

Ericsson Nikola Tesla d.d.

ANNUAL REPORT

2009

GENERAL REPORT



Gordana Kovačević, MSc,
President of Ericsson Nikola Tesla d.d.

DESPITE THE
CHALLENGING
OPERATING CONDITIONS,
ERICSSON NIKOLA
TESLA MANAGED TO
MAINTAIN BUSINESS
STABILITY

COMPANY POSITION REPORT

2009 – STABLE OPERATIONS DESPITE THE CRISIS

The year 2009 brought many challenges. We have witnessed a decrease and slowing down in investments by our customers and business partners, as well as budget cuts and postponement of deals for network development or implementation of new functionalities in the ICT segment. Despite the challenging operating conditions, Ericsson Nikola Tesla managed to maintain business stability. The most important impression one may get from the analysis of business operations in 2009 is the high rate at which our customers managed to adjust their activities to the new circumstances. In compliance with the current situation, Ericsson Nikola Tesla took a variety of measures and applied corresponding strategies, business, organizational and financial models to considerably reduce business risk.

Although I am well aware that in the forthcoming year the business environment will be more demanding, our customers still have growing needs for new services and broadband access. This means that the process of introducing new technologies will surely continue. I consider this to be of utmost importance for the further development of our business operations. The ICT industry, as the driving force behind the development of all other sectors, has a positive impact on people, business and environments. Living in times of shifting and repositioning, the key enabler of further development is a proactive approach, speed of adjustment to new circumstances and innovativeness. Only activities which create added value may contribute to the satisfaction of all parties and improvements for society as a whole.

In 2009, Ericsson Nikola Tesla achieved creditable results. Despite the complex situation, and decreased volume of business, especially in export markets, we managed to maintain financial stability and profitability. We continued with strong marketing and sales activities in all our markets and with investments in development projects where such measures are necessary for further development of the Company business. During the year, we implemented optimization and cost efficiency programs at all levels in the Company. Thus, wherever possible, considerable savings were achieved and the business results improved.

When analyzing the results for 2009, one should bear in mind that the Croatian Government introduced a variety of antirecession measures at the mid-year point. This directly and indirectly influenced the telecom sector as a whole; users, operators and suppliers. The impact was felt through a reduction in purchasing power which, in turn, slowed down investment plans or had a negative impact on the volume of business operations.

On the other hand, the Croatian telecom market continued to build and develop 2nd and 3rd generation mobile systems, as well as implement Internet broadband access and fiber-optic networks. We see our future in the continued growth of the mobile Internet and the shift to new generation networks.

During 2009, the Company took further steps as a system integrator for complex ICT projects, and in some such as e-health we signed important contracts. Ericsson nominated e-Health Croatia solution for the SMART 2020 – the report of independent and non-profit organizations Climate Group and Global e-Sustainability Initiative. We are proud that our project is amongst 25 ICT solutions of global importance enabling economies with low CO2 emissions and positively influencing the quality of life and the environment. As such, Ericsson Nikola Tesla proved to be an innovative ICT leader and socially responsible entrepreneur.

Last year, we managed to preserve and even to increase our responsibility and activities in the areas of Research and Development, Global Service Delivery Center and other centers of expertise. The proportion of our business relation to these activities is constantly growing and today represents some 30 percent of sales in our total business results. This was expected, due to planned growth in our labor force in the past years including 2009, as well as due to additional responsibilities, recently assigned by the Ericsson Corporation.

The Company Innovation Management program being improved over a number of years, yielded results in many areas in 2009. The innovation contest showed improvement in encouraging employees towards segments within the Company's scope of interest. Such an encouraging environment in the Company culture also improved the perception of Ericsson Nikola Tesla as an innovative and proactive organization of motivated and creative employees. As a part of our Company reward and motivation program, we acquired additional 8,893 treasury shares for distribution among employees.

Ericsson Nikola Tesla yielded the following business results in 2009 (2008 figures in brackets):

- > Orders booked MHRK 1,386 (MHRK 1,757.5);
- > Sales revenue MHRK 1,400 (MHRK 1,800.1);
- > Net profit MHRK 128.4 (MHRK 204.4);
- > Cash flow from operating activities MHRK 284 (MHRK 342.4);

- > Motivational Company culture, confirmed by the annual employee survey Dialog;
- > Customer satisfaction, confirmed by the annual customer satisfaction questionnaire;
- > Shareholder satisfaction, confirmed by the Zagreb Institute of Economics survey.

In brief, in 2009 we achieved solid net income and sound cash flow from operating activities. We continued to invest in development projects, preserved our labor force levels and held our market position primarily as Croatia's leading knowledge exporter.

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

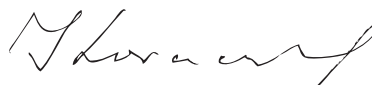
Having assessed operational risks for Ericsson Nikola Tesla in 2010, I would like to point out the following:

- > Serious disturbances in the financial market and their negative impact, also investment slowdown regarding network development;
- > Further pressure on product and service prices;
- > Increasing demand for customer financing;
- > Increased collection risk in respect of already financed projects;
- > Consolidation among our customers, largest competitors with further impact on prices;
- > Decrease in investments in ICT projects by both industry and society;
- > Negative impact of a strong HRK and changes in EUR and USD exchange rates;
- > Continued political uncertainty and instability in some markets.

In view of increasingly demanding and shifting environment, rapid technology development, customers' new requirements and strong competition, the Company will continue to focus on risk management, customer intimacy with maximum effort put in sales of the total product and services portfolio (e2e concept). In doing so, we will take care about speed, efficiency and flexibility on both organizational and individual levels. We share Ericsson's leading position in technology. We shall strive to improve our operations, to preserve our market position and retain previously awarded responsibilities based on the knowledge and proactive approach of our specialists.

There are big challenges ahead of us, but being aware that the chances for success lie with those who drive lead and best exploit the changes they are faced with, we will enter 2010 with determination and optimism.

All other data, which need to be an integral part of the annual Company report, in compliance with the Article 250a of the Company Act are to be found in the Annual Report for 2009, which is comprised of the General Report, Social Report and Financial Statements as of December 31, 2009.



Gordana Kovačević

President

Ericsson Nikola Tesla d.d.

OUR VALUES

Ericsson Nikola Tesla's core values are the following:



By following these core values on a daily basis, Ericsson Nikola Tesla fosters an environment which ensures access to cutting-edge information and communications systems and technologies. Innovative ICT solutions, which the Company provides the market with, improve quality of life and create new values. Ericsson Nikola Tesla also applies a Code of Conduct and a Code of Business Ethics, and Company employees are aware that consistent observance of the aforementioned values and these Codes on a daily basis is required to foster secure future operations. By constantly striving towards professional perfection, continually developing a strong business culture and always focusing on improved business performance and competence development, Ericsson Nikola Tesla provides added value for all stakeholders. The Company also pays special attention to economic prosperity, social development and environmental protection.

Ericsson Nikola Tesla prides itself on innovativeness. By constantly enriching its product and service portfolio and enhancing its organization, the Company aims to implement its strategy as efficiently as possible and to develop responsible and loyal employees who are fully dedicated to benefiting customers, the Company, and indirectly the wider community.

STRATEGY

A process of continual strategic planning plays an important role in the company's development, in maintaining long-term profitability and in retaining current and acquiring new market positions. Strategic planning is especially important in today's situation characterized, on the one hand, by constant shifts, strong competition and fast development of new technologies and, on the other hand, by the economic crisis and cost awareness. Our business strategy is founded on facts describing the current situation in business and technology segments in all relevant markets and on the trend analysis relating to ICT industry and e-business.

In order to successfully address all future challenges and to maintain stable operations, Company management has reviewed and redefined the Company strategy for the upcoming three-year period. The implementation and execution of this strategy are founded on knowledge sharing, competence development, a proactive and innovative approach, the acceptance of change and on new technologies and business models.

Technology trends indicate a further development of IP-based core networks, the development of 4th generation mobile systems (LTE) and a shift to new network architectures. Accordingly, a continued dynamic introduction of broadband services and a growing number of Internet users are expected. A growth of global telecom market is expected in the wireless segment. The convergence of wireline and wireless services and a further convergence of telecom and multimedia industry are in full swing.

ICT remains a business sector with a promising outlook in the worldwide economy. Numerous professional analyses and studies show that today's global society is strongly focused on the use of information and communication technologies in various business verticals. The forthcoming ICT industry development will instill new ways of communicating, working and decision-making and it will have a positive impact on people, business and environment.

The Company management has analyzed business and technology trends and has defined accordingly our wanted position in the upcoming three-year period. Ericsson Nikola Tesla's development strategy is focused on strengthening further the Company's position in key business segments in domestic, Ericsson and export markets. Our desire is that our customer should perceive us as customer-oriented and responsive, and that operational excellence should be our competitive advantage. To achieve this we put emphasis on competence development, continuous process improvements and innovation at both the Company and individual levels.

To accomplish its vision of the regional ICT leader and prime driver in an all-communicating world, Ericsson Nikola Tesla has defined a strategic framework that is composed of requirements and guidelines to be met for a comprehensive business development. We wish to excel in mobile, fixed and converged networks, to expand in services, to strengthen our position in multimedia solutions and in the selected ICT segments for the industry and society. The

Company management has developed detailed strategies for external markets and Ericsson market to meet future technological and business challenges.

To achieve an efficient strategy deployment and execution process, we have defined operational procedures and programs with clearly assigned responsibilities and scopes of activities.

Beside this, the Company's key performance indicators/targets for the upcoming one-year period have been defined. To balance all the interest areas, the targets are grouped in five perspectives: Financial, Customers, Competitive position, Internal efficiency and Employees. Thus defined key targets with clearly set values and measurement specifications are a rational basis for results evaluation.

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 and by ensuring optimal utilization and continual development of all its resources.

BUSINESS RESPONSIBILITIES/ACTIVITIES

Ericsson Nikola Tesla focuses on cutting-edge communication solutions and is an exporter of knowledge.

The Company's core business activities include the following:

- > A research and development center;
- > A global and regional center of excellence for end-to-end communications solutions;
- > A global and regional service center;
- > A center of ICT solutions for industry and society;
- > Marketing and sales of information and telecommunications products, solutions and services.

Ericsson Nikola Tesla:

- > Provides innovative ICT solutions which improve lives and create new values;
- > Contributes to the prosperity of its environment by ensuring access to modern information and communication systems and technologies;
- > Carries out sophisticated jobs in the area of advanced technology, and plays an active role in e-projects;
- > Is one of the biggest exporters in Croatia, and the largest Croatian exporter of knowledge;
- > Employs and retains young and talented professionals;
- > Initiates and leads positive social and economic changes in Croatia and the countries in which it operates.

PRODUCTS AND SERVICES

We offer our customers a complete portfolio of Ericsson and 3PP communication products, solutions and services:

- > Infrastructural telecommunications solutions for mobile, landline and convergence networks;
- > A wide range of services – consulting, implementation, system integration and management services;
- > Multimedia solutions;
- > Solutions for chosen segments of industry and society.

SALES AND MARKETING

Stable operations of Ericsson Nikola Tesla are based on balance between three market segments - domestic, export and Ericsson market segment.

The domestic market accounts for 34 percent, export to other countries for 36 percent and exports to Ericsson for 30 percent of total 2009 Sales revenues.

DOMESTIC MARKET

During 2009 Ericsson Nikola Tesla continued its collaboration with T-HT, Vipnet and Tele2, the key operators in the domestic market, which continued to invest into development and modernization of telecom networks and services, although these investments were less compared to the previous year. Accordingly, 2009 Sales revenues totaled MHRK 481.7.

Activities with T-HT included the building of broadband access network infrastructure based on optical fibres and modern access networks (ADSL), building of backbone networks and the transformation of the wireline voice network into a new-generation network.

In addition to the further extension and modernization of 2G and 3G infrastructure, the Company collaborated with Vipnet in the delivery of Core Networks and transmission systems. At the end of the year, HSPA+, a transitional technology towards LTE standard, i.e. 4G mobile technology, was put into commercial operation.

Activities with Tele2 continued on 2G and 3G infrastructure and the implementation of new functionalities, with special emphasis on mobile broadband access. Tele2 Hrvatska was among the first operators in the world to implement Ericsson's all-IP concept into its HSPA network.

As regards the Enterprise business, intensive activities on upgrading the national ICT primary healthcare system and realization of Cadastre and Land Database joint information system were ongoing. A radar communications system for vessel traffic control, being the first one of its kind in Croatia, was delivered to Lučka uprava Rijeka (Port of Rijeka Authority).

EXPORT MARKETS

In Ericsson Nikola Tesla's export markets (without Ericsson market), Sales revenues totaled MHRK 495.2. The economic crisis, having deeply affected this market, had also a direct impact on reduction of customer investments in our main export markets what resulted in lower business volume.

In the regional markets (Bosnia and Herzegovina, Kosovo, Montenegro and Macedonia), Sales revenues totaled MHRK 265. Although operators almost stopped investing in the first half of the year, levels of investments increased during the second half of the year.

The Company's long-standing cooperation with BH Telekom was confirmed with several new contracts for 2G and 3G network expansion as well as core network upgrade. In addition, modernization of wireless and wireline telecom networks as well as service network expansion were agreed. Ericsson Nikola Tesla and HT Mostar signed a contract for mobile network expansion and upgrade with 3G functionalities. Delivery of equipment for 2G and 3G network expansion as well as additional transmission equipment was contracted with T-Mobile Montenegro, while expansion of fixed network as well as further broadband access expansion was agreed with T-Com Montenegro.

In the Commonwealth of Independent States (CIS), Sales revenues totaled MHRK 230.1. The Company has a broad customer base in the CIS market, but collaboration with Velcom, one of the leading mobile operators in Belarus, and with Megafon, the Russian mobile operator, should be highlighted. We would also like to point out the contract for delivery of an end-to-end IPTV solution signed with MagtiCom, the biggest Georgian mobile operator.

During the year, the Company signed a number of contracts with both traditional and new business partners, including contracts for expansion and modernization of wireline and wireless telecom networks, solution delivery for a wireline broadband network and delivery of cutting-edge IP-oriented solutions for enterprises.

EXPORTS TO ERICSSON

As regards exports to Ericsson, we increased our activities during the year. Sales revenues of MHRK 423.2 relate primarily to activities in our Research and Development, Global Service Delivery and other expert centers.

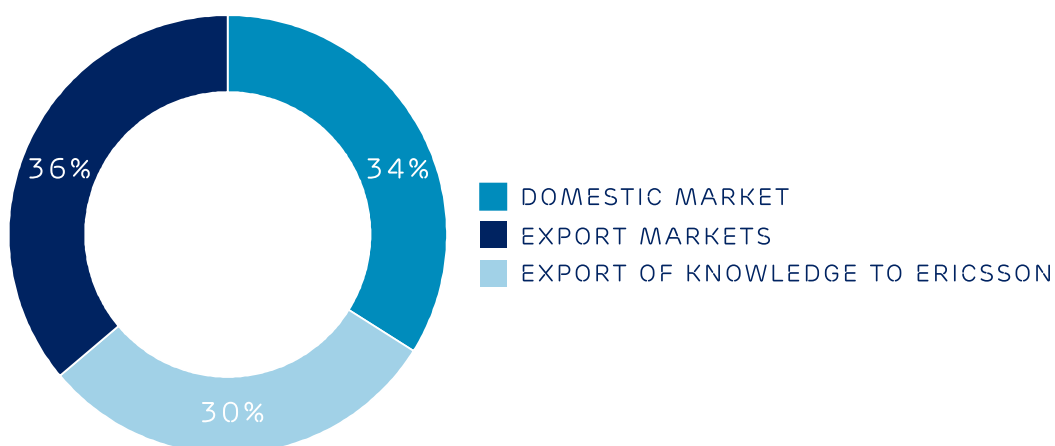
Development and start-up of a new generation of mobile switching products (MSS6.0 MSC-S Blade Cluster) and respective implementation support played a leading role among many activities of the Research and Development Center. The Center obtained full responsibility for verification, maintenance and implementation support for the entire TSS (Telephony Softswitch) product line for wireline networks. The Center was also given responsibility for verification and maintenance of integrated telecom platform (IS).

A new radio access interface product, RXI HCS, was developed and a new WCDMA solution was designed enabling Ericsson to set a record data transfer rate and spectrum efficiency. Research projects were successfully continued in terms of further innovations and prototypes that should lead to new products and business development.

The Global Service Delivery Center Croatia (GSDC) obtained the responsibility for customer support and integration services for APIO product group (APZ Central Processor and APG Input-Output Unit) and for integration and consulting services relating to products used in transport networks. The GSDC also obtained responsibility for wireline systems delivery in Eastern Europe and Central Asia and in the region Asia Pacific as well as responsibilities for wireless systems, more specifically the core network design. To increase efficiency and optimize cost, GSDC specialists developed a tool for dimensioning and pricing access services.

The Customer Solution & Services unit confirmed its SDMM level 1 (Ericsson's Service Delivery Maturity Model) relating to delivery of complete solutions and services. The maturity model implements best leadership practices applied in the areas of human resources, service delivery and the development of a business-oriented culture.

THREE COMPANY CORNERSTONES (% OF NET SALES 2009)



SCIENTIFIC AND RESEARCH ACTIVITIES

The R&D Center that operates within Ericsson Nikola Tesla is one of the Ericsson's largest R&D Centers.

Major activities were in the main responsibility of Mobile Softswitch Servers, where new generation of products (MSS6.0 MSC-S Blade Cluster) has been developed. In the area of Telephony Softswitch solutions for fixed networks, several functional packages were made for important global customers like British Telecom, etc. In Radio domain, new ATM and IP transport solutions for the latest WCDMA releases including the next generation RBS and high capacity RNCs have been released. The new mobile broadband network platform based on MIMO technology (Multiple Input and Multiple Output) was launched. The new RXI (Radio Exchange Interface) High Capacity Subrack (HCS) products, enabling customers to increase their traffic capacity within same node footprint, were developed.

Along with the mentioned development projects, other research projects were significant. A successful and fruitful cooperation with the leading Croatian universities continued, and another Summer Camp was organized in cooperation with the Faculty of Electrical Engineering and Computing Science (FER) at the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FESB) at the University of Split. This ninth Summer Camp took place from July 6 to September 11, 2009, with *e-Health and beyond* as its motto. The goals of the Summer Camp were to study selected topics relevant for the active research and development projects within Ericsson Nikola Tesla. The general idea was to propose innovative solutions and prototype applications, with active involvement of students in research. Selected areas of interest included: software engineering methods and tools, e-Health enablers and prototype applications, as well as other selected topics of interest to ETK. It is important to mention that, among this year's 40 participants, foreign students were involved for the first time. The second very important constant in research activities was participation in EU-funded projects (Sixth and Seventh Framework Programs). The MPOWER (Middleware platform for eMPowerRing cognitive disabled and elderly) project, which started in 2006, ended in the first half of 2009. The project presented a number of opportunities for further actions. One specific activity was a co-operation and a support that we gave to a pilot project in Grimstad, Norway. The pilot involved test patients, healthcare providers and family members. During the pilot, server with proof of concept application was located in Ericsson Nikola Tesla's premises in Zagreb.

The effort and responsibility of our experts in the project were recognized, and that was the trigger for an invitation for a new project called universAAL – UNIVERsal open platform and reference Specification for Ambient Assisted Living. The main objective of the universAAL project is to make it technically feasible and economically viable to conceive, design and deploy innovative new Ambient Assisted Living (AAL) services.

The Quality Impact Prediction for Evolving Service-oriented Software (Q-ImPrESS) project started a year ago with the goal to provide methods and tools, which will allow developers, users and maintainers to foresee the impact of design decisions and evolutionary changes to the system, not only on its overall quality of service, but also on its internal quality properties such as maintainability. The Project was responsible for requirement collections and in the second year the focus is on building a demonstrator, which will be used to validate methods and tools built in the project. The project ends with December 2010.

EVENTS IN 2009

- > During the regular annual press conference, Ericsson Nikola Tesla presented its business results from 2008 and outlook for 2009.
- > The conference entitled Digital Cities – Interactive Intelligent Communities, co-organized by the Zagreb City Assembly and Infoarena, was held under the auspices of the Croatian Association for the Development of Information Society and the Association of Municipalities of the Republic of Croatia. At the conference, Ericsson Nikola Tesla's experts presented advanced transport solutions for intelligent cities.
- > During the Telecom Arena 2009 – Regional Conference on Electronic Communication, Ericsson Nikola Tesla's experts participated in the panel discussion entitled The Telecom Sector in the Year of Recession and presented Ericsson's vision of the evolution of television. The event was organized under the auspices of the Ministry of Sea, Transport and Infrastructure, the Central State Administrative Office for e-Croatia, the Croatian Post and Electronic Communications Agency, the Croatian Chamber of Economy's Telecommunications Association and the Croatian Association for the Development of Information Society.
- > Ericsson Nikola Tesla's Annual Shareholders' Meeting was held.
- > During the New Technologies Day (DaNTE), Company experts presented innovative ICT solutions for e-communities.
- > The 32nd MIPRO, being the largest international conference on ICT and microelectronics in Croatia and this part of Europe, was held. Ericsson Nikola Tesla's experts actively participated in the conference.
- > A press conference regarding excellent cooperation between Ericsson Nikola Tesla and Tele2 Croatia was held on Tele2 Croatia's premises. Ericsson put Tele2 Croatia on its list of companies of exceptionally successful collaboration in the local market.
- > According to research conducted by the Zagreb School of Economics and Management, Ericsson Nikola Tesla was recognized as the best company in terms of quality of reporting on corporate social responsibility, and as one of the five best companies in terms of information transparency for potential investors.

- > Ericsson Nikola Tesla's experts presented innovative ITS solutions for optimizing transport during the ITS World Congress in Stockholm.
- > Ericsson's high-tech Truck Road Show 2009 visited Zagreb. A number of presentations were held in Ericsson Nikola Tesla for our key customers and business partners. The Long Term Evolution (LTE), the fourth generation of mobile technology with extremely high data rates, as well as other latest developments were presented in demos.
- > Ericsson Nikola Tesla formally marked its 60th anniversary. The event took place under the auspices of the President of the Republic of Croatia, Mr. Stjepan Mesić, who attended the ceremony along with Finance Minister Ivan Šuker, Prime Minister Jadranka Kosor's envoy. Some 700 guests, including representatives of social, political and economic spheres of life as well as the Company's customers and partners from Croatia and abroad, attended the event.
- > Ericsson nominated e-Health Croatia, a solution developed by Ericsson Nikola Tesla, for the SMART 2020 report presented in the eve of the Sustainable Development and Climate Change Conference in Copenhagen. The solution deals with the primary Healthcare Networking Information System in Croatia. After the independent evaluation of the nominated solutions by the world leading ICT companies, the organizer decided to recommend this solution and include it in the Top 25 Report.



Andrew Skelton,
Finance Director of Ericsson Nikola Tesla d.d.

WE BELIEVE THAT
SOUND CAPITAL AND
LIQUIDITY WILL PROVIDE
US WITH THE FINANCIAL
BASIS AND THE
CONFIDENCE TO CARRY
OUT OUR FUTURE
STRATEGIC PLANS

COMPANY PERFORMANCE

The operating environment that Ericsson Nikola Tesla experienced in 2009 was one of extraordinary challenges, driven primarily by the unprecedented global economic events that we witnessed during the year. With the fall of major US and European finance giants, the turmoil that followed shook global markets, fundamentally reshaping the competitive landscape and leading to previously unheard of government intervention in the financial sector and the wider economy, including the telecom industry.

Throughout the period we have remained focused on maximizing shareholder value, protecting our employees and on delivering exceptional value to our customers. With these challenges come unique opportunities and we are determined to ensure Ericsson Nikola Tesla remains well positioned to capitalize on them.

EARLY ACTION TO ADAPT OUR BUSINESS TO THE NEW ENVIRONMENT

While few anticipated the full impact of the financial crisis that arrived in 2009, we reacted early: focusing on working capital, rightsizing our cost base, raising awareness of the new environment in which we are now operating and ensuring a continually strong focus on risk management.

Risk management in Ericsson Nikola Tesla is considered an integral part of corporate value creation and a fundamental part of healthy financial management. We believe that sound capital and liquidity will provide us with the financial basis and the confidence to carry out our future strategic plans.

PROFITABILITY IN 2009 DESPITE UNPRECEDENTED MARKET TURMOIL

These measures, together with the determination and focus of our employees, enabled us to deliver a net profit in 2009 of MHRK 128 and net cash from operating activities of MHRK 284. We ended the year with MHRK 415 of cash and cash equivalents.

After adjusting for early retirement restructuring costs, distribution and administrative expenses reduced 17.4 percent compared to the prior year. On the same basis, ROS reduced to 9.1 percent (2008: 11.8 percent) reflecting a 22 percent reduction in sales revenue, changes in product mix, investments in competence and business development projects and an increase in net financial income.

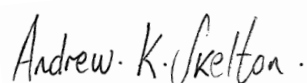
Although disruptions in the market impacted our performance, we were able to strengthen our balance sheet, deliver an excellent operating cash flow and continue to invest in strategic development areas, maintaining a clear vision for Ericsson Nikola Tesla's continued future success.

MARKETS REMAIN CHALLENGING, BUT OUR STRATEGIC PRIORITIES ARE CLEAR

There is no doubt that our operating environment will remain challenging in 2010. We must continue to be innovative, agile and forward looking. Ericsson Nikola Tesla has a 60-year history of partnering closely with our customers and we must continue to do so in 2010, working with both traditional and new customers to navigate these challenging times.

We must retain a strong focus on optimizing our cost base and will continually strive to improve our ways of working and maximize our internal efficiency by leveraging the huge potential of our most valuable asset – our employees.

We remain optimistic about the future outlook and our ability to respond to the challenges and capitalize on the opportunities that we are faced with. As we continue to search for new markets and long-term profitable growth, we will remain fully focused on maintaining short-term stability.



Andrew Skelton
Finance Director
Ericsson Nikola Tesla d.d.

FINANCIAL HIGHLIGHTS

2009

in MHRK, except per share amounts

	2009	2008	2007
Profitability:			
Sales revenue	1,400	1,800	1,781
Gross margin	13%	17%	15%
Operating profit	66	163	137
Profit before tax	127	212	201
Profit for the year	128	204	200
Operating expenses	138	158	158
Earnings per share (EPS) in HRK	98	156	152

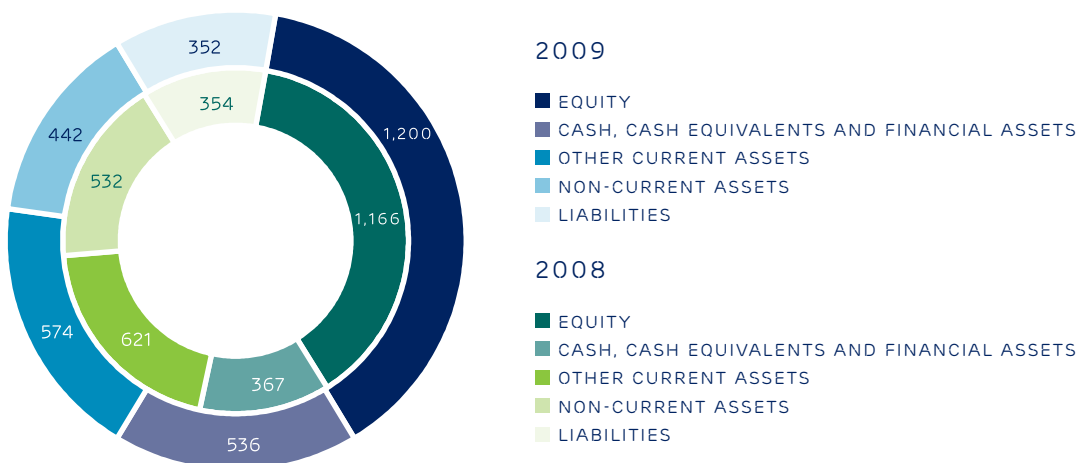
Financial position at year-end:

Total assets	1,552	1,521	1,734
Cash, cash equivalents and financial assets	536	367	396
Capital employed	1,210	1,177	1,321
Equity	1,200	1,166	1,316

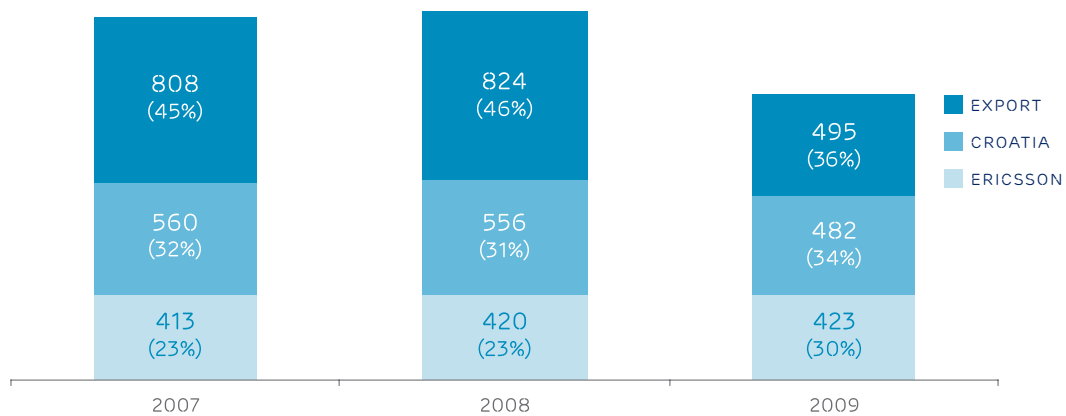
RATIOS:

Return on equity	10.8%	16.4%	13.9%
Return on capital employed (ROCE)	10.6%	17.0%	13.9%
Return on sales (ROS)	9.1%	11.3%	11.2%
Equity ratio	77.3%	76.7%	75.9%
Capital turnover	1.2	1.4	1.2
Current ratio	3.2	2.9	2.8
P/E ratio	13.9	7.7	22.5

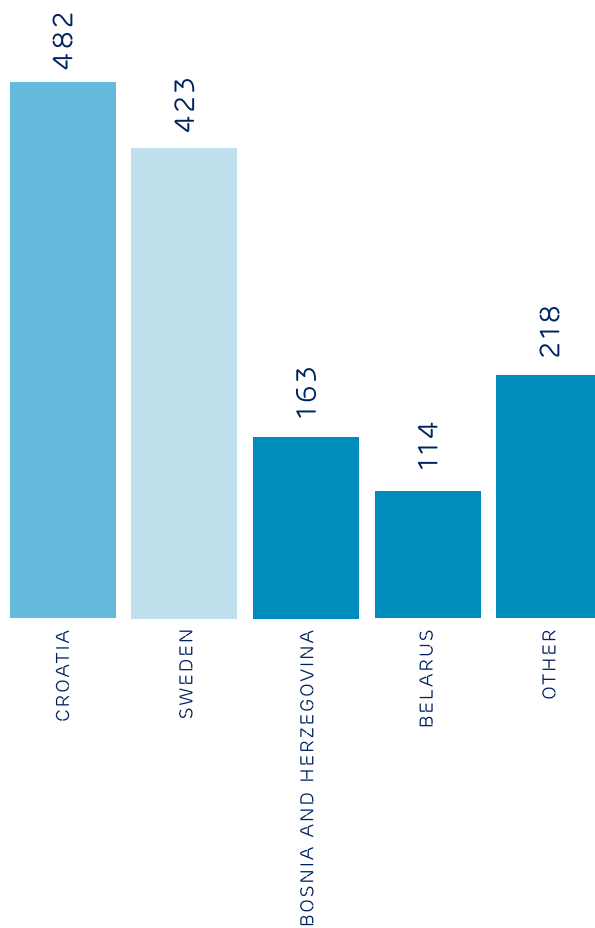
BALANCE SHEET STRUCTURE (IN MHRK)



SALES REVENUE BY ETK CORNERSTONES (IN MHRK AND PERCENTAGE)



SALES REVENUE BY MARKETS IN 2009 (IN MHRK)



INFORMATION FOR SHAREHOLDERS

Shares of Ericsson Nikola Tesla are traded in the Regular Market of the Zagreb Stock Exchange under the stock exchange symbol of ERNT-R-A.

SHARE TRADING AND PRICE MOVEMENT

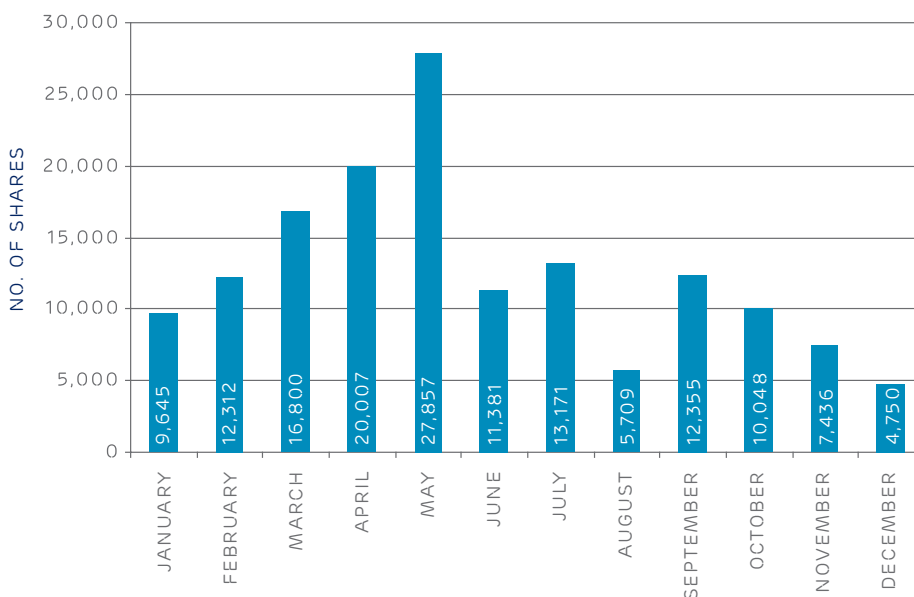
Compared to 2008, regular shares turnover in the Zagreb Stock Exchange decreased by half in 2009 but the average price movement of the most liquid shares, shown in the official share index CROBEX, increased by 16.4 percent. Dramatic price leaps and falls during the year are apparent in the fact that CROBEX ranged from its highest point to its lowest in a span of nearly 90 percent (between 1,079 and 2,318 points).

Ericsson Nikola Tesla's shares were the ninth most liquid in the Zagreb Stock Exchange, with a 2.6 percent share in the total turnover. During 2009, shares turnover amounted to MHRK 196.2 (2008: MHRK 952).

Ericsson Nikola Tesla's market capitalization increased by 11.6 percent to MHRK 1,783.7. Ericsson Nikola Tesla's share in the total market capitalization of the Zagreb Stock Exchange amounts to 1.3 percent.

With the goal of improving transparency and comparison of data in the domestic capital market, the Zagreb Stock Exchange launched a new specialized market trend indicator, the CROBEX10 index, in September 2009, which consists of 10 regular blue-chip stocks with the highest free-float market capitalization and liquidity. The portion of Ericsson Nikola Tesla's shares in this new exchange index amounts to 9.6 percent.

TRADING VOLUME IN 2009

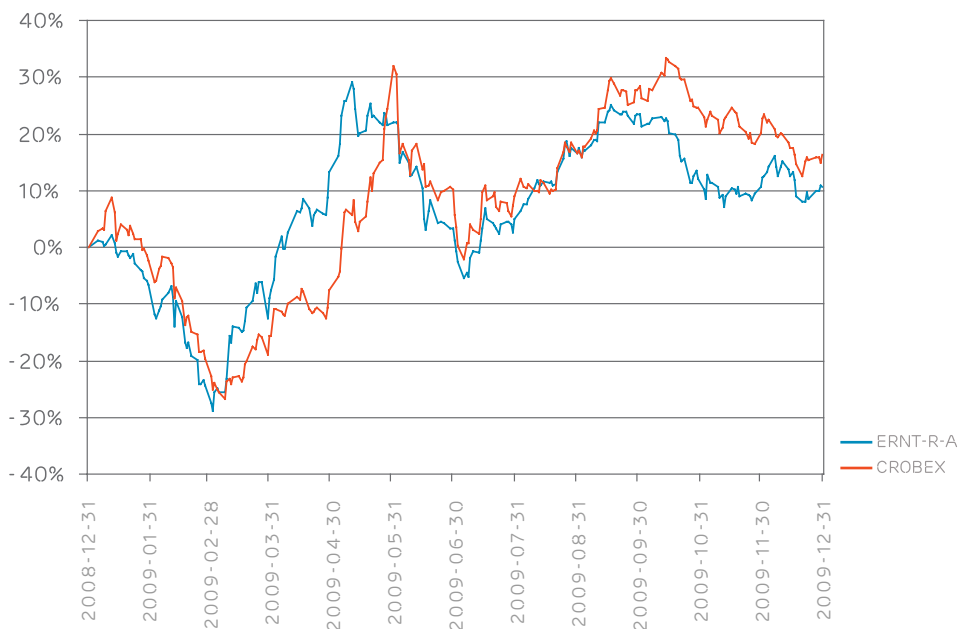


AVERAGE ERICSSON NIKOLA TESLA'S SHARE PRICE MOVEMENT 2005 – 2009 IN THE ZAGREB STOCK EXCHANGE (IN HRK)



Share price and turnover	2005	2006	2007	2008	2009
Highest (HRK)	2,300	2,600	4,300	3,490	1,575
Lowest (HRK)	1,495	1,850	2,450	1,000	820
Last – end of year (HRK)	1,914	2,500	3,420	1,200	1,340
Turnover (MHRK)	638.4	500.7	947.4	952.0	196.2

AVERAGE ERICSSON NIKOLA TESLA'S SHARE PRICE MOVEMENT AND THE CROBEX INDEX IN 2009



SHARE CAPITAL

As at December 31, 2009, the share capital of the joint stock company Ericsson Nikola Tesla amounted to HRK 133,165,000 divided into 1,331,650 ordinary registered series A shares. Each share carries one vote at the Annual Shareholders' Meeting. At the end of 2009, the total number of treasury shares was 14,468 (1.09 percent of the share capital). Shares are under the ownership of 6,328 shareholders.

SHAREHOLDERS

Below is a list of Ericsson Nikola Tesla's major shareholders as at December 31, 2009.

Shareholders	No. of shares	Percentage of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07%
Hypo-Alpe-Adria-Bank d.d. / Raiffeisen mandatory pension fund	116,876	8.78%
Zagrebačka banka d.d./ custodian account for Unicredit Bank Austria AG	35,633	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%
Ericsson Nikola Tesla d.d.	14,468	1.09%
PBZ d.d. / custodian client account	12,658	0.95%
Erste & Steiermarkische bank d.d. / CSC	12,344	0.93%
Croatian Privatization Fund	11,879	0.89%
Other	389,760	29.26%

ERICSSON NIKOLA TESLA'S ANNUAL SHAREHOLDERS' MEETING

The joint stock company Ericsson Nikola Tesla held its Annual Shareholders' Meeting on May 26, 2009. The amount of HRK 81,583,700 was represented at the meeting, which is 61.27 percent of total share capital.

The Supervisory Board's report regarding the supervision of conducted activities of the Company in 2008 was accepted and a statement of release for the Company's Managing Director and members of the Supervisory Board was issued.

A resolution was passed regarding dividend payment amounting to HRK 70 per share for all Company shareholders who, as of May 19, 2009, had Company shares registered on their securities accounts in the Central Depository & Clearing Company. Dividend payment was effected on June 25, 2009.

Resolutions were passed stating that the profit of the Company in the financial year of 2008, totaling MHRK 204.4, shall be allocated to dividend payout in the amount lacking after the non-allocated retained earnings realized in 2007 have been used, and the remainder to the reserve of treasury shares in the amount of MHRK 15 and to retained earnings.

Furthermore, considering the Company's business results, and with the goal of allocating profit, consent was given to the Managing Director of the Company to allocate up to 20,000 treasury shares to Company employees. A resolution was passed regarding changes to the Company Statute, Article 3, "Subject of Company Activities". Upon the Supervisory Board's proposal, PricewaterhouseCoopers d.o.o., Zagreb, was appointed Company auditor for 2009.