRENT LIABILITIES	029	207.995.873	146.613.305
E) ACCRUED CHARGES AND DEFERRED REVENUE	030	137.903.714	134.940.183
F) TOTAL EQUITY AND LIABILITIES	031	1.425.161.083	1.393.327.174
G) OFF-BALANCE SHEET ITEMS	032	221.374.495	211.170.147

INCOME STATEMENT

for the period 1.1.2011 to 31.3.2011

HRK

		2010		2011	
		Cumulative	Quarter	Cumulative	Quarter
		1	2	3	4
I. OPERATING INCOME	035	306.808.380	306.808.380	311.444.127	311.444.127
1. Sales revenues	036	302.895.439	302.895.439	307.612.167	307.612.167
2. Revenues from sale of own products and services	037				
3. Other operating income	038	3.912.940	3.912.940	3.831.960	3.831.960
II. OPERATING EXPENSES	039	278.805.740	278.805.740	281.526.127	281.526.127
1. Decrease in inventories of finished goods and work in progress	040				
2. Increase in inventories of finished goods and work in progress	041	7.698.059	7.698.059	15.882.386	15.882.386
3. Raw material and consumables used	042	162.893.401	162.893.401	178.155.112	178.155.112
4. Staff costs	043	102.642.090	102.642.090	100.475.998	100.475.998
5. Depreciation and amortisation expense	044	14.751.115	14.751.115	12.523.011	12.523.011
6. Other costs	045	4.372.597	4.372.597	5.034.553	5.034.553
7. Impairment losses	046	1.149.205	1.149.205	1.219.838	1.219.838
8. Provisions	047				
9. Other operating expenses	048	695.391	695.391	0	0
III. FINANCIAL INCOME	049	9.049.139	9.049.139	6.250.780	6.250.780
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	6.198.342	6.198.342	4.420.970	4.420.970
3. Income from associates and ownership interests	052				
4. Unrealised gains	053				
5. Other financial income	054	2.850.797	2.850.797	1.829.810	1.829.810
IV. FINANCIAL EXPENSES	055	3.545.533	3.545.533	4.273.338	4.273.338
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	3.545.533	3.545.533	4.273.338	4.273.338
3. Unrealised losses	058				
4. Other financial expenses	059				
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	315.857.519	315.857.519	317.694.906	317.694.906
VIII. TOTAL EXPENSES	063	282.351.273	282.351.273	285.799.465	285.799.465
IX. PROFIT BEFORE TAX	064	33.506.246	33.506.246	31.895.441	31.895.441
X. LOSS BEFORE TAX	065				
XI. INCOME TAX EXPENSE	066			0	0
XII. PROFIT FOR THE PERIOD	067	33.506.246	33.506.246	31.895.441	31.895.441
XIII. LOSS FOR THE PERIOD	068				

CASH FLOW STATEMENT

in the period 1.1.2011 to 31.3.2011

HRK

		31.3.2010	31.3.2011
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	073	33.506.246	31.895.441
2. Depreciation and amortisation	074	14.751.115	12.523.011
3. Increase in liabilities	075		
4. Decrease in receivables	076	76.357.110	92.118.180
5. Decrease in inventories	077		
6. Other increase in cash flow	078	1.060.595	510.501
I. Total increase in operating cash flow	079	125.675.066	137.047.133
1. Decrease in liabilities	080	56.057.579	64.237.702
2. Increase in receivables	081		
3. Increase in inventories	082	3.904.732	12.152.957
4. Other decrease in cash flow	083	1.057.942	
II. Total decrease in operating cash flow	084	61.020.253	76.390.659
A1) NET INCREASE IN OPERATING CASH FLOW	085	64.654.813	60.656.474
A2) NET DECREASE IN OPERATING CASH FLOW	086		
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of property, plant and equipment	087	20.750	2.900
2. Net disposal of financial assets	088	30.000.000	0
3. Interest received	089	6.198.342	4.420.970
4. Dividend received	090		
5. Other cash flow from investing activities	091	31.054	0
III. Total cash flow from investing activities	092	36.250.146	4.423.870
1. Purchases of property, plant and equipment and intangible assets	093	6.435.817	9.366.475
2. Purchase of financial instruments	094	61.291.618	78.928.811
3. Other cash flow used in investing activities	095		74.146
IV. Total cash flow used in investing activities	096	67.727.435	88.369.432
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE IN CASH FLOW USED IN INVESTING ACTIVITIES	098	31.477.289	83.945.562
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	42.469	1.604
2. Dividend paid	104	0	0
3. Repayment of finance lease	105	7.616	0
4. Repurchase of treasury shares	106	0	0
5. Other cash flow used in financing activities	107		
VI. Total cash flow used in financing activities	108	50.085	1.604
C1) NET INCREASE IN CASH FLOW FROM FINANCING ACTIVITIES	109		
C2) NET DECREASE IN CASH FLOW FROM FINANCING ACTIVITIES	110	50.085	1.604
Total increase in cash flow	111	33.127.439	
Total decrease in cash flow	112		-23.290.692
Cash and cash equivalents at the beginning of the period	113	414.934.971	673.925.517
Increase in cash and cash equivalents	114	33.127.439	
Decrease in cash and cash equivalents	115		-23.290.692
Cash and cash equivalents at the end of the period	116	448.062.410	650.634.825

STATEMENT OF CHANGES IN EQUITY

from 1.1.2011 to 31.3.2011

HRK

Item	AOP number	Opening balance	Increase	Decrease	Closing balance
1	2				
1. Share capital	117	133.165.000			133.165.000
2. Capital reserves	118				0
3. Reserves from profit	119	37.379.326			37.379.326
4. Retained earnings	120	876.418.064	24.571.575	0	900.989.639
5. Profit for the period	121	24.061.618	31.895.441	24.061.618	31.895.441
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	1.071.024.008	56.467.016	24.061.618	1.103.429.406
16a. Parent company share in subsidiary	133				
16b. Minority interest	134				