GENERAL REPORT 2010

Ericsson Nikola Tesla d.d.

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

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. I would like to 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 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 healthcare 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 patient remote medical monitoring, won the best innovation award and is commercially available.

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.

2010 - STABLE RESULTS

- » ORDERS BOOKED MHRK 1,311.3 (MHRK 1,386.2)
- » SALES REVENUES MHRK 1,218.9 (MHRK 1,400.0)
- » NET PROFIT (EXCLUDING RECEIVABLES WRITE-OFF) MHRK 151 (MHRK 128)
- » POSITIVE CASH FLOW
- » JOBS AND MARKET POSITION MAINTAINED
- » COST AND OPERATIONAL EFFICIENCY
- » HIGH LEVEL OF EMPLOYEE SATISFACTION

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 disasters causing disturbances in 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 seek to 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 at December 31, 2010.

Gordana Kovačević
President
Ericsson Nikola Tesla d.d.

BUSINESS RESPONSIBILITIES/ ACTIVITIES

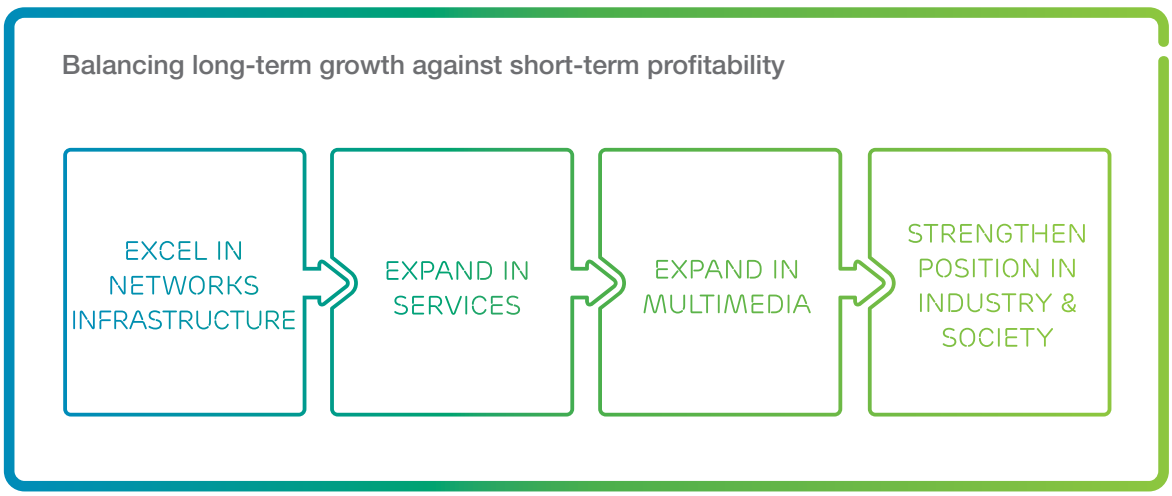
Ericsson Nikola Tesla is a leading regional provider of information and communications technology solutions that, through innovative approach and thought leadership, drives opportunities and creates value together with its customers.

The Company's core business activities include the following:

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

Ericsson Nikola Tesla:

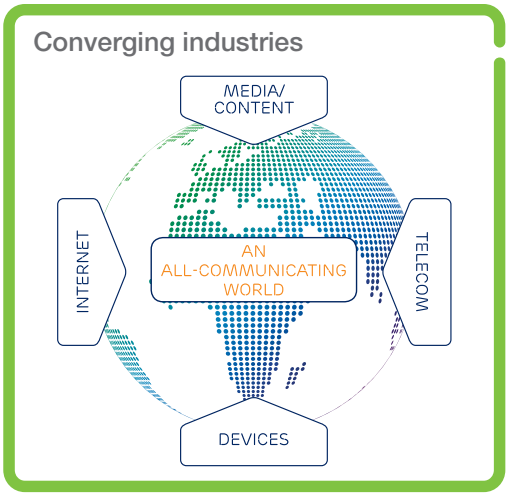
- Provides innovative ICT solutions, which improve lives and create new value for business and society;
- Contributes to the prosperity of its environment by ensuring access to modern information and communication systems and technologies;
- Works in the area of advanced technology, and plays an active role in e-projects;
- Is among leading exporters in Croatia, and the largest Croatian exporter of knowledge.



PRODUCTS AND SERVICES

Ericsson Nikola Tesla offers its customers and partners a complete portfolio of Ericsson/3PP communications products, solutions and services in the following segments:

- Leading portfolio for high performance networks;
- World-class operations and network evolution;
- Multimedia with leading Business Support Systems, TV solutions and applications;
- Solutions for selected industry and society verticals.



SALES AND MARKETING

In 2010, our domestic market accounted for 28 percent, export to other countries 36 percent and export to Ericsson markets 36 percent of Ericsson Nikola Tesla's total sales revenues.

DOMESTIC MARKET

Cooperation with leading Croatian operators Hrvatski Telekom, Vipnet and Tele2, was continued in the field of introduction of modern technological solutions and services. Sales revenues are lower than the previous year. Main reasons are stagnation of macroeconomic trends in Croatia and regulatory issues that caused the decrease of operator investments. This emboldened the customer to push for lower prices of products and services. Shortage of components and Ericsson supply chain bottlenecks additionally impacted sales results. Domestic market sales revenues totaled MHRK 340.

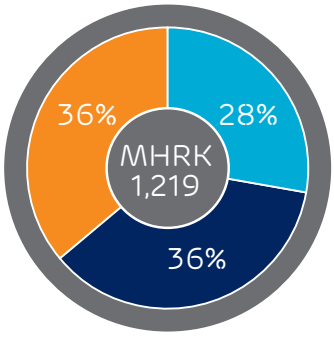
Our cooperation with Hrvatski Telekom was primarily focused on the building of backbone networks, broadband internet access, transmission systems and migration of the fixed voice network to a new generation network based on IMS (IP Multimedia Subsystem) architecture. In the 4th quarter of 2010 Ericsson Nikola Tesla and Hrvatski Telekom successfully demonstrated the first LTE trial network in the region and 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 over mobile network). LTE technology enables penetration of fast internet access to areas that so far haven't got mobile broadband access. LTE provides downlink data transmission rate of 100 Mbps that is several times higher than in existing commercial mobile network in Croatia.

Our cooperation with Vipnet was focused on extension and upgrade of 2G and 3G mobile networks, core networks and transmission systems. In the first half of 2010, after successful demonstration of wireless data transmission at 42 Mbps, it became commercially available to end users in the city of Osijek, and afterwards in other towns and cities across Croatia. Vipnet in partnership with Ericsson Nikola Tesla offered its users HD audio technology that significantly improved speech quality in 3G mobile network.

Our successful cooperation with Tele2, focused on extension and upgrade of 2G and 3G mobile networks, with special emphasis on mobile internet, was confirmed by the extension of the frame agreement on delivery of solutions and services in the first half of 2010. In the fourth quarter of 2010, it was agreed to extend the agreement on managed services.

The main focus in the ICT segment for Industry and society was on upgrading the national ICT primary healthcare system, implementation of cadastre and land registry common information system and

Sales by market in 2010



upgrade of the Croatian Railways infrastructure. Ericsson Mobile Health (EMH) for patient remote monitoring is commercially available and, together with Ericsson, marketing and sales activities have commenced.

EXPORT MARKETS

In export markets (except for Ericsson market), sales revenues totaled MHRK 434.

In the regional markets (Bosnia and Herzegovina, Montenegro and Kosovo), sales revenues totaled MHRK 202. Although sales revenues are lower than last year, which was the result of project implementation dynamics, orders booked in Bosnia and Herzegovina and Montenegro increased year over year by 18 percent and 15 percent respectively.

The Company signed a two-year Support and Maintenance Agreement with BH Telecom for their entire network. In addition, several big contracts were concluded for extension and upgrade of 2G and 3G mobile networks, upgrade of BH Telecom's core network, and upgrade of their fixed network by introduction of a new generation network node and integration of the network management system.

At the beginning of 2010, Montenegro operator Crnogorski Telekom and Ericsson Nikola Tesla made the frame agreement to define cooperation in the field of modern software solutions for mobile systems over the next four-year period. In addition, deals were agreed for providing support services, upgrade of fixed network, extension of 2G and 3G mobile networks (including implementation of HSPA+ solution) and design of Disaster Recovery Site Solution.

The Company continued cooperation with Kosovo mobile operator Ipko that started with the integration of entire GSM network. New deals were made for the supply of hardware and software support services over the next three-year period.

Sales revenues in the CIS markets totaled MHRK 233. Orders booked and sales revenues increased in this market segment first of all owing to the growth of volume of business in the Belarus market. Business deals were made with a leading Belarus mobile operator Velcom for extension and upgrade of 2G mobile network, and with fixed network operator Beltelekom in the field of internet technology.

In markets of the Russian Federation, Moldova, Georgia, Kazakhstan and Uzbekistan the Company made new contracts for supply of fixed network solutions as well as supply of IP-based solutions for business users.

EXPORT TO ERICSSON

In 2010, the Ericsson market continued to grow and sales revenues totaled MHRK 445.

The Research and Development Center designed a new generation of mobile network servers (MSC R 14.1) and they were in trial operation at several operators around the world. Ericsson Nikola Tesla experts significantly contributed to a successful trial operation.

A new responsibility for fixed network server product lines (TSS) was granted to Ericsson Nikola Tesla R&D Center. New responsibilities were also granted for the Integrated Site (IS) verification and maintenance, broadband access network (GPON) verification and integration. Preparations were made for a serious expansion of R&D activities for the Connectivity Packet Platform (CPP).

Experts from the Service Delivery Center were engaged in a number of projects, such as IMS Deutsche Telekom NGF (largest IMS project in the Region Western & Central Europe, including a complete migration of the Deutsche Telekom fixed network from PSTN to IMS), LTE project for Vodafone Germany and Vodafone Great Britain, T-Mobile Hungary 3G mobile network Audit and Optimization project, IPTV project for Telecom Austria and Transport Network Managed Services project for Mobistar Belgium.

SCIENTIFIC AND RESEARCH ACTIVITIES

In 2010, Ericsson Nikola Tesla's R&D Center has developed and released new products within new generation of Mobile Softswitch Server. Contribution of Ericsson Nikola Tesla's teams and their products within this global project were significant. R&D responsibility for Telephony Softswitch solutions and product line for fixed networks was implemented. This provides Ericsson Nikola Tesla with the possibility to take a significant role in operator's network transformation on the global level. Technology transfer project for integration and verification activities in the area of fixed network broadband access products started. Expansion of the development activities within platform for radio network systems has been completed and prepared for implementation.

Through the collaboration with other research groups in Ericsson, our team has built competences further as well as discovered new areas. In the xDia project, an evaluation of Bridgepoint executable UML tool was made. The tool enables model driven development (MDD) and the main goal of the project was to evaluate the BridgePoint tool in a geographically distributed development project. The xDia team was distributed in three locations: Budapest, Zagreb and Split. Results show that the selected tools can be used in distributed environment during standard design phase.

CARE was a joint project between Ericsson Research and Ericsson Nikola Tesla, which had a goal to provide prototype of multiple e-Health services through one integrated platform. The project also aimed to utilize and promote Ericsson's Mobile Health solution. The solution was built around Ericsson Composition Engine, delivering e-Health and m-Health applications. In 2011, the efforts on this project will continue with much bigger staff and even more ambitious goals.

A very successful cooperation through common research projects with the University of Zagreb, Faculty of Electrical Engineering and Computing, occurred in the area of machine-to-machine communications. Successful demo application was made, with the investigation of IP traffic domain especially for the testing purposes and substitution of some very expensive equipment currently used. Additionally, we worked together to explore the possibility of using Integrated Multiprotocol Network Emulator/Simulator (IMUNES) in the Company's testing domain to replace some additional investment in equipment for fulfilling basic network routing by using a virtualized environment. The results were very promising and we have started to use it in testing a customized solution of the toolset.

10 years of Summer Camp

ETK 2010 TH SUMMER CAMP

EXAMPLE OF SUCCESSFUL COOPERATION BETWEEN INDUSTRY AND UNIVERSITY

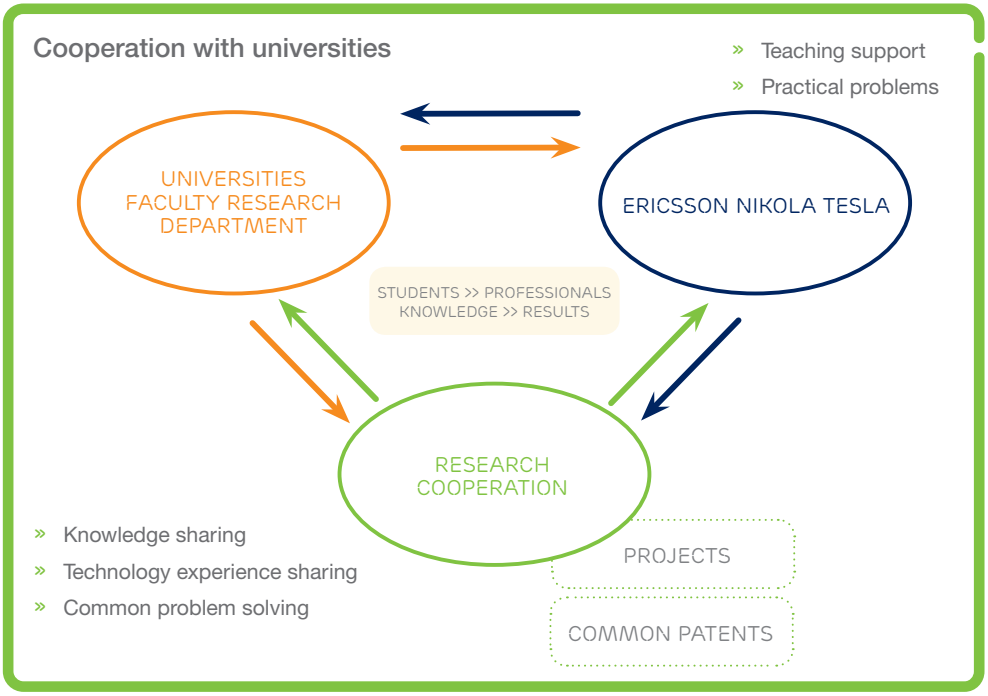
- 3 Rector's Awards
- 30 co-authored articles published
- 7 PhD holders (participants)
- 7 PhD holders (Company mentors)
- 16 doctoral dissertations in the final phase
- > 150 diploma theses correlated to work in the Camp

Our successful and fruitful cooperation with leading Croatian universities continued also this year through several research projects and common activities. An important point of 2010 cooperation was the 10th jubilee Summer Camp, which was again organized in cooperation with the Faculty of Electrical Engineering and Computing (FER), at the University of Zagreb, and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (FESB), at the University of Split. In the last ten years, almost 300 students passed through these activities resulting in a number of successful projects.

This particular tenth Summer Camp 2010 was held under the title "In Use Tomorrow: Advanced Applications and Useful Demos". The goals were to study selected problems relevant for the active research and development projects within Ericsson Nikola Tesla, as well as work on applications for future use within the Company. The general idea was to propose innovative solutions and prototype applications, but also improving the existing ones, with an active involvement of students in research. Covered areas included: software engineering methods and tools, e-Health and m-Health related research, as well as other selected topics of special interest to Ericsson Nikola Tesla (e.g. adding new functionalities to some locally used applications and customer demo development), which have emerged from a selection of ideas submitted to the Company's Innovation Management System.

A very important constant in research activities was participation in EU funded projects. Project "Quality Impact Prediction for Evolving Service-oriented Software" (Q-ImPrESS) finished in 2010, and the goal was 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. Our team was responsible for requirements collections and building a demonstrator, which was used to validate methods and tools, built in the project. This project received very positive feedback from the EU project commissioner for achieved results and overall project execution.

The effort and responsibility of our experts in the previous EU projects (e.g. MPOWER) were recognized and that was the trigger for an invitation for the 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 project started in February 2010.



BENEFITS OF MODERN INFORMATION AND COMMUNICATIONS TECHNOLOGIES

Ericsson Nikola Tesla is a part of the Ericsson global corporation, and shares a joint vision of communications available to all, and the belief that technology is to enhance the quality of life. By participating in providing various benefits for individuals and a society as a whole, and by rational use of natural resources and energy, the Company improves its own performance and every day contributes to the whole economy.

Ericsson Nikola Tesla offers innovative ICT solutions, thus making available state-of-the-art technologies that support mobility and availability by using broadband access, networking and sustainability.

RAPID DEVELOPMENT OF MOBILE COMMUNICATIONS

As announced in 2007, some 20 years were needed for Ericsson to install as many as one million base stations, and three years only for the delivery of another million. So, in 2010 the two millionth base station was delivered.

Ericsson plays a leading role in implementation of mobile broadband access and has delivered the majority of HSPA networks operating at the rate of 14.4 Mbps, and even more. Ericsson mobile network equipment interconnects more than 1.5 billion people worldwide. The driving force behind that speed increase was Ericsson's energy efficient base station RBS 6000, which supports GSM/EDGE, WCDMA/HSPA and LTE technologies in one package.

RBS 6000 series requires only 25 percent of the footprint used by former generations, with more than 10 times larger capacity, and 20 to 65 percent lower energy consumption, if compared to earlier Ericsson base stations.

LTE TECHNOLOGY

At the end of October 2010, Ericsson Nikola Tesla and the Croatian telecommunications provider Hrvatski Telekom demonstrated, for the first time in live in Croatia, the implemented LTE (Long Term Evolution) trial network. Thus, Croatia joined the group of countries pioneering in the world by implemented state-of-the-art LTE technology.

The data transmission speed via LTE network is some ten times higher than via current mobile networks commercially operated in Croatia. LTE technology provides efficient use of frequency range and enables the cost effective extension of fast internet access to areas uncovered so far by the mobile broadband access.

Even a year before this event, Ericsson Nikola Tesla was the first in Croatia to demonstrate LTE technology in Zagreb to its customers, partners and general public, as a part of Ericsson world tour. It is to underline that Ericsson Nikola Tesla, through its experts working at R&D centers in Zagreb and Split, actively participated in the global LTE and IMS (IP Multimedia Subsystem) development.

LTE enables high transmission speeds, and the IMS subsystem provides the same features and line of services, regardless of the network used and user device applied. Thus, the mobile and fixed network convergence becomes a reality.

Besides the impressive speeds, LTE guarantees high quality of data transmission and also offers a real base for numerous multimedia services that will be soon available in everyday life. While demonstrating the first LTE trial network in Croatia, the public was presented three new services, which were previously unavailable: mobile reporter, multiplayer gaming and 3D TV content transmission via a mobile network.

The mobile reporter provides a simple TV content transmission at the top quality level, directly to a studio, in a wireless mode with no satellite links leased in advance. This is also a strategic shift, as the media industry is concerned, since it will require a completely new way of thinking and new business approaches as well as redefinition of spectators' role. They will no more be only passive TV users.

The development of wireless broadband networks and services has been widely influenced by users' requirements and ides. Even today, fast and efficient data communications worldwide is no more dependent exclusively on fixed lines. But in the future, wireless computer gaming will be available in multiplayer mode, with the top response quality from all points covered by LTE network.

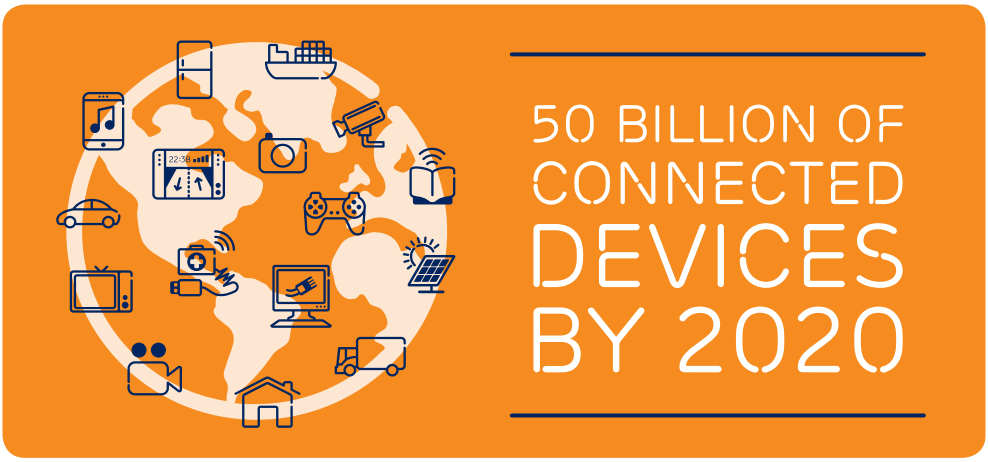
With the LTE network, users will no more be deprived of high-quality TV content, and not even of 3D programs in places such as marinas or in hardly accessible spots, which are not provided with fixed telecom network. Although 3D TV requires, for example, twice as large transmission capacity for the transmission of the same resolution content in 2D technology, just LTE transmission of 3D TV content is one of expected applications of network convergence, which by introducing the next generation of mobile technology will achieve a new dimension.

Ericsson plays a key role in LTE technology development, from the initial research cooperation to the final standard. So far, the corporation commissioned 16 LTE networks in 11 countries in three continents.

At the gathering Informa LTE Awards 2010 in Amsterdam, Ericsson Research unit was awarded 1st prize for contribution to LTE standards. The Corporation was very active in defining the frame for LTE technology, even before the standardization was even started. Afterwards, within 3GPP organization, it continued with considerable contribution to the new technology development. The creation of high-quality LTE specifications enabled the early commercial implementation of LTE mobile broadband access and paved the way for trust of the whole industry into LTE technology, as well as contributed to usage of this advanced technology.

Since LTE standard foresees solutions for problems that have already been recognized in GSM and WCDMA/HSPA specifications, Ericsson has a vast number of patents in standards applied also to LTE. One fourth of the total intellectual property, essential for the standard, makes it the biggest patent holder in the given area.

Globally connected



MOBILE BROADBAND ACCESS

By implementation of Ericsson Dual Carrier HSDPA technology, in cooperation between telecom provider Vipnet and Ericsson Nikola Tesla specialists, last year the town of Osijek became the first Croatian town with commercially available data transmission at the rates of up to 42 Mbps. In addition, by the end of 2010, yet another group of 17 Croatian towns were covered by HSPA+ technology, delivered by Ericsson Nikola Tesla. The given technology enables browsing speed of up to 21 Mbps.

In the world where time seems to be among the most important resources, the offered solution is a step forward in the development of rate and capacity of mobile internet access, and positions Croatia high on the list of countries using mobile broadband access that provides users with an immediate access to the wanted contents. This was enabled only a year after Ericsson demonstrated, for the first time in the world, the transmission speed of 42 Mbps for commercial operation.

Although today mobile broadband access is used by only 10 percent of users, its contribution to the traffic volume in mobile networks is considerable. Current Ericsson's assessments of traffic in networks operating worldwide show that data traffic via mobile networks has almost tripled in a year time, which is ten times faster growth than with voice traffic. Ericsson data show that data traffic has globally increased by 280 percent in 2008 and 2009, with the predictions that it will double in each of the five years to come. According to the same statistics, the mobile data traffic measured worldwide in Q2 2010 was almost 225 thousand terabytes. There are more and more users who have the state-of-the-art units generating data traffic, such as smart phones and wirelessly interconnected PCs. Thus data show that the 3G network traffic has surpassed 2G traffic.

Thanks to 3G/HSPA standards, the number of wireless M2M (machine-to-machine) links has increased globally, so the predictions by ABI Research are that in 2014 their number will be more than 200 million, and according to Ericsson estimations, there will be as much as 50 billion networked units by the end of 2020. Ericsson does not want to be only a technological company, but wishes to play a prominent role in that world, and to help the other companies in their operations. Therefore, Ericsson alone or in cooperation with other suppliers, offers more and more applications compatible with all sorts of mobile units that may be found on the market. By 2015, the Corporation expects more than three billion new users of mobile broadband access, and also believes that Ericsson vision will help in creating the world in which devices will be automatically connected to the internet, and various functions will be executed automatically by internet access. Any unit that society or an individual may benefit from, will be networked.

Many social activities, such as health care, traffic, public administration, and municipal services or media industry are being transformed thanks to their process networking. As of the energy sector, smart measurement procedures increase business efficiency and save costs of operation in energy providing companies. The solutions for transport monitoring improve routes optimization, and safety of vehicles in the roads. The equipment communications in real time, remote control and treatment of patients, will enhance health care. In the given segment, Ericsson Nikola Tesla has also developed solutions that are a step forward in healthcare system.

M-HEALTH

According to studies, health care development, based on up-to-date technologies is heading in two basic directions. One is to provide relevant medical data, any time and any place where a patient may find himself, and the other one is related to planning and decision making concerning the healthcare system functioning on the basis of correct, relevant and updated information. The Company develops solutions in both directions.

Ericsson Mobile Health (EMH), the product made by Ericsson Nikola Tesla, is a solution for remote patient monitoring. It is also a part of Ericsson's vision of the ICT industry serving people. Since an average population life expectancy is extended, the current healthcare systems and organizations are faced with complex requirements for extending efficient and cost effective medical services, but with top quality and safety levels maintained. Therefore, the given domain witnesses intensive introduction

of modern ICT solutions, which enable efficient and reliable insight into the current health status of a patient out of the medical institution.

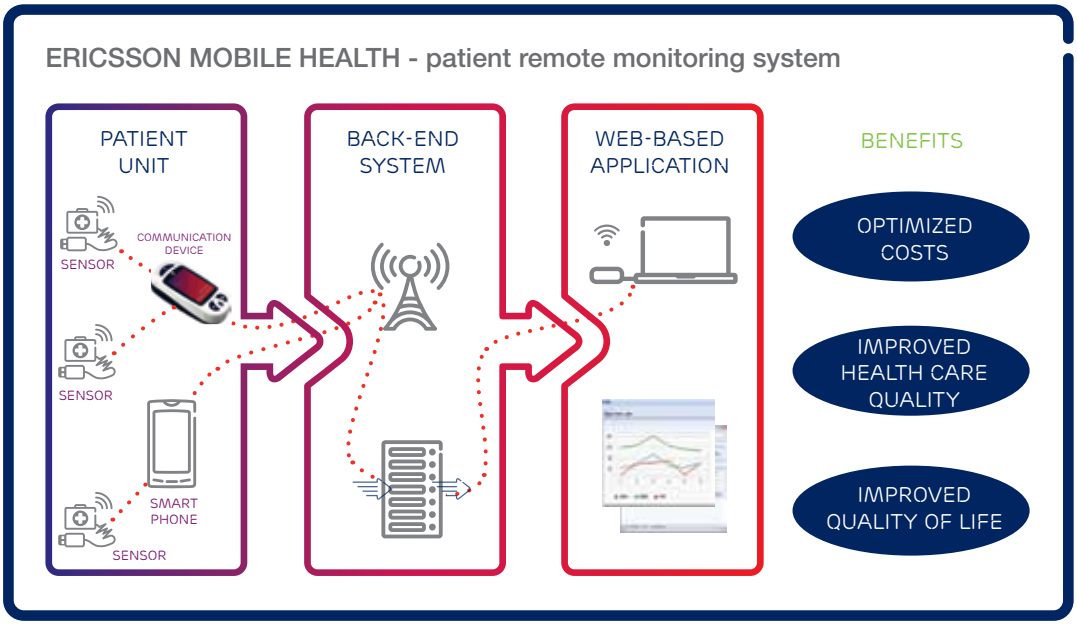
EMH is a product intended for medical parameters measurements on patients out of hospitals, having a long-time stable medical status. The solution consists of an application, server system and a patient's unit in a specially designed bag with a communications unit, medical sensors and accessories, such as charger and batteries. The central part of the patient's set is a communications unit, which collects measurement results from sensors available via a Bluetooth interface and sends them towards a server system available via a mobile network.

A doctor may access the server system and review patient's data by using an application intended for doctors. Medical staff are provided with a safe and easy insights into a patient's status through analysis of various medical parameters such as electrocardiogram (ECG), spirometry, blood pressure, heart beat rate or oxygen saturation.

Due to its high reliability and simplicity of usage, the EMH product offers a wide range of applications, from monitoring patients chronically ill in cardiology and pulmonology, home care patients, those released from hospital or released after a first aid treatment to preventive checkups. In addition, the EMH product is suitable for use in programs on health status enhancement and as a support for clinical tests. In brief, it is applicable whenever medical parameters measurement results are to be transferred to a remote location.

EMH passed a rigorous certification procedure in compliance with the EU Directive. The certification covers the audit of the manufacturer's quality ensurance, in this case Ericsson Nikola Tesla, in compliance with the International Medical standard ISO13485:2003 and the audit of product compliance with the EU Council Directive 93/42/EEC on Medical Devices. The audits were carried out by Det Norske Veritas (DNV), and on the basis of EC Declaration on conformity, the EMH product was approved with the label CE 0434. The Croatian legislation regulates a similar procedure for each particular medical product to be placed in the Croatian market. After meeting the set regulations, the EMH product was entered into the Register of Manufacturers of medical devices and the Register of Medical Devices by the Croatian Agency for Medicinal Products and Medical Devices.

EMH is a promising solution for personalized medicine since it enables a patient's life quality improvement under the sophisticated doctor's surveillance. By using the EMH product, medical staff increase efficiency by remote diagnostics and treatment applied, thus creating additional prerequisites for good quality health care. In this way, it is easier and more efficient to control resources, provide monitoring and therapy, which results in savings during treatment and better cost management.



Specialists consider that telemonitoring and telemedical service are real potentials for future control of a patient's medical status. Data, such as results of a blood pressure measurement or ECG, are transferred automatically, or with a patient's assistance, via fixed or mobile networks, and are used to optimize patient's treatment. The reduction in the number of routine consultations about a continuous health status enables personalized and a long-term optimum treatment and communication with a doctor from the patient's home. These are just some advantages provided by telemonitoring.

Therefore, solutions from the mobile health care domain, such as EMH, will provide better quality, more precise, personalized image of a patient, on the basis of which, a well organized system may provide optimum health care service.

Ericsson Nikola Tesla, as a part of the Ericsson Corporation operating worldwide, was awarded a responsibility for Ericsson Mobile Health.

For example, Saudi Arabian telecom service provider Mobily, has recently initiated the first m-Health service in Saudi Arabia. It was based on Ericsson's solution for mobile health care. This was also the trial concept for their major medical institutions, which will enable efficient remote monitoring of a patient's health status.

EMH was successfully presented at the Mobile World Congress in Barcelona, at the First Congress on Telemedicine in Tunisia, at the International CTIA Wireless 2010 show in Las Vegas, at the Annual Ericsson Shareholders' Meeting in Stockholm, at the International Conference Med-E-Tel in Luxembourg, at the World Expo 2010 in Shanghai, at Health Care Days of Bosnia and Herzegovina Federation in Sarajevo, at the exhibition Vodafone Innovation Day in Düsseldorf, at the fair MEDICA 2010, the biggest annual gathering of health care professionals in the world, at the meeting with media on sustainability and ICT in Ericsson headquarters in Kista, and at GSMA Mobile Asia Congress 2010 in Hong Kong.

At the end of the last year, at the competition Vidi e-novation Ericsson Nikola Tesla was awarded Tesla's Golden Egg in the category of large companies for the innovative Ericsson Mobile Health product.

E-HEALTH

Regardless of space, time or cultural background, health is a universal human value. New opportunities often connected with more and more sophisticated and expensive diagnostic and other procedures, new innovative drugs and evident need for multidisciplinary approach considerably influence enlarged expectations, thus making the management and financing of a healthcare system a very complex task. Application of modern information solutions in healthcare systems provides timely availability of complete information on a patient status, thus enabling high-quality medical services. The solution by Ericsson Nikola Tesla – HNIS (Healthcare Networking Information System), is a modern platform for integration of solutions in health care. It supports important business processes. The functionalities such as ePrescription, eReferral, eBooking or eRecord provide all prerequisites for a patient to be really a spotlight of a health care. This is due to, not only technology, but also services related to setting up and optimization of business processes in a healthcare system.

Hospital Information System (HIS) is an additional tool in a healthcare system, and is a key prerequisite for efficient and good quality work at all levels of a healthcare system.

This means that due to the considerable reduction in administrative activities, any unnecessary contact with a healthcare system will be avoided and a doctor can spend more valuable time with a patient. Finally, on the basis of data collected through this system, the Croatian Ministry of Health and Social Welfare and the Croatian Institute for Health Insurance can impact rationalization in operations and enhance the organization, as well as additionally improve the quality of healthcare system to the benefit of all patients.

The aim of the solutions provided by Ericsson Nikola Tesla is to make health care more available to all citizens. ICT solutions have an important role since they reduce the administrative activities and improve health care transparency. This has a positive impact on the capacity and throughput of the healthcare system. By digitalization of information and their processing, it offers valuable understandings of how each particular health care subject or the whole system is functioning.

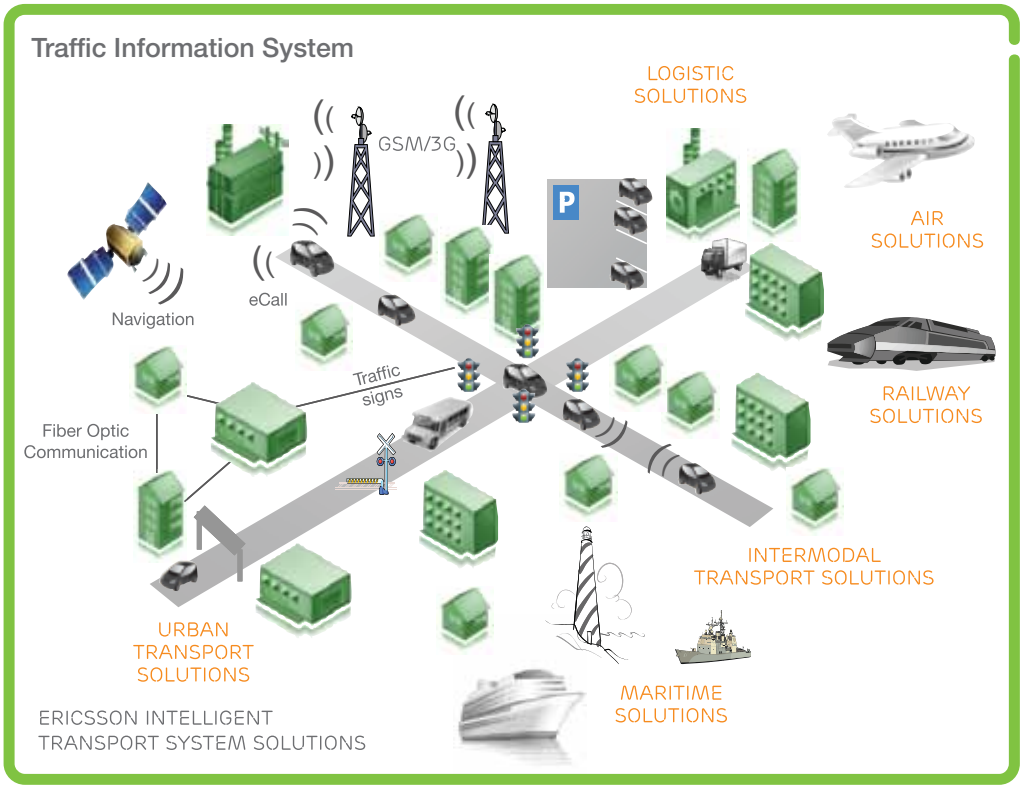
This is a reliable base for good decision making in the process of the system management.

Within the national e-Health project, so far the following functionalities have been implemented: ePrescription, eReferral, and eBooking, and throughout Croatia the system is expected to be in full operation during 2011.

According to the research completed by Health Consumer Powerhouse that follows and analyzes trends in health care in Europe and Canada, already today the healthcare system in Croatia, as far as the informatization is concerned, is at the 3rd position along with Great Britain, Sweden and Iceland. Its quality and positive influence on the environment placed this solution among the top 25 global smart ICT solutions, according to the Report SMART 2020, by the independent, non-profit organizations The Climate Group and Global Initiative for e-sustainability.

TRAFFIC

Circulation of people and goods is one of the fundamentals of civilization. The sustainable development of the modern society requires solutions for basic challenges in the modern traffic, such as traffic optimization, safety of all participants in traffic, energy efficiency and minimizing the harmful impact on the environment. Intelligent Transport Systems (ITS) offer the answer to these challenges and provide management and operational framework for new traffic technologies. Innovative ITS solutions are based on the application of the public mobile communications network in order to achieve the real-time insight in the traffic situation, with no additional infrastructure in the road traffic required. The real-time insight into traffic situation is the basic precondition for building an effective traffic management at all levels, from town to national. The successful synergy of public mobile communications and satellite navigation offers additional improvements in quality of positioning and other mobility parameters, thus enabling to achieve the correct and real-time evaluation of a traffic situation in a particular traffic network segment.



Ericsson is among global leaders in the given segment, and the transportation industry has recognized it as a driver of development of Intelligent Transport Systems.

Ericsson Nikola Tesla has recognized the importance of ITS at the early stage, and therefore it has an active role in creating the Corporate solutions in the given segment, thus becoming an important factor in the Ericsson ITS strategy.

Ericsson Nikola Tesla's ITS portfolio covers intelligent solutions for road, maritime and railroad traffic. The basis of the given system is the approved Ericsson Corporation products, positioning intelligence in public mobile networks and skill and competence of its specialists. Ericsson Nikola Tesla is an active participant in Pan-European project of eCall implementation, automatic traffic accident notification from a car and setting up of direct communication from a car to the public safety access point. The Company is also a partner in the Croatian national eCall pilot project. The maritime traffic supervision and management system, implemented to meet the needs of Rijeka harbor, enables successful monitoring and optimum management of the total maritime traffic by synergy of the latest information and communications technologies. The prototype of Traffic Information System for the city of Zagreb has been developed in Ericsson Nikola Tesla. It successfully demonstrates business and technological solutions of the new ITS generation, and is based on the positioning intelligence and requires no additional road network infrastructure. ICT solution prototype, created for the management of the power supply stations network, which is necessary for electric vehicles supply, is an Ericsson contribution to the actual problem in transition from classic to new types of vehicles driving system (hybrid and electric vehicles). Such innovative ITS solutions enable traffic optimization, energy efficiency and reduce harmful traffic effect on the environment. By interconnection of traffic systems and public mobile communications in urban areas, citizens actively participate in the traffic system, thus increasing the system efficiency and reducing stress of traffic participants, and optimizing the traveling time.

Interconnection of different systems, with the simultaneous data collection and handling, ITS solutions are approaching the phase of wider implementation supported by the development of mobile communications that are among the key factors in the given process.

ADVANCED TECHNOLOGY FOR AGEING POPULATION

Latest estimations suggest that the number of persons older than 80 will triple in Europe by 2060. This figure will be a heavy pressure to future healthcare and economic systems, especially having in mind a considerable decrease in the number of young people in the population, who are supposed to support the older population. One of the possible solutions for the given problem is AAL program (Ambient Assisted Living). It is about usage of information and communications technology to enhance the quality of life for older population, and to extend their independent living in their own homes, as well as to improve their health and reduce cost of their possible treatment. Under the same title there is the innovation and technology program financed by EU Commission, aimed to solve population ageing problems.

Within the given program, we witnessed the launch of the project named universAAL at the beginning of the last year. Its main objective was to make it technically feasible and economically viable to conceive, design and deploy innovative services. This is an open platform and the common basis for program developers and end users. The platform development will apply knowledge and solutions from former, similar European projects. Based on competences in e-Health segment, and positive experiences from the former cooperation, Ericsson Nikola Tesla also participates in the project along with 16 partners from EU. The Company cooperates in the procedure of defining the reference architecture, platform implementation, as well as in activities on the development of corresponding innovative solutions. It is also responsible for the development of training modules and materials that will be used for the knowledge transfer within the project and out of it.

Furthermore, it will support the efforts in platform standardization and its solutions within the Healthcare Services Specification project, as well as in Continua Health Alliance.

Ericsson Nikola Tesla has also participated in up-to-date joint research activities, the results of which are used for extension and improvement of the current Company's solutions in e-Health segment. These results will help in the EMH product integration with networked information healthcare system. The experiences acquired during such activities will contribute to even stronger positioning of the Company as a leader in development, integration and delivery of e-Health solutions.

DIGITAL CITIES

According to UN predictions, two-thirds of humanity will live in cities by 2020. Therefore, the importance of cities and the urban policy will be increased as global, national and local task. It will be of fundamental importance in creating responses to major world challenges. In such complex circumstances for the development of cities as sustainable communities, with tough requirements to cities as drivers of economic, social, cultural and ecological society aspects on one hand, and with limitations such as the current infrastructure, traffic jams, and considerable difference in economic and social opportunities of particular urban areas, on the other hand, safety becomes a challenge that cannot be avoided.

Safety solutions for cities, offered by Ericsson, are based on innovative mobile telecom technologies, with location intelligence integrated into ICT solutions along with sensor, video and the other safety systems and city infrastructure, as well. Those solutions offer efficient and reliable answer to safety challenges in urban areas, from monitoring, incident detection, management of alarm situations and disasters of different causes to removal of their negative effects. The system consolidates functions such as advanced communications, alarm and event management, data and resources management and information sharing. This is of utmost importance for decision making in alarm situations. The basic principle of Ericsson safety systems is early warning. This means a real-time reaction to incidents, thus considerably lowering the damage volume and human casualties. The system is dynamic and management of it is location selective in large disasters, thus minimizing uncontrolled processes as people panic. By introducing new technologies, the efficiency of the current safety systems is increased, and a high level of complex responses to danger is achieved, which means high safety and rescue levels in urban areas.

E-ADMINISTRATION AND E-OFFICE

Information and communications technologies have a great impact on our ways of working and life in general. They considerably influence both private and business segments of human life today. This results in changes, reorganizations and restructuring of the present modes of communications, ways of working and industry sectors requiring new ways and channels of communications with government administration.

This was the reason for the e-Croatia Central State Administrative Office to establish the e-Office Forum in order to create the specification for the unique electronic document management (EDM) system. It is based on widely accepted EDM concept and the MoReq2 specification.

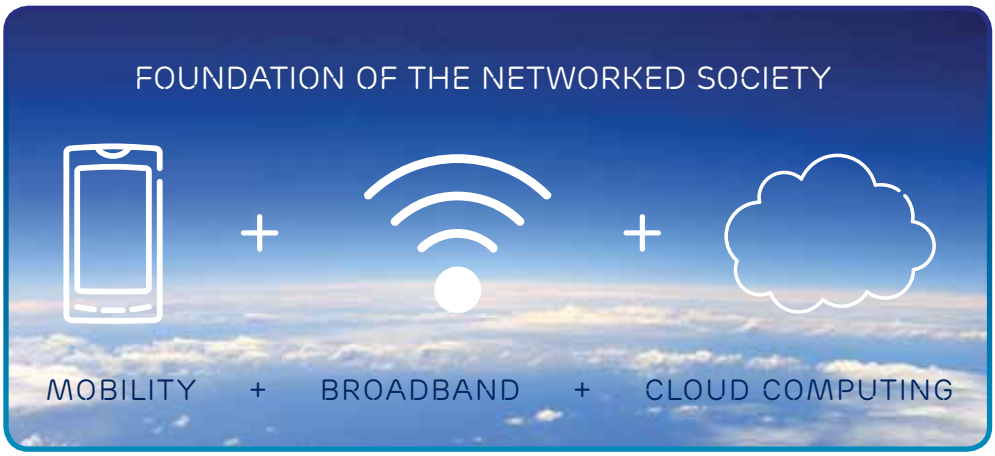
The specification is aimed at achieving uniformity in procedures implemented in office operations by applying information and communications technology. E-Office supports performance of state administration offices, approved by the Croatian Government, in order to improve users' satisfaction, rationalization of administration procedures, which means enhancement of quality of life for all citizens.

Ericsson Nikola Tesla is one of the major participants in informatization activities to transform state administration. The Company has rich and unique experience in various markets, in modern infrastructure solutions development, as well as in formal competences that are permanently applied in development of new version of international standard for records management systems in state administration bodies.

The Company is an active supporter of government administration bodies in transition from paper to electronic operations, as well as in creating safe, unique documentation system for government administration bodies and public authorities. The set goal is a satisfied user, rational administration procedures and enhanced quality of life for all Croatian citizens.

SOCIAL NETWORKS

Living in the digital age, we witness powerful computers, mobile communications and fast internet access, regardless of the place we may find ourselves at. The possibility of networking, regardless of space and time, is a key to welfare, and people begin to take it for granted. This especially refers to social networking via mobile devices and personal computers. For example, there are more than 200 mobile operators in 60 countries worldwide enabling and promoting Facebook. There are more than 100 million active users, who access Facebook via their mobile devices. This is also supported by the recent Ericsson study on users' behavior that shows that some 80 percent of mobile broadband access users require permanent access, regardless of time and place, since they consider it usual in a daily life. The Study is based on 4,580 users from 6 mature markets. It shows thaw with the increase of mobile data traffic, the users consider the link via mobile broadband access a personal one like via mobile telephone. Thus, 80 percent of examinees said that they would not share their PC with no one, and 65 percent would not share mobile broadband access. Such a new behavior of users requires the adjustment of mobile networks to both data and voice traffic. It is expected that this will mean a considerable modernization of networks and their transformation to all-IP technology, as well as to new support system. Ericsson is well positioned on the given areas and can help operators to gain profit from these new opportunities.



GIGABIT PASSIVE OPTICAL NETWORKS (GPON)

GPON is among the fastest globally growing access technologies, and its development and standardization offer numerous opportunities to future broadband access network and services such as voice transmission over Internet Protocol, video on demand, HDTV of 3DTV transmission, etc.

According to expert estimations, the development of this fiber-to-the-home infrastructure is a precondition to meet growing needs set by users as the transmission rate is concerned. It also guarantees a long-term competitiveness in the telecommunications segment, and is an important driving force behind GNP growth. This has been recognized by a new proposal for the Strategy of Broadband Access development in Croatia during the period of time 2011 - 2015. The Croatian operator Hrvatski Telekom became aware early of the global trend and by the end of the last year successfully managed to upgrade its GPON, that has already been in operation for more than two years.

To provide its users with even better and more stable service, Hrvatski Telekom selected Ericsson as a partner in building the active part of the network. Ericsson was entrusted to upgrade GPON platform in order to achieve better network management, enable more efficient capacity extension and provide more efficient and low cost maintenance.

At the end of last year, the R&D Center within Ericsson Nikola Tesla was awarded considerable responsibility for GPON segment. This was also the best recognition to Company's experts for keeping pace with the global competition.

MULTIMEDIA

There is no doubt that the development of GPON infrastructure impacts the way multimedia is used in a daily life. Ericsson ConsumerLab announced results of a recent study titled „Multi Screen Media Consumption 2010". Data were collected in China, Germany, Spain, Sweden, Taiwan, Great Britain and the USA. A sample in a study represents more than 300 million users, and the results show that people spend 35 percent of spare time watching TV and video contents. Users are more and more aware of new technologies that make new patterns of media consumption.

At least once a week 93 percent of examinees still watch standard TV programs, but the role of television is changing due to introduction of new distribution channels. More than 70 percent of examinees use streaming, downloading or watch recorded TV program on a weekly basis, and 50 percent of them use internet services for TV and video on demand content on a weekly basis.

Live TV programs are still very important to users, but the possibility to make a decision on when and how to watch TV will influence its role in the period to come. In the future, users wish personalized, user-friendly and top-quality services on demand, with no commercials inserted.

CONVERGENT NETWORKS

Ericsson network development strategy is aimed at convergent IP-based network architecture that enables the delivery of any service to any networked device regardless of its location. This targeted architecture requires broadband access network based on advanced wireline and wireless technologies such as GPON and LTE. In the period to come, development and implementation of mobile broadband networks and the next generation of GPON will play a leading role.

Broadband access is the fundamental infrastructure in the 21st century. It will enable the development of information and communications technologies, which are of key importance for growth in efficiency and economy. Various scientific and research studies show that each country in which broadband access has been introduced, along with investments into infrastructure and services, witnesses economy growth and new jobs. Broadband infrastructure is a "green technology" and therefore the basic component in building a sustainable future.

Fundamental benefits from convergent networks are cost reduction and operational improvements. It is better to have one convergent network, instead of several smaller dedicated ones. The cost of installation and maintenance of a single network is considerably lower than of several dedicated ones.

Another important benefit from network convergence is providing new applications with increased efficiency. As of end users, the benefits are access to any service from any device (telephone, PC, TV or any other electronic device) anywhere, (in motion, from remote location). In addition, new interactive and multimedia services will enable richer and more efficient mode of communication.

Innovative IPTV service providers can already today connect TV set, mobile telephone and PC, thus enabling that any PC image, video or music content is presented at any screen. New IPTV platforms provide a variety of services related to content delivery to various devices, remove barriers between TV sets and PCs, and introduce a new generation of user interface. Ericsson's product mix offers system integration and consulting services, the awarded Ericsson's IPTV middleware, OpenStream Digital Services Platform for video on demand functionality, and WatchPoint Content Management System related to the challenge of equal content delivery in various formats and to various devices.

ICT AND E-SUSTAINABILITY

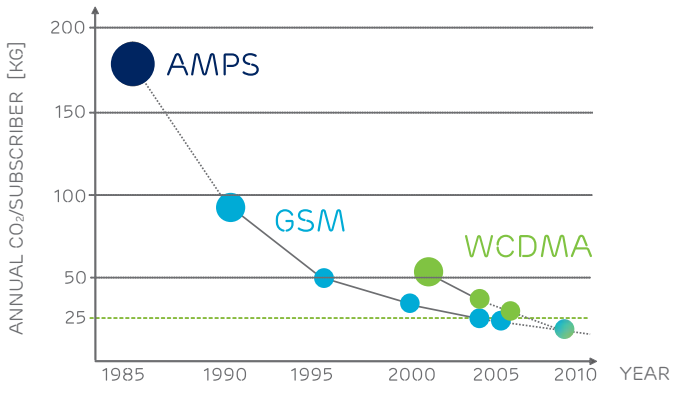
Broadband access is not only of key importance for new economy transforming business models, but it also impacts CO_2 emission reduction, promoting new ways of working and a new lifestyle.

Telecom operators also wish to reduce the impact on the environment and to keep business growth. Therefore, Ericsson offers to operators a pioneering TCO_2 approach, which measures CO_2 emission, thus enabling total proprietary cost management. By achieving the best combination of investment into energy efficiency, TCO_2 approach supports the operators' targets regarding the environmental protection and business development, enabling them cost savings and reduction of negative impact on the environment.

The Australian operator Telstra, in cooperation with Ericsson consultants, checked the CO_2 emission and the efficiency of its mobile network. The study confirmed the benefit gained by Telstra through implementation of this initiative, and showed the possibility to reduce CO_2 emission up to 30 percent in the radio access network, and 56 percent in the core network.

Today the ICT industry's contribution to the total CO_2 emission is only 2 percent. However, by implementing information and communications technologies into other industry segments, CO_2 emission may be reduced by 5 to 20 percent. Introduction of ICT to various industry sectors enables the interconnection of various monitoring and control devices, thus achieving reductions in energy consumption and positively affecting the environment.

The life-cycle footprint per subscriber in mobile networks



Implementation of ICT solutions will not only speed up and simplify processes, but will avoid unnecessary transportation and reduce CO_2 emissions and pollution in general.

And above all, broadband access will enable people to live and work wherever they wish, thus slowing down the process of urbanization and reducing the need to travel. Broadband access also offers flexible ways of working, like during traveling, from a remote location and finally from anywhere. Thus, work efficiency will increase and people will have more spare time to spend with their families and friends.

The application of teleconference and videoconference may reduce the business trip frequency, thus also contributing to the CO_2 emission reduction.

Although “face-to-face” communication is in some cases inevitable, and shall not be considered obsolete, modern ICT solutions enable various modes of communication and various types of automation in supporting business processes. Thus the focus is on the work content, and not on the form and administration.

And of course, more spare time, possibility to be engaged in various activities with no physical contact with other people, immense volume of easily available information enabled by new systems may be used in good faith, but also maliciously. One may expect that if the wise management policy is applied to new opportunities, where family, educational institutions and society as a whole play an important role, the positive sides will prevail. We believe that human curiosity in combination with advantages brought by modern ICT systems may somewhat bring us closer to the future, where professional engagement will be satisfying for individuals, but also offering maximum benefits to the society.

EVENTS IN 2010

- At Mobile World Congress 2010 held in Barcelona, Ericsson Nikola Tesla was an exhibiting company by showcasing its e-Health solutions. The emphasis was given to the demonstration of the cutting edge m-Health solution, which supports a real time remote patient health status monitoring.

- Ericsson Nikola Tesla organized the press conference in Zagreb and Split to announce business results in 2009 and expectations for 2010. The Company's strategic commitment in connecting economy and science was confirmed there, by signing agreements on cooperation between Ericsson Nikola Tesla and the Faculty of Electrical Engineering and Computing of the University of Zagreb and the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture of the University of Split.

- Telecom Arena 2010, a regional conference on electronic communications, was the opportunity for our experts to present LTE technology and participate in a panel discussion titled "Sustainable and Responsible Sector - ICT serving society and protecting environment?".

- A Croatian Government delegation paid an official visit to Ericsson Nikola Tesla. The delegation was headed by the Prime Minister, accompanied by the Minister of Economy, Labor and Entrepreneurship, Minister of Legislation and other associates. The Company President gave the guests of honor insight into the important achievements and the responsibilities of the Company in the domestic and export markets and underlined the export of knowledge and the new innovative ICT solutions developed by Ericsson NikolaTesla experts.

- Annual Meeting of Ericsson Nikola Tesla's shareholders was held.

- At a press conference by the Ministry of Health and Social Welfare, held in Gospić, a trial operation of new e-Health functionalities was demonstrated. An e-Health project, covering functionalities such as ePrescription, eReferral and eBooking was implemented on a trial basis in Lika-Senj County. The press conference gave an opportunity to underline that the e-Health system will enhance human life and business operations, in general. According to analysis by Health Consumer Powerhouse (HCP) from Brussels, which follows and analyzes healthcare systems in Europe and Canada since 2005, the Croatian healthcare system ranks third behind Great Britain, Sweden and Iceland.

- During the opening session of MIPRO 2010, the 33rd international Convention on Information and Communication Technology, wireless data transmission at a record speed of up to 42 Mbps was demonstrated. This was showcased for the first time not only in Croatia but in South-Eastern Europe, too. This exceptional achievement was presented to MIPRO attendees by Gordana Kovačević, the President of Ericsson Nikola Tesla and Mladen Pejković, the President of Vipnet Management Board. Specialists from our Company were active participants in the Convention activities.

- World "EXPO 2010" was held under the motto "Better town for better life", showcasing the vision on better future life in urban areas. Within Ericsson Innovation Forum, Ericsson Nikola Tesla's specialists demonstrated e-Mobile program. This innovation was assessed as a solution of a large business potential.

- An official visit to Ericsson Nikola Tesla was paid by Ivo Josipović, the President of the Republic of Croatia, and his associates. During the visit, the President of Ericsson Nikola Tesla presented the Company's results and activities in the domestic and export markets, as well as the plans for future operations.

After exchanging opinions, the guest of honor and his associates toured the Company with the hosts who informed him on important activities and projects. The Company experts presented him the state-of-the-art e-Health solutions.

- The 10th jubilee Summer Camp was celebrated in Ericsson Nikola. Since 2001, as many as 300 students have participated in the camp activities, which resulted in 162 successful projects and 82 prototypes supported by 73 mentors coming both from faculties and from the Company. The attendees were awarded numerous acknowledgments for their work, among which three Rector's awards are to be mentioned.

- ARCA, the 8th international fair of innovations, new technologies and products, focused on interconnecting science and economy, was held in Zagreb. A conference on the topic „Through innovations to competitiveness", organized during the fair, was attended by prominent specialists from Croatia, the USA, Slovenia, Austria, Hungary, Russia and Romania. Key topics discussed included creation of an environment that would encourage innovations, creative relation between employer and innovators in a company, academic community and other institutions, university degree education and training for applied researches, and good practice examples. Experts from Ericsson Nikola Tesla participated in the conference along with prominent domestic and foreign experts.

- Ericsson Nikola Tesla and Hrvatski Telekom demonstrated in live, for the first time in Croatia, LTE network implemented for trial operation. This new network technology enables high transmission speeds, and enhanced data transmission quality, as well as implementation of numerous multimedia services in a daily life. These high data transmission speeds made mobile and fixed network convergence a reality. IP Multimedia Subsystem (IMS), implemented by HT, offers the same possibility and line of services, regardless of the access network used, and user device applied. Thus, Croatia is positioned among countries pioneering the implementation of the cutting edge 4G LTE technologies.

- Company specialists participated at the New Technology Day (DaNTE) and showcased the new innovative ICT solutions in traffic and municipal services sector, and the health care sector too.

- Ericsson Mobile Health, a product for patient remote medical status monitoring was presented in a number of fairs and exhibitions such as: MEDICA fair, Vodafone Innovation Day exhibition, Health Care Days in Bosnia and Herzegovina, and GSMA Mobile Asia Congress.

- At the traditional international symposium on telecommunications, BIHTEL 2010, experts from Ericsson Nikola Tesla presented several advanced telecommunications solutions.

- Ericsson Nikola Tesla participated successfully, for the 10th time in a row, at the Information and Communications Technologies Festival (INFOFEST) in Budva, Montenegro.

- Company specialists participated in the International Exhibition named TIBO, on Communications, Information Systems, Banking Systems, Office Accessories and Security Systems, held in Minsk, Belarus.

- The fifth annual Ericsson Nikola Tesla Suppliers and Partners' Day was held and all major suppliers and partners of the Company attended the event. The theme of the event covered times of changes, and adjustments to new market and technology challenges, as well as new organizational models and responsibilities.

- The cooperation between Vipnet and Ericsson Nikola Tesla through implementation of state-of-the-art technology. Osijek became the first town in Croatia with data transmission speeds of up to 42 Mbps available to users.

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

COMPANY PERFORMANCE

STRONG PERFORMANCE IN A TOUGH ENVIRONMENT

Our operating environment during 2010 continued to be one of extraordinary challenges, driven primarily by global economic events. Against this backdrop, we performed strongly in terms of underlying net profit and net cash from operating activities despite pressure on sales volumes.

For Ericsson Nikola Tesla, the most significant impact of the global economic crisis materialized in our business activities in Kazakhstan, where we wrote off MHRK 126.5 of receivables. These balances existed in respect of customer financing extended in 2005 and fully secured by trade finance instruments from BTA Bank who underwent a major financial restructuring during 2010.

As a result of early actions taken to manage the impact of BTA's restructuring, we were able to accelerate collection of MHRK 150 of remaining balances, and the positive impact is reflected in net cash from operating activities of MHRK 366.4 and a year-end cash and cash equivalents balance of MHRK 673.9.

Underlying net profit of MHRK 150.5 for 2010, excluding the Kazakhstan write-off, represents a return on sales of 12.3 percent. A year-over-year sales decline of 13 percent reflects a slowdown of capital investments by operators, decreased government investments into infrastructure projects within the ICT segment, a general decrease in budget volumes of our partners and customers and the impact of industry-wide component shortages and supply chain bottlenecks.

GROWING THE RIGHT WAY

Throughout 2010, we maintained our focus on business stability while at the same time laying additional foundations for future business growth. We made strong progress during 2010 in managing balance sheet risk and in continuing to rightsize our cost base. Long-term loans and receivables and trade receivables reduced by a combined total of MHRK 372.8 or 51 percent when compared to the end of 2009 and we achieved a 17 percent reduction in distribution and administrative expenses compared to the prior year. At the same time, we were able to make further investments in competence and business development projects to support our business strategy. This approach has helped position us strongly for the eventual economic recovery.

Investing for and supporting sales growth remains critical to our future success. We are determined to grow the business in the right way and to support these activities through improved ways of working, increased efficiency and continued strong discipline with regards to risk management. Accordingly, during the year, we continued to partner and build relationships with export credit institutions and commercial banks to develop new ways of working and deliver comprehensive financing solutions to our customers.

LOOKING FORWARD

Entering 2011, there is reason for cautious optimism due to the slow recovery of local and regional economies. In executing our strategy in the current environment, we will work hard to maintain strong financials and maximize shareholder value while protecting our employees and delivering exceptional value to our customers.

With these challenges come unique opportunities. Actions taken during 2010 enabled us to begin 2011 with a stronger balance sheet, allowing us to focus on growing revenue, investing for the future and delivering improved performance.

The foundation for all these activities is a culture that puts our customers at the centre of all we do. In this regard we must continue, as we have been doing for over 60 years now, to build and develop these strong and effective relationships and to leverage the competence and depth of knowledge of our employees as a competitive advantage.

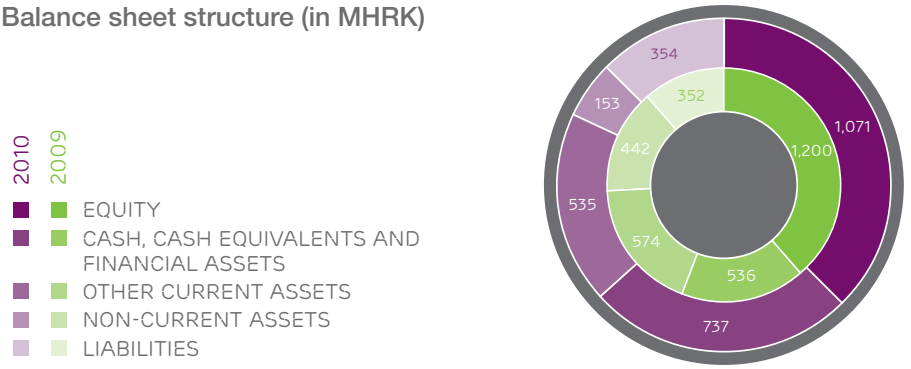
Andrew Skelton
Finance Director
Ericsson Nikola Tesla d.d.

2010 FINANCIAL HIGHLIGHTS

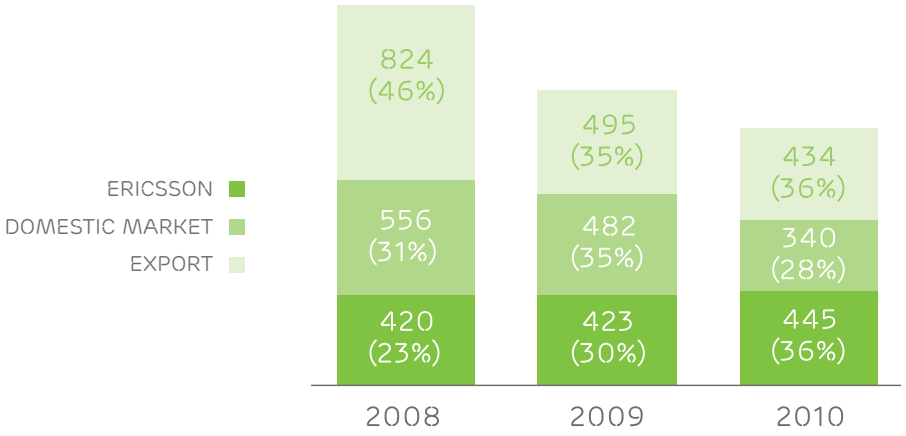
in MHRK, except per share amounts	2010 [1]	2010	2009	2008
PROFITABILITY:				
Sales revenue	1,219	1,219	1,400	1,800
Gross margin	17%	17%	13%	17%
Operating profit	111	-15	66	163
Profit before tax	152	26	127	212
Profit for the year	151	24	128	204
Operating expenses	111	237	138	158
Earnings per share (EPS) in HRK	114	18	98	156
FINANCIAL POSITION AT YEAR-END:				
Total assets	1,425	1,425	1,552	1,521
Cash, cash equivalents and financial assets	737	737	536	367
Capital employed	1,079	1,079	1,210	1,177
Equity	1,071	1,071	1,200	1,166
RATIOS:				
Return on equity	13.3%	2.1%	10.8%	17.5%
Return on capital employed (ROCE)	13.3%	2.3%	10.6%	18.0%
Return on sales (ROS)	12.4%	2.0%	9.1%	11.3%
Equity ratio	75.2%	75.2%	77.3%	76.7%
Capital turnover	1.1	1.1	1.2	1.5
Current ratio	3.7	3.7	3.2	2.9
P/E ratio	11.9	75.6	13.7	7.7

[1] *There was a significant write-off during 2010 as a result of a one-time event and this write-off had a significant impact on reported results, financial measures and ratios. We have presented all measures excluding the write-off to facilitate analysis of the Company's underlying performance. However, these measures should not be viewed in isolation or as substitutes for the original measures which are also shown. For more details on this write-off, please see Note 17, "Trade receivables".*

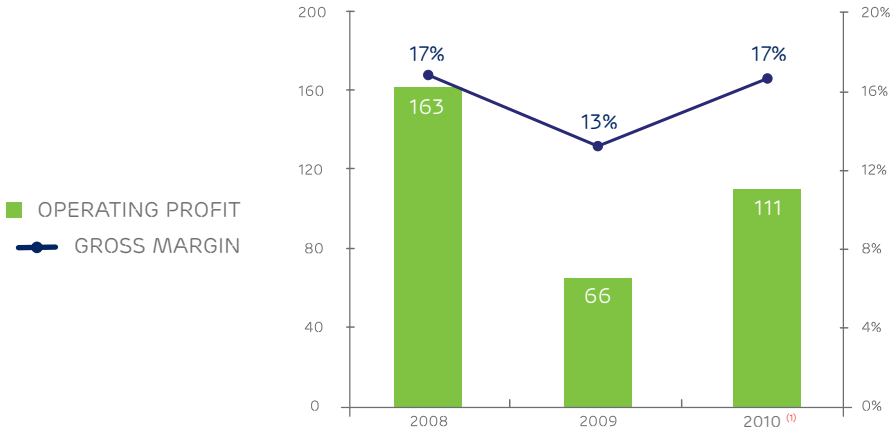
Balance sheet structure (in MHRK)



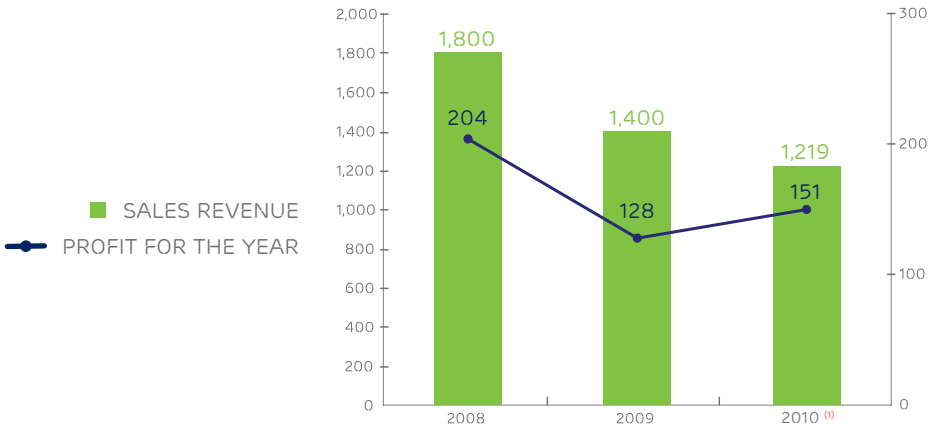
Sales revenue by ETK cornerstones (in MHRK and percentage)



Operating profit (in MHRK) and gross margin



Sales revenue and profit for the year (in MHRK)



2010 (1) = excluding one-time write-off

INFORMATION FOR SHAREHOLDERS

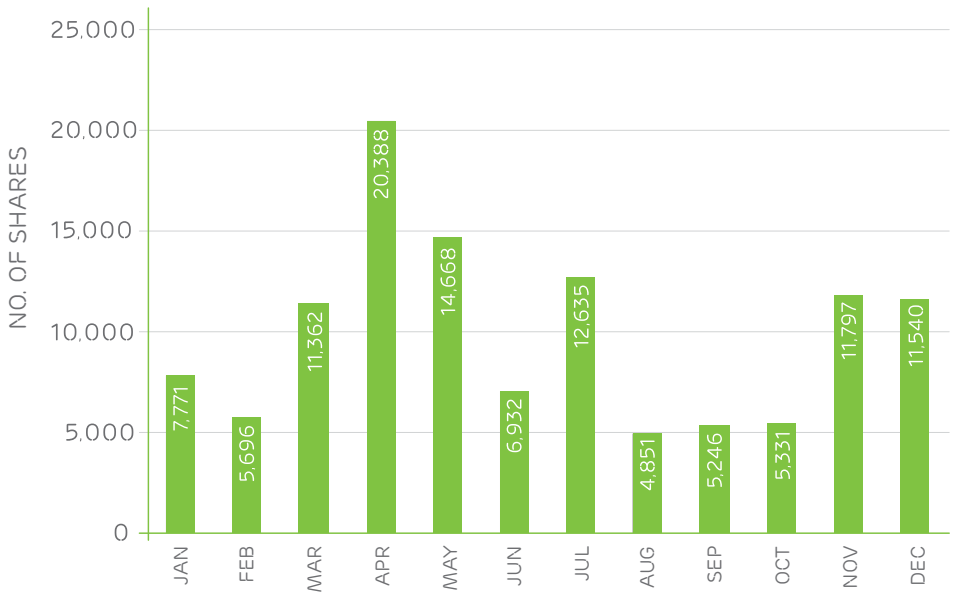
Shares of Ericsson Nikola Tesla are traded in the Regular Market of the Zagreb Stock Exchange under the stock exchange symbol ERNT-R-A.

SHARE TRADING AND PRICE MOVEMENT

Ericsson Nikola Tesla's share preserved its position among the ten most traded shares in the Zagreb Stock Exchange, with turnover of MHRK 168.8 (2.9 percent share in the equity ZSE turnover in 2010).

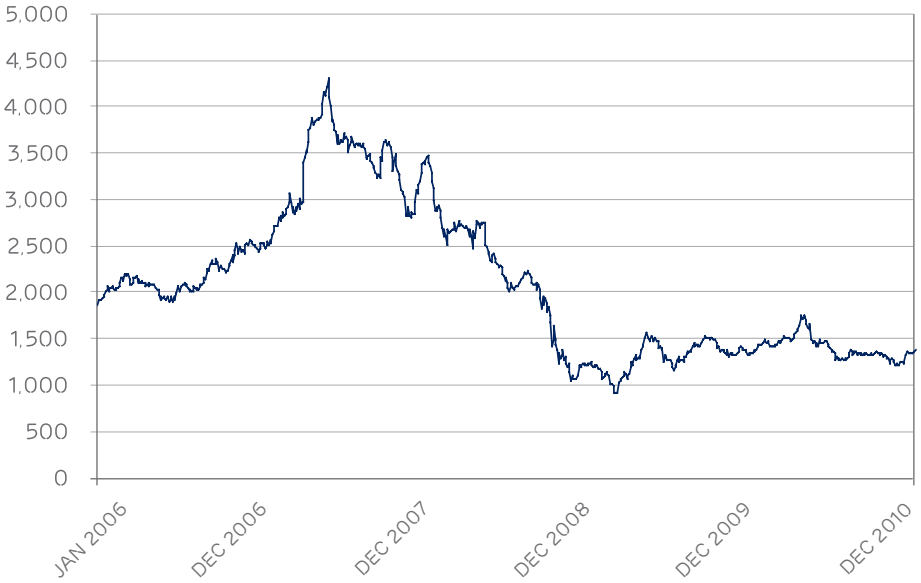
At the end of 2010, Ericsson Nikola Tesla's market capitalization amounted to MHRK 1,812.4, an increase of 1.6 percent year over year. Ericsson Nikola Tesla's share in the total market capitalization of the Zagreb Stock Exchange amounts to 1.3 percent.

Trading volume in 2010



Comparative Ericsson Nikola Tesla's share price movement and share indices in the Zagreb Stock Exchange in 2010

Average Ericsson Nikola Tesla's share price movement 2006 – 2010 (in HRK)



Share price and turnover	2006	2007	2008	2009	2010
Highest (HRK)	2,600	4,300	3,490	1,575	1,777
Lowest (HRK)	1,850	2,450	1,000	820	1,181
Last – end of year (HRK)	2,500	3,420	1,200	1,339.5	1,361
Turnover (MHRK)	500.7	947.4	952.0	196.2	168.8
Dividend per share (HRK)	**320**	**270**	**70**	**120**	**190***

*Proposal for dividend amount sent to the Annual Meeting of Shareholders for approval

SHARE CAPITAL

As at December 31, 2010, the share capital of 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 Meeting of Shareholders. The total number of treasury shares at the end of 2010 was 9,288 (0.7 percent of the share capital). Shares are under the ownership of 6,501 shareholders.

SHAREHOLDERS

Below follows a list of Ericsson Nikola Tesla's major shareholders as at December 31, 2010.

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	119,991	9.01%
Zagrebačka banka d.d./ custodian 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. / Societe Generale Splitska banka d.d.	8,062	0.61%
Other	384,497	28.87%

ERICSSON NIKOLA TESLA'S ANNUAL MEETING OF SHAREHOLDERS IN 2010

The joint stock company Ericsson Nikola Tesla held its Annual Meeting of Shareholders on May 20, 2010. The amount of HRK 87,814,700 of share capital was represented at the Meeting, which is 65.94 percent of total share capital.

Besides the shareholders' representatives and the Company's management, the Meeting was attended by the Chairman of the Supervisory Board, Roland Nordgren, and the members of the Supervisory Board: Ignac Lovrek, Carita Jönsson and Zvonimir Jelić. Snježana Bahtijari, Director of Marketing and Communications (including CSR) presided over the Meeting.

The Supervisory Board's report, on the supervision of activities concerning the Company's business management in 2009, was accepted and the statement of release for the Company's managing director and the Supervisory Board's members was issued.

A resolution was passed regarding a regular dividend payment amounting to HRK 20 per share, and an extraordinary dividend payment amounting to HRK 100 per share, to the Company's shareholders who, as of May 13, 2010, had Company's shares registered on their securities accounts in the Central Depository & Clearing Company. Dividend payment was effected on June 17, 2010.

In addition, resolutions were passed stating that the profit of the Company in the financial year 2009 amounting to HRK 128,447,089.11 shall be allocated to dividend payout, in the amount lacking after the non-allocated retained earnings realized in 2008, and the remainder to the retained earnings.

Furthermore, the decisions on amendments and additions to the Company's Statute were made as proposed by the Meeting agenda. In compliance with the proposal by the Supervisory Board, Dubravko Radošević was appointed the new member of the Supervisory Board.

Besides, at the Annual Meeting, PricewaterhouseCoopers d.o.o., Zagreb was reappointed the Company's auditor for 2010.

The joint stock company Ericsson Nikola Tesla held its Annual Meeting of Shareholders on May 20, 2010