FINANCIAL STATEMENTS 2008

Ericsson Nikola Tesla d.d.

COMPANY PROFILE

History and incorporation

Ericsson Nikola Tesla d.d. Zagreb (the Company) is a Croatian company with fifty-nine years of continuous operations. It has always been a leading specialized supplier and exporter of telecommunications equipment, software solutions and services in Central and Eastern Europe.

The Company was founded as a result of the privatisation of the enterprise Nikola Tesla - Poduzeće za proizvodnju telekomunikacijskih sistema i uređaja, po.

According to the ownership structure as at 31 December 2008, Telefonaktiebolaget LM Ericsson (Ericsson) holds 49.07% of the shares. The Croatian Privatisation Fund owns 0.89% of the Company's shares, treasury shares amount to 1.02% and other shareholders own the remaining 49.02% of the Company's shares.

Principal activities

The principal activities of the Company are the following: research and development of telecommunications software and services, design and integration of total communications solutions for operators and enterprises as well as testing, sales and maintenance of communications solutions and systems in the Republic of Croatia, selected customers in Central and Eastern Europe, Middle East and Africa as well as companies within the Ericsson Group.

Ericsson Nikola Tesla d.d. Zagreb is a joint stock company incorporated in Croatia. The headquarters of the Company are in Zagreb, Krapinska 45.

COMPANY PROFILE (CONTINUED)

Supervisory Board, Management Board and executive management

The Supervisory Board

The Supervisory Board members during 2008 and up to the release of these statements were:

Roland Nordgren	Appointed on 27 May 2008	Chairperson
Jan Campbell	Until 26 May 2008	Chairperson
Ignac Lovrek	Reappointed on 31 May 2007	Member; Vice-Chairperson
Carita Jönsson	Reappointed on 27 May 2008	Member
Zvonimir Jelić	Reappointed on 5 June 2006	Member and employees' representative
Darko Marinac	Reappointed on 31 May 2007	Member

The Management Board

The Management Board has one member:

Gordana Kovačević	Appointed on 1 January 2005	President

COMPANY PROFILE (CONTINUED)

Executive management

As at 31 December 2008, the Company's executive management comprised:

Gordana Kovačević	Company President
Oscar Wallstén	Company CFO
Milivoj Pejković	Senior Adviser to the Company President for Sales and Marketing
Milan Živković	Director, Strategy and Business Development
Josip Jakovac	Director, Sales and Marketing for CIS
Tihomir Šicel	Director, Sales and Marketing for T-HT
Hrvoje Benčić	Director, Networks
Lars Olander	Director, Research and Development Center
Marijana Đuzel	Director, HR and Organization (including Legal Affairs)
Snježana Bahtijari	Director, Communication
Alen Ludaš	Head of MCA Mobilkom Austria Group
Miroslav Kantolić	Director, Sales and Marketing for VIPnet and Si.mobil
Goran Ožbolt	Director, Sales and Marketing for Tele2 and Alternative Operators
Snježana Ivezić-Torbarina	Director, Sales and Marketing for Enterprise
Jagoda Barać	Director, Sales and Marketing for Neighboring countries
Damir Bušić	Director, Multimedia and System Integration
Srećko Lepri	Director, Services
Boris Drilo	Director, Innovation, Marketing and Portfolio Management
Darko Huljenić	Director, e-Health (BU/PU)
Mathias Danielsson	Director, Global Service Delivery Center
Branko Dronjić	Director, Business Ericsson Test Environment
Vjeran Radatović	Deputy Director, Research and Development Center
Egemen Kurdoglu	Manager, AXE Signaling
Patrick Martin	Manager, CPP
Lorenco Damjanić	Manager, DUCI Back-End
Saša Vojvodić	Deputy Director, Services
Sameh Shoukry	Manager, PC NDI

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the business situation of the Company together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements which will be presented to the General Assembly of Shareholders.

The financial statements set out on pages 58 to 106 were authorised by the Management Board on 3 March 2009 for issue to the Supervisory Board and are signed below.

Gordana Kovačević
Director

Ericsson Nikola Tesla d.d.
Zagreb
Krapinska 45
10000 Zagreb
Croatia

KPMG

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. Zagreb

We have audited the accompanying financial statements of Ericsson Nikola Tesla d.d. Zagreb (the Company), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o.
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Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

3 March 2009

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Tony Ilijanić
Director, Croatian Certified Auditor

ERICSSON NIKOLA TESLA INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HRK '000	2007 HRK '000
Sales revenue	3	1,800,059	1,781,486
Cost of sales		(1,499,146)	(1,509,235)
Gross profit		300,913	272,251
Other operating income	5	27,410	23,858
Distribution expenses		(85,027)	(77,386)
Administrative expenses		(44,825)	(44,799)
Other operating expenses	6	(35,197)	(36,450)
Results from operating activities		163,274	137,474
Finance income	8	61,566	92,771
Net foreign exchange gains/(losses)		1,417	(29,469)
Profit before finance and income tax expense		226,257	200,776
Finance expense	8	(14,287)	(237)
Profit before tax		211,970	200,539
Income tax expense	9	(7,602)	(744)
Profit for the year		**204,368**	**199,795**
Earnings per share (HRK)	10	155.05	152.11

The notes set out on pages 64 to 106 form an integral part of these financial statements.

ERICSSON NIKOLA TESLA BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 HRK '000	2007 HRK '000
ASSETS			
Non-current assets			
Property, plant and equipment	11	163,289	174,688
Intangible assets	12	6,265	4,421
Loans and receivables	13	349,911	384,110
Equity securities	14	45	45
Deferred tax assets	15	13,008	9,723
Total non-current assets		532,518	572,987
Current assets			
Inventories	16	53,110	55,509
Trade receivables	17	486,732	593,999
Receivables from related parties	29 (c)	59,111	53,590
Income tax receivable		-	25,568
Other receivables	18	20,524	26,558
Financial assets at fair value through profit or loss	19	49,331	57,741
Prepayments and accrued income		1,290	9,890
Cash and cash equivalents	20	318,303	338,276
Total current assets		988,401	1,161,131
TOTAL ASSETS		**1,520,919**	**1,734,118**

The notes set out on pages 64 to 106 form an integral part of these financial statements.

ERICSSON NIKOLA TESLA BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2008

	Notes	2008 HRK '000	2007 HRK '000
EQUITY AND LIABILITIES			
Equity			
Share capital	21 (a)	133,165	133,165
Treasury shares	21 (b)	(46,389)	(45,165)
Legal reserves	21 (c)	20,110	20,110
Retained earnings		1,059,241	1,207,524
Total equity		1,166,127	1,315,634
Non-current liabilities			
Interest-bearing borrowings	24	6,425	748
Employee benefits	25	5,009	4,722
Total non-current liabilities		11,434	5,470
Current liabilities			
Payables to related parties	29 (c)	74,281	87,149
Interest-bearing borrowings	24	2,408	663
Trade and other payables	26	102,020	112,215
Income tax payable		2,811	-
Financial liabilities at fair value through profit or loss	19	6,360	-
Provisions	27	12,477	16,662
Accrued charges and deferred revenue	28	143,001	196,325
Total current liabilities		343,358	413,014
Total liabilities		354,792	418,484
TOTAL EQUITY AND LIABILITIES		**1,520,919**	**1,734,118**

The notes set out on pages 64 to 106 form an integral part of these financial statements.

ERICSSON NIKOLA TESLA STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HRK '000	2007 HRK '000
Cash flows from operating activities			
Profit before tax		211,970	200,539
Adjustments for:			
Depreciation and amortisation	11,12	73,283	83,685
Impairment losses and reversal		28,303	25,472
Change in provisions	27	(375)	6,597
Net gain on sale of property, plant and equipment	5	(117)	(326)
Net loss/(gains) on financial assets at fair value through profit or loss	8	14,084	(9,879)
Amortisation of discount	8	(12,855)	(30,717)
Interest income	8	(48,711)	(52,175)
Interest expense	8	203	237
Foreign exchange (gains)/losses		(1,417)	3,620
Equity-settled transactions	7	6,656	24,333
		271,024	251,386
Decrease in loans and receivables		18,649	12,470
Decrease/(increase) in inventories		2,022	(26,267)
Decrease/(increase) in receivables		120,016	(98,070)
(Decrease)/increase in payables		(83,929)	42,486
Cash generated from operations		327,782	182,005
Interest paid		(203)	(237)
Income taxes refunded/(paid)		14,852	(25,849)
Net cash from operating activities		**342,431**	**155,919**
Cash flows from investing activities			
Interest received		48,655	52,098
Proceeds from sale of property, plant and equipment		291	995
Purchases of property, plant and equipment, and intangible assets	11,12	(63,901)	(59,769)
Increase/(decrease) in non-current deposits		478	(828)
Net disposal of financial assets		686	389,090
Net cash (used)/from investing activities		**(13,791)**	**381,586**

The notes set out on pages 64 to 106 form an integral part of these financial statements.

ERICSSON NIKOLA TESLA STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HRK '000	2007 HRK '000
Cash flows from financing activities			
Increase in interest-bearing borrowings		8,085	-
Repayment of interest-bearing borrowings		(655)	(590)
Repurchase of treasury shares	21 (b)	(3,895)	(52,456)
Dividends paid	22	(355,305)	(423,664)
Net cash used in financing activities		**(351,770)**	**(476,710)**
Effects of exchange rate changes on cash and cash equivalents		3,157	(3,286)
Net (decrease)/increase in cash and cash equivalents		(19,973)	57,509
Cash and cash equivalents at the beginning of the year	20	338,276	280,767
Cash and cash equivalents at the end of the year	20	**318,303**	**338,276**

The notes set out on pages 64 to 106 form an integral part of these financial statements.

ERICSSON NIKOLA TESLA STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital	Treasury shares	Legal reserves	Retained earnings	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2007	133,165	(3,119)	20,110	1,422,337	1,572,493
Changes in equity for 2007					
Profit for the year	-	-	-	199,795	199,795
Dividend distribution for 2006, Note 22	-	-	-	(423,664)	(423,664)
Repurchase of treasury shares, Note 21 (b)	-	(52,456)	-	-	(52,456)
Share-based payments, Note 25 (b)	-	10,410	-	9,056	19,466
As at 31 December 2007	**133,165**	**(45,165)**	**20,110**	**1,207,524**	**1,315,634**
As at 1 January 2008	133,165	(45,165)	20,110	1,207,524	1,315,634
Changes in equity for 2008					
Profit for the year	-	-	-	204,368	204,368
Dividend distribution for 2007, Note 22	-	-	-	(355,305)	(355,305)
Repurchase of treasury shares, Note 21 (b)	-	(3,895)	-	-	(3,895)
Share-based payments, Note 25 (b)	-	2,671	-	2,654	5,325
As at 31 December 2008	**133,165**	**(46,389)**	**20,110**	**1,059,241**	**1,166,127**

The notes set out on pages 64 to 106 form an integral part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Ericsson Nikola Tesla d.d. Zagreb (the Company) is a joint stock company incorporated and domiciled in Croatia. The address of its registered office is Krapinska 45, 10000 Zagreb, the Republic of Croatia. The Company's shares are listed on the Public Joint Stock Company listing on the Zagreb Stock Exchange. These financial statements were authorised for issue by the Management Board on 3 March 2009 for approval by the Supervisory Board. A summary of the Company's principal accounting policies is set out below.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements also comply with the Croatian Law on Accounting in effect on the date of issue of these financial statements. These financial statements are a translation of the official statutory IFRS financial statements.

Basis of preparation

The financial statements are prepared on the historical cost basis, with the exception of financial instruments which are carried at fair value. These comprise derivative financial instruments and financial assets and liabilities at fair values through profit or loss. The accounting policies have been consistently applied to all periods presented in these financial statements and are consistent with those used in the previous year.

The preparation of financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates are discussed in Note 2.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards (IFRS), amendments and interpretations (IFRIC) to existing standards have been published. The Company has not early adopted them, but they are mandatory for the Company's accounting periods beginning on 1 January 2009 or later periods. They are as follows:

IFRS 2 (Amendment), 'Share-based Payment' (effective from 1 January 2009). The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▶ Standards, interpretations and amendments to published standards that are not yet effective (continued)

Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Company is analysing the impact of the amended standard.

Revised IFRS 3, 'Business Combinations' (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 is not expected to have any impact on the financial statements.

IFRS 8, 'Operating Segments' (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management is currently assessing the impact of IFRS 8 on the presentation and disclosure of its operating segments. The Company will apply IFRS 8 from annual periods beginning on 1 January 2009.

Revised IAS 1, 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company is currently evaluating whether to present a single statement of comprehensive income or two separate statements.

Revised IAS 23, 'Borrowing costs' (effective from 1 January 2009). The revised Standard removes the option to expense borrowing costs and requires the capitalization of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale). The Company is analysing the impact of the revised standard.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▸ Standards, interpretations and amendments to published standards that are not yet effective (continued)

IAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2009). The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. The amendments to IAS 27 are not expected to have any impact on the financial statements.

Revised IAS 27, 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not expected to have any impact on the financial statements.

IAS 32 (Amendment), 'Financial Instruments: Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009). The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments are not relevant to the Company's financial statements as no puttable instruments have been issued in the past.

IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective for annual periods beginning on or after 1 July 2009). The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments are not relevant to the Company's operations as the Company does not apply hedge accounting.

IFRIC 15, 'Agreements for the Construction of Real Estate' (effective from 1 January 2009). IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- The agreement meets the definition of a construction contract in accordance with IAS 11.3;
- The agreement is only for the rendering of services in accordance with IAS 18 (e.g. the entity is not required to supply construction materials); and
- The agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied. IFRIC 15 is not expected to have any impact on the financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▶ Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRIC 16, 'Hedges of a Net Investment in a foreign Operation' (effective from 1 October 2009). The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Company's operations as the Company has no investments in foreign operation.

IFRIC 17, 'Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009). The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. IFRIC 17 is not expected to have any impact on the financial statements.

▶ Functional and presentational currency

The Company's financial statements have been prepared in Croatian kuna (HRK), which is the currency of primary economic environment in which the entity operates (the functional currency) and the presentation currency, and are rounded to the nearest thousand. The closing exchange rate as at 31 December 2008 was HRK 5.1555 per 1 United States dollar (2007: HRK 4.9855) and HRK 7.3244 per 1 euro (2007: HRK 7.3251).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Items of property, plant and equipment are shown at cost or deemed cost, less accumulated depreciation and impairment losses.

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land and assets under construction or development are not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost over the estimated economic useful life of the assets.

The estimated useful lives are as follows:

	Useful lives	
	2008	2007
Buildings	5 – 30 years	5 – 30 years
Plant and equipment	2 – 10 years	3 – 10 years
Other	5 – 7 years	5 – 7 years

Depreciation method and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the income statement.

Intangible assets

Intangible assets are stated on initial recognition at cost and subsequently at cost less accumulated amortisation and impairment losses.

Amortisation is provided on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets include acquired licence and computer software, which are amortised on a straight-line basis over useful life of 2-4 years (2007: 2-4 years). Cost associated with developing or maintaining computer software is recognised as an expense as incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▶ Impairment of assets

Property, plant and equipment, intangible assets, financial instruments and receivables are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its estimated recoverable amount, an impairment loss is recognised in income statement for items of property, plant and equipment, intangible assets, financial instruments and receivables carried at cost.

The recoverable amount of property, plant and equipment and intangible assets is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

The recoverable amount of held-to-maturity investments and receivables carried at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

Receivables with short duration are not discounted. The recoverable amount of other assets is the higher of the asset's net selling price and its value in use.

An impairment loss in respect of held-to-maturity investments and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

▶ Financial instruments

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets or held-to-maturity investments. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this at every reporting date.

Financial instruments at fair value through profit or loss category have two sub-categories: "financial instruments held for trading", and those designated by management at fair value through profit or loss at inception. Financial instruments acquired principally for the purpose of generating a short-term profit are classified as held for trading and included in current assets. These include derivative financial instruments, which do not qualify for hedge accounting. Financial instruments at fair value through profit or loss include debt and equity securities and investments in investment funds.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▸ Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the near term, which are designated at fair value through profit or loss or as available for sale. These include non-current receivables and deposits with financial institutions.

Financial instruments with fixed or determinable payments and fixed maturity that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity investments. All other financial instruments are classified as available for sale. Financial instruments at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the instrument. Loans and receivables and other financial liabilities are recognised on the day they are transferred to the Company.

Financial assets are initially measured at the fair value of the consideration given for them, including transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. All financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value without any deduction for transaction costs that the Company may incur on sale or other disposal. Available-for-sale financial assets for which fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses. Held-to-maturity investments and loans and receivables are carried at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts on held-to-maturity investments and available-for-sale financial assets, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Other financial liabilities are initially recognised at fair value and subsequently carried at amortised cost.

The fair value of financial instruments at fair value through profit or loss or available for sale is based on their quoted market price at the balance sheet date, without any deduction for transaction costs. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available for sale and non-monetary securities classified as available for sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'realised gains and losses from available-for-sale securities'.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

▶ Financial instruments (continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payments is established.

A financial asset is derecognised when the Company loses the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Financial instruments at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on derecognition. Loans and receivables are derecognised on the day they are transferred by the Company. Other financial liabilities are derecognised when the Company's contractual obligations are discharged or cancelled or expire.

The Company uses derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operational activities. Hedge accounting has not been applied and those derivative instruments are accounted for as financial instruments held for trading. Derivative instruments are measured initially at fair value and the related transaction costs are recognised in the income statement and subsequent to initial recognition, are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The fair value of forward exchange contract is its quoted price at the balance sheet date, being the present value of the quoted forward price.

▶ Trade and other receivables

Receivables are initially recognised at the fair value of consideration given and are carried at amortised cost, using the effective interest rate. Receivables are written down to their estimated realisable value through an impairment allowance.

Service contract work-in-progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings on long-term contracts. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on budgeted capacity.

▶ Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months.

▶ Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of other inventories is based on the First In First Out (FIFO) principle and includes expenditures incurred in acquiring the inventories and bringing them to their location and condition. In case of manufactured inventories the cost includes materials, labour and related overhead, and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Slow-moving and obsolete inventories have been written down to their estimated realisable value.

Share capital and reserves

Share capital is stated in HRK at nominal value. The amount of consideration paid on repurchase of share capital, including directly attributable costs, is recognised as a charge in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

The result for the year is transferred to retained earnings. Dividends are recognised as a liability in the period in which they are declared. Dividends are paid out of the retained earnings.

Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Transactions denominated in foreign currencies are translated into HRK at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date have been translated to HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are included in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to HRK at foreign exchange rates ruling at the dates the values were determined. Non-monetary assets and items that are measured in terms of “historical cost of a foreign currency” are not retranslated.

Recognition of revenues

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion. The stage of completion is measured by the proportion of contract cost incurred for work performed to date in relation to the estimated total contract costs. If the cost required to complete such contract is estimated to exceed remaining revenues, provision is made for the total estimated loss in the period in which such loss is estimated.

Sales revenue from other activities is recognised in the income statement, excluding value added tax, upon delivery of products, software and/or services when the significant risks and rewards of ownership have been transferred to the buyer.

Employee benefits

a) Long-term service benefits

The Company provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

b) Share-based payments

The Company operates an equity-settled, share-based compensation plan allowing the Company’s employees to receive shares. The fair value of the employee services received in exchange for the grant of the Company’s shares is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Company revises its estimates of the number of shares that are expected to become granted. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. When distributed upon vesting date, treasury shares are credited at average purchase cost and recorded against retained earnings.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The most significant provisions in the financial statements are provisions for warranty claims, penalty claims and litigation. If the effect is material and if the obligation is expected to be settled in a period of over 12 months, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Net financial income

Net financial income comprises interest receivable on non-current loans, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on financial assets at fair value through profit and loss. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Company's business segments. The Company's primary format for segment reporting is based on business segments: Networks, Professional services and Multimedia. The business segments are determined based on the Company's management and internal reporting structure.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income tax

The Company is subject to income tax in Croatia. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These calculations that support the tax return may be subjected to review and approval by the local tax authorities.

(b) Revenue recognition

The Company uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Company to estimate the services performed to date as a proportion of the total services to be performed.

(c) Impairment losses on loans and receivables

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with parameters relevant to assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements

The Company has entered into several service contracts combining features and elements of other contracts for which management has had to use judgement to determine appropriate accounting treatment.

Certain service contracts under which the Company also provides financing to the contracts are separated into sales revenue and financial income. The financial income is recognised using the effective interest over the life of the contract.

Under certain service contracts the Company offers to its customers the additional deliveries of its goods or services, provided certain criteria are fulfilled. These additional deliveries are treated as adjustment to the sales margin of the original contract and recognised as an obligation when the customer fulfils the criteria.

3 SALES REVENUE

	2008	2007
	HRK '000	HRK '000
Sales revenue from sales of products	969,326	967,897
Sales revenue from sales of services	830,733	813,589
	1,800,059	**1,781,486**

4 SEGMENT REPORTING

When determining the business segments, the Company has looked at which market and to what type of customers the Company's products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financial assets and related revenue, non-current liabilities and related expenses, and corporate assets and related expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

▶ Business segments (primary)

The Company is organised into business units and, in line with the Group's reporting, has three primary reportable operating segments as follows:

i) Networks, that includes products for mobile and fixed broadband access, core networks, transmission and next- generation IP networks. Related network rollout services are also included. In addition, power modules and cables operations are included within Networks.

ii) Professional services, that includes all service operations, excluding Network rollout reported under Networks. Services related to system integration of IP and core networks are classified as Professional services.

iii) Multimedia, that includes multimedia systems, enterprise solutions and mobile platforms.

▶ Geographical segments (secondary)

Segments are managed in Europe, Middle East and Africa. Revenues determined based on the geographic location of customers are disclosed in this note. All the Company's assets are located in Croatia.

	2008	2007
	HRK '000	HRK '000
Sales revenue in Croatia	556,447	560,341
Sales revenue in Russia, Belarus, Kazakhstan, Georgia, Kyrgyzstan, Moldova	388,044	406,130
Sales revenue to the European Union	419,689	413,276
Sales revenue in Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo	417,030	390,182
Other export sales revenue	18,849	11,557
	1,800,059	**1,781,486**

4 SEGMENT REPORTING (CONTINUED)

	Networks		Professional services		Multimedia		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Segment sales revenue and other income	1,266,621	1,240,847	442,818	442,508	117,913	121,663	1,827,352	1,805,018
Segment results from operating activities	92,401	75,343	113,928	103,821	1,653	2,783	207,982	181,947
Unallocated other operating income							117	326
Unallocated expenses							(44,825)	(44,799)
Results from operating activities							163,274	137,474
Segment finance income	22,468	42,235	12,422	10,780	4,153	10,656	39,043	63,671
Segment results	**114,869**	**117,578**	**126,350**	**114,601**	**5,806**	**13,439**	**247,025**	**245,618**
Unallocated finance income							22,523	29,100
Net foreign exchange gains/(losses)							1,417	(29,469)
Profit before finance and income tax expense							226,257	200,776
Finance expense							(14,287)	(237)
Profit before tax							211,970	200,539
Income tax expense							(7,602)	(744)
Profit for the year							**204,368**	**199,795**
Segment assets	721,142	822,948	252,115	245,614	67,133	77,229	1,040,390	1,145,791
Unallocated assets							480,529	588,327
Total assets							1,520,919	1,734,118
Segment liabilities	115,114	228,996	40,244	68,346	10,716	21,490	166,074	318,832
Unallocated liabilities							188,718	99,652
Total liabilities							354,792	418,484
Other segment information:								
Capital expenditure	44,293	40,106	15,485	11,970	4,123	3,764		
Depreciation and amortisation	41,580	49,174	14,537	14,676	3,871	4,615		
Other non-cash expenses	16,522	16,763	5,776	5,003	1,538	1,573		
Unallocated - audit fee expenses							445	465

5 OTHER OPERATING INCOME

	2008	2007
	HRK '000	HRK '000
Commission income	1,601	-
Reversal of unused provisions	6,153	4,373
Rental income	17,280	17,979
Reversal of impairment loss on loans and receivables	1,116	8
Net gain on disposal of property, plant and equipment	117	326
Other income	1,143	1,172
	27,410	**23,858**

6 OTHER OPERATING EXPENSES

	2008	2007
	HRK '000	HRK '000
Increase in provisions	5,778	10,970
Impairment loss on loans and receivables	29,042	24,114
Obsolescence allowance on inventories	377	1,366
	35,197	**36,450**

7 PERSONNEL EXPENSES

	2008	2007
	HRK '000	HRK '000
Net salaries	199,753	173,038
Taxes and contributions	195,712	170,456
Other payroll-related costs	16,260	12,743
Equity-settled transactions (Note 25 b)	6,656	24,333
	418,381	**380,570**

Personnel costs include HRK 64,648 thousand (2007: HRK 57,458 thousand) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries (Gross II).

At the year-end the Company employed the following personnel:

	2008	2007
Operations	526	450
Global Service Delivery Center	235	183
Business Ericsson Test Environment	43	27
Research and Development Center	590	587
Sales	69	64
Support functions	159	157
Employees on long-term assignment abroad	9	10
	1,631	**1,478**

8 FINANCE INCOME AND EXPENSE

Finance income

	2008	2007
	HRK '000	HRK '000
Interest income (Note 8 a)	48,711	52,175
Net gains from disposal of financial assets at fair value through profit or loss (Note 8 c)	-	8,318
Net gains from re-measurement of financial assets at fair value through profit or loss (Note 8 d)	-	1,561
Amortization of discount (Note 8 b)	12,855	30,717
	61,566	**92,771**

Finance expense

	2008	2007
	HRK '000	HRK '000
Interest expense	203	237
Net losses from disposal of financial assets at fair value through profit or loss (Note 8 c)	7,974	-
Net losses on re-measurement of financial assets at fair value through profit or loss (Note 8 d)	6,110	-
	14,287	**237**

8 (a)	2008	2007
	HRK '000	HRK '000
Interest income		
- on loans to customers	24,153	25,964
- on debt securities	2,723	3,846
- on term deposits	19,380	14,937
- on other receivables	2,455	7,428
	48,711	**52,175**

8 (b) The Company released HRK 12,855 thousand (2007: HRK 30,717 thousand) of impairment reserves into financial income due to amortisation of discount according to the net present value method of impairment.

8 FINANCE INCOME AND EXPENSE (CONTINUED)

8 (c)

	2008	2007
	HRK '000	HRK '000
Net (losses)/gains from disposal of financial assets at fair value through profit or loss arise from the following financial instruments:		
- Derivative financial instruments	(8,040)	4,415
- Investment in investment funds	66	3,828
- Debt securities	-	75
	(7,974)	**8,318**

8 (d)

	2008	2007
	HRK '000	HRK '000
Net (losses)/gains from re-measurement of financial assets at fair value through profit or loss arise from re-measurement of the following financial instruments:		
- Derivative financial instruments	(4,023)	1,861
- Equity securities	(1,994)	1,122
- Investment in investment funds	-	321
- Debt securities	(93)	(1,743)
	(6,110)	**1,561**

9 INCOME TAX EXPENSE

Income tax has been calculated at statutory tax rate of 20% (2007: 20%) of the taxable income of the Company.

Income tax expense recognised in the income statement comprises:

	2008	2007
	HRK '000	HRK '000
Current income tax expense	(12,218)	(1,153)
Deferred tax income relating to the origination and reversal of temporary differences	4,616	409
Total income tax expense in the income statement	**(7,602)**	**(744)**

Deferred tax recognised directly to equity:

	2008	2007
	HRK '000	HRK '000
Relating to equity-settled transactions	**(1,331)**	**(4,867)**

Reconciliation between tax expense and accounting profit is shown as follows:

	2008	2007
	HRK '000	HRK '000
Profit before tax	211,970	200,539
Income tax at 20% (2007: 20%)	42,394	40,108
Non-deductible expenses	1,476	1,982
Tax exempt revenues	606	1,644
Tax incentives	(36,874)	(42,990)
Total tax expense	**7,602**	**744**
Effective tax rate	**3.6%**	**0.4%**

Tax incentives include additional tax allowances for certain expenditure totalling HRK 36.3 million (2007: HRK 40.9 million) which meets research and development incentives definitions under Croatian tax legislation. The remaining part of tax incentives relate to educational costs of employees in the amount of HRK 0.6 million (2007: HRK 0.5 million) and for the salaries of new employees in the amount of HRK nil million (2007: HRK 1.5 million).

10 EARNINGS PER SHARE

	2008	2007
	HRK '000	HRK '000
Profit for the year	204,368	199,795
Weighted Average Number of Shares Outstanding at the year-end	1,318,062	1,313,515
Earnings per share (HRK)	**155.05**	**152.11**

Basic and fully diluted earnings per share are the same since the Company does not have any dilutive potential ordinary shares.

11 PROPERTY, PLANT AND EQUIPMENT

2008	Land and buildings	Plant and equipment	Construction in progress	Other	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost					
As at 1 January 2008	154,650	356,148	1,788	328	512,914
Additions	-	-	59,059	-	59,059
Transfers	805	58,416	(59,221)	-	-
Write off	-	(17,395)	-	-	(17,395)
Disposals	-	(1,175)	-	-	(1,175)
As at 31 December 2008	155,455	395,994	1,626	328	553,403
Accumulated depreciation and impairment losses					
As at 1 January 2008	88,782	249,271	-	173	338,226
Charge for the year	3,694	66,583	-	8	70,285
Write off	-	(17,357)	-	-	(17,357)
Disposals	-	(1,040)	-	-	(1,040)
As at 31 December 2008	92,476	297,457	-	181	390,114
Carrying amount					
As at 31 December 2008	**62,979**	**98,537**	**1,626**	**147**	**163,289**
As at 31 December 2007	65,868	106,877	1,788	155	174,688

Construction in progress mainly relates to test plants in the amount of HRK 922 thousand (2007: HRK 845 thousand), to Information systems/Information technology (IS/IT) equipment in the amount of HRK 412 thousand (2007: HRK 562 thousand) and to cooling equipment in the amount of HRK 292 thousand (2007: HRK 381 thousand).

Included in cost is HRK 256.1 million (2007: HRK 146.7 million) of fully depreciated property, plant and equipment that are still used by the Company.

As at 31 December 2008 the Company had contracts totalling HRK 7,852 thousand (2007: HRK 10,509 thousand) related to future equipment purchases.

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company acts as a lessor under operating leases, mainly land and buildings. Property leased to others with a carrying value of HRK 26,207 thousand (2007: HRK 30,181 thousand) is included within land and buildings. These assets are depreciated at the same depreciated rates as other buildings. HRK 20,119 thousand (2007: 21,476 thousand) of leased assets is leased under non-cancellable period of five years started in year 2005. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Portions of the property which is held for rental could not be sold separately or leased out separately under finance lease. Consequently, the IAS 40 criteria for separate investment property recognition are not met.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are:

	2008	2007
	HRK '000	HRK '000
Less than one year	5,870	5,399
Between one and five years	2,935	2,686
	8,805	**8,085**

2007	Land and buildings	Plant and equipment	Construction in progress	Other	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost					
As at 1 January 2007	153,872	324,847	5,539	328	484,586
Additions	-	-	56,450	-	56,450
Transfers	778	59,423	(60,201)	-	-
Write off	-	(26,499)	-	-	(26,499)
Disposals	-	(1,623)	-	-	(1,623)
As at 31 December 2007	154,650	356,148	1,788	328	512,914
Accumulated depreciation and impairment losses					
As at 1 January 2007	84,479	199,609	-	165	284,253
Depreciation charge for the year	4,303	76,588	-	8	80,899
Write off	-	(25,788)	-	-	(25,788)
Disposals	-	(1,138)	-	-	(1,138)
As at 31 December 2007	88,782	249,271	-	173	338,226
Carrying amount					
As at 31 December 2007	**65,868**	**106,877**	**1,788**	**155**	**174,688**
As at 31 December 2006	69,393	125,238	5,539	163	200,333

12 INTANGIBLE ASSETS

The movement on intangible assets in the year ended 31 December 2008 may be analysed as follows:

2008	Application software
	HRK '000
Cost	
As at 1 January 2008	13,782
Additions	4,842
Write-off	(2,004)
As at 31 December 2008	16,620
Accumulated amortisation	
As at 1 January 2008	9,361
Charge for the year	2,998
Write-off	(2,004)
As at 31 December 2008	10,355
Carrying amount	
As at 31 December 2008	**6,265**
As at 31 December 2007	4,421

Included in the cost amount is HRK 5.1 million (2007: HRK 6.3 million) of fully amortised intangible assets that are still used by the Company.

2007	Application software
	HRK '000
Cost	
As at 1 January 2007	12,357
Additions	3,319
Disposals	(1,894)
As at 31 December 2007	13,782
Accumulated amortisation	
As at 1 January 2007	8,469
Charge for the year	2,786
Disposals	(1,894)
As at 31 December 2007	9,361
Carrying amount	
As at 31 December 2007	**4,421**
As at 31 December 2006	3,888

13 LOANS AND RECEIVABLES

	2008	2007
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	7,400	7,878
Receivables from foreign customers, denominated in foreign currency	320,094	351,676
Receivables from domestic customers, denominated in HRK	26,022	25,190
Receivables for sold apartments		
- denominated in foreign currency	5,512	5,928
- denominated in HRK	1,989	2,203
Housing loans to employees, denominated in HRK	207	434
Total loans and receivables	361,224	393,309
Impairment allowance on loans and receivables	(11,313)	(9,199)
	349,911	**384,110**

Deposits with financial institutions are placed as guarantee deposits for housing loans provided to the Company's employees, earning interest at variable rates ranging from 1.07% to 1.10% per annum (2007: 1.14% to 1.26% per annum), and with a remaining maturity of over three years.

Loans and receivables from customers are partially secured with bank guarantees and letters of credit. The current portion of the non-current receivables is classified under current assets.

Non-current portion of foreign and domestic loans and receivables

	2008	2007
	HRK '000	HRK '000
Due		
2009	-	84,095
2010	92,564	87,379
2011	60,124	34,539
2012	38,345	29,340
2013	35,754	30,505
2014-2020	119,329	111,008
	346,116	**376,866**

Receivables for sold apartments are shown net of amounts due to the Croatian state. Housing loans to employees are linked to the countervalue of euro, repayments are made by deduction from monthly salary and the loans are secured with charges on the house or apartment. Receivables for sold apartments and housing loans provided to a limited number of employees bear fixed interest rates of up to 5% per annum. A discount in the amount of HRK 3,496 thousand (2007: HRK 3,903 thousand) is recognised in respect of these loans and amortised to the income statement, using the effective interest rate method at a rate of 8% per annum.

14 EQUITY SECURITIES

	2008	2007
	HRK '000	HRK '000
Other equity securities	**45**	**45**

15 DEFERRED TAX ASSETS

15 (a) Recognised deferred tax assets and liabilities

Movements in temporary differences and components of deferred tax assets and liabilities are as follows:

	2008		Credited / (charged) to income statement	Credited / (charged) to equity	2007	
	Assets	Liabilities			Assets	Liabilities
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Receivables	7,478	-	2,929	-	4,549	-
Inventories	2,277	-	(183)	-	2,460	-
Employee benefits	785	-	28	-	757	-
Non-current receivables for sold apartments	699	-	(82)	-	781	-
Negative fair value of financial instruments	1,601	-	1,289	-	312	-
Accrued charges	168	-	(696)	-	864	-
Increase in equity related to equity-settled transactions	7,777	(7,777)	1,331	(1,331)	6,446	(6,446)
	20,785	(7,777)	4,616	(1,331)	16,169	(6,446)
Set-off of tax	(7,777)	7,777	-	-	(6,446)	6,446
Deferred tax assets	**13,008**	**-**	**4,616**	**(1,331)**	**9,723**	**-**

15 (b) Recognised deferred tax assets and liabilities

Movements in temporary differences and components of deferred tax assets and liabilities are as follows:

	2007		Credited / (charged) to income statement	Credited / (charged) to equity	2006	
	Assets	Liabilities			Assets	Liabilities
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Receivables	4,549	-	(2,276)	-	6,825	-
Inventories	2,460	-	207	-	2,253	-
Employee benefits	757	-	22	-	735	-
Non-current receivables for sold apartments	781	-	(77)	-	858	-
Negative fair value of financial instruments	312	-	(1,589)	-	1,901	-
Accrued charges	864	-	(745)	-	1,609	-
Increase in equity related to equity-settled transactions	6,446	(6,446)	4,867	(4,867)	1,579	(1,579)
	16,169	(6,446)	409	(4,867)	15,760	(1,579)
Set-off of tax	(6,446)	6,446	-	-	(1,579)	1,579
Deferred tax assets	**9,723**	**-**	**409**	**(4,867)**	**14,181**	**-**

16 INVENTORIES

	2008	2007
	HRK '000	**HRK '000**
Raw materials	9,021	12,632
Work-in-progress and semi-finished goods	44,816	44,418
Total inventories	53,837	57,050
Obsolescence allowance	(727)	(1,541)
	53,110	**55,509**

17 TRADE RECEIVABLES

	2008	2007
	HRK '000	**HRK '000**
Foreign customers	83,170	203,383
Current portion of non-current loans and receivables	286,366	231,552
Total foreign customers	369,536	434,935
Domestic customers	132,259	160,062
Current portion of non-current loans and receivables	15,102	16,288
Total domestic customers	147,361	176,350
Impairment allowance on loans and receivables	(30,165)	(17,286)
	486,732	**593,999**

Included in trade receivables is HRK 2,700 thousand (2007: HRK 1,614 thousand) of contract work in progress.

18 OTHER RECEIVABLES

	2008	2007
	HRK '000	**HRK '000**
Net receivables for prepaid VAT	6,209	20,012
Receivables for withholding tax	10,001	-
Receivables from employees	541	1,176
Accrued interest receivable	1,748	1,692
Other receivables	2,025	3,678
	20,524	**26,558**

19 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	HRK '000	HRK '000
Financial assets at fair value through profit or loss, trading assets		
- Positive fair value of derivative financial instruments	4,198	1,861
Financial assets at fair value through profit or loss		
- Debt securities, Ministry of Finance	44,145	44,238
- Equity securities	988	2,982
- Investment in open-ended investment funds	-	8,660
	49,331	**57,741**
Financial liabilities at fair value through profit or loss		
- Negative fair value of derivative financial instruments	6,360	-
	6,360	**-**

20 CASH AND CASH EQUIVALENTS

	2008	2007
	HRK '000	HRK '000
Cash and demand deposits	14,728	22,200
Term deposits originated by the Company, with original maturity up to 3 months	303,575	316,076
	318,303	**338,276**

21 EQUITY

(a) Share capital

As at 31 December 2008, the share capital of the Company is represented by 1,331,650 (2007: 1,331,650) of authorised, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2007: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2007: HRK 100). The holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly and are entitled to one vote per share at the General Assembly.

The Company's shareholders as at 31 December 2008 are:

	2008	2008	2007	2007
	Number of shares	% Held	Number of shares	% Held
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Small shareholders	652,741	49.02	648,194	48.68
Croatian Privatisation Fund	11,848	0.89	11,848	0.89
Treasury shares	13,588	1.02	18,135	1.36
	1,331,650	**100.00**	**1,331,650**	**100.00**

21 EQUITY (CONTINUED)

(b) Treasury shares

During 2007 the Company acquired 15,000 of its own shares. The amount paid was HRK 52,456 thousand out of 2006 net income as decided by General Assembly held on 31 May 2007. During 2008 the Company acquired additional 3,000 of its own shares. The amount paid was HRK 3,895 thousand out of 2006 net income as decided by General Assembly held on 31 May 2007. These shares are held as "treasury shares" and will be granted to key management and other employees as a part of the share-based program established during 2004, as described in Note 25 (b).

(c) Legal reserves

A legal reserve in the amount of 5% of total share capital was formed during previous periods by appropriation of 5% of net profit per annum up to a cap of 5% of share capital. The legal reserve may be used for covering of losses if the losses are not covered by current net profit or if other reserves are not available. The Company recorded the required level of legal reserves in the year 2000 and no further allocation to legal reserves is required.

22 PROPOSED DIVIDENDS

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 27 May 2008 the General Assembly approved a regular dividend in respect of 2007 of HRK 20.00 per share, and additional extraordinary dividend of HRK 250.00 per share, totalling HRK 355.3 million. At the meeting which will be held on 10 March 2009 the Management Board will propose a regular dividend in respect of 2008 in the amount of HRK 20,00 per share, and additional extraordinary dividend of HRK 50,00 per share. The dividend will be paid from the remaining part of retained earnings realized in 2007 as well as from a part of profit for 2008, after approval by the General Assembly, which will be held on 26 May 2009.

Cash dividends authorised and paid for previous years were as follows:

	2008	2007
	HRK '000	HRK '000
HRK 270.00 per share for 2007	355,305	-
HRK 320.00 per share for 2006	-	423,664

23 CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,
- To provide adequate requirements for capital resources, as far as possible, by the retention of profit; and
- To maintain the balance sheet with a large component of cash and short-term assets, as well as equity and other investments.

The Company is generating sufficient cash from operations to fund liabilities as they become due, finance customers and budgeted investments, and pay dividends.

The Company monitors capital using net assets or shareholders' equity. Shareholders' equity is disclosed in Note 21 to the financial statements.

24 INTEREST-BEARING BORROWINGS

Borrowings are represented by debt due to financial institutions, the settlement of which is pending the definition of debt deriving from the former Yugoslavia. An amount of HRK 445 thousand or EUR 61 thousand (2007: HRK 838 thousand or EUR 114 thousand) is owed to Hermes Kreditversicherungs A.G. (Germany) and is repayable in July 2009. This loan bears a fixed interest rate of 7.9% per annum.

A further amount of HRK 303 thousand or EUR 41 thousand (2007: HRK 573 thousand or EUR 78 thousand) relates to two loans from Crediop and Centrobanca Italy that bear interest at rates declared by the Treasury of Italy plus a margin of 0.4% per annum. These two loans are repayable in semi-annual instalments until July 2009.

During 2008 the Company borrowed the amount of HRK 8,085 thousand from HBOR and delivered information and communication equipment to a customer. Ministry of Health and Social Welfare ("the Ministry") took over the obligations towards the Company on behalf of the customer and, based on the cession agreement between the Company, the customer and the Ministry, the Ministry is obliged to perform repayment of the due amounts in favour of the customer directly to HBOR. The Company's liability to HBOR decreases as the Ministry repays. HBOR loan was granted over a 5-year period. Current portion of the loan amounts to HRK 1,660 thousand, while the remaining amount is repayable in semi-annual instalments until 2013, bearing an interest rate of sixth-month EURIBOR plus a margin of 2% per annum.

	2008	2007
	HRK '000	HRK '000
Non-current portion of loans	6,425	748
Current portion of loans	2,408	663
	8,833	**1,411**

25 EMPLOYEE BENEFITS

(a) Long-term service benefits

The Company does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or management. In respect of all of the Company's personnel such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian national pension fund to the Croatian employees upon their retirement. Additionally, during 2001 the Company signed an Annex to the Union Agreement with benefit regarding early retirement of employees.

However, the Company pays a one-time benefit amounting to HRK 8,000 for each employee who retires. Additionally, the Company pays jubilee awards in respect of each 5 years of service, of an employee, starting from the 10th year and ending in the 40th year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2008 were a 6% discount rate (2007: 6%) and a 3.06% (2007: 3.60%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
	2008	2008	2008	2007	2007	2007
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	3,786	936	4,722	3,675	656	4,331
Obligation created during the year	141	170	311	111	280	391
Obligation reversed during the year	-	(24)	(24)	-	-	-
As at 31 December	**3,927**	**1,082**	**5,009**	**3,786**	**936**	**4,722**

(b) Share-based payments

During 2004, the Company established its Loyalty program, a share-based scheme under which management and other employees are entitled to receive the Company's shares conditional on the employee completing certain years of service (the vesting period) from the grant date.

In addition, the Company also grants treasury shares to senior management and other employees as a bonus arrangement under its Award program.

The treasury shares are distributed to eligible employees upon ratification at the General Assembly.

25 EMPLOYEE BENEFITS (CONTINUED)

The terms and conditions of the grants are as follows:

Employees entitled/grant date	Number of granted shares	Vesting conditions
Loyalty program		
Share grant to key management during 2004	690	Three to five years of service
Share grant to other employees during 2004	8,355	Three to five years of service
Share grant to key management during 2005	-	Three to five years of service
Share grant to other employees during 2005	(125)	Three to five years of service
Share grant to key management during 2006	-	Three to five years of service
Share grant to other employees during 2006	4.575	Three to five years of service
Share grant to key management during 2007	-	Three to five years of service
Share grant to other employees during 2007	(145)	Three to five years of service
Share grant to key management during 2008	450	Three to five years of service
Share grant to other employees during 2008	2,285	Three to five years of service
	16,085	
Award program		
Share grant to key management during 2004	1,640	Upon granting
Share grant to other employees during 2004	730	Upon granting
Share grant to key management during 2005	-	Upon granting
Share grant to other employees during 2005	-	Upon granting
Share grant to key management during 2006	1,200	Upon granting
Share grant to other employees during 2006	-	Upon granting
Share grant to key management during 2007	3,162	Upon granting
Share grant to other employees during 2007	2,577	Upon granting
Share grant to key management during 2008	1,287	Upon granting
Share grant to other employees during 2008	2,430	Upon granting
	13,026	

The fair value of service received in return for shares granted is measured by reference to the observable market price of shares at the grant date.

	Number of granted shares	Weighted average fair value per share
Shares granted in 2004	11,415	HRK 656.68
Shares granted in 2005	(125)	HRK 735.99
Shares granted in 2006	5,775	HRK 2,330.18
Shares granted in 2007	5,594	HRK 3,387.12
Shares granted in 2008	6,452	HRK 1,380.27

25 EMPLOYEE BENEFITS (CONTINUED)

During 2008 the Company recognised HRK 6,656 thousand (2007: HRK 24,333 thousand) of expenses in respect of share-based payments, which are included in personnel expenses as disclosed in Note 7. Out of 2,900 shares approved for distribution under the Award program during 2007, an amount of 1,600 shares, totalling HRK 5,472 thousand as disclosed in Note 29 (b) was not granted during 2008. An amount of 1,917 shares under the Award program was distributed during 2008 while 1,800 shares will be distributed during 2009.

2,735 shares granted under the Loyalty program vested during 2008. The total weighted average cost of shares granted during 2008 under the Award and Loyalty programs amounted to HRK 2,671 thousand (2007: HRK 10,410 thousand).

26 TRADE AND OTHER PAYABLES

	2008	2007
	HRK '000	HRK '000
Trade payables	36,391	50,491
Liabilities to employees	51,954	46,062
Other current liabilities	13,675	15,662
	102,020	**112,215**

27 PROVISIONS

Provisions relate to current provisions for penalty costs and warranty costs. Movements in provisions were as follows:

	Warranty reserve	Penalty reserve	Total	Warranty reserve	Penalty reserve	Total
	2008	2008	2008	2007	2007	2007
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	14,806	1,856	16,662	14,511	223	14,734
Provision created during the year	4,673	1,105	5,778	9,300	1,670	10,970
Provision reversed during the year	(4,297)	(1,856)	(6,153)	(4,336)	(37)	(4,373)
Provision used during the year	(3,548)	(262)	(3,810)	(4,669)	-	(4,669)
As at 31 December	**11,634**	**843**	**12,477**	**14,806**	**1,856**	**16,662**

The warranty reserve is established to cover the expected warranty claims on products sold during the year. The penalty reserve is created to cover the expected claims from customers in respect of delays in deliveries of products and services having occurred during the year. Warranty and penalty costs are expected to be incurred in the next financial year.

Reversal of warranty reserves relates to expired warranties and reversal of penalty reserve relates to waived or expired obligations.

28 ACCRUED CHARGES AND DEFERRED REVENUE

	2008	2007
	HRK '000	HRK '000
Advances from domestic customers	2,160	3,988
Advances from foreign customers	15,551	51,906
Deferred revenue	31,551	42,839
Accrued severance payment costs	-	350
Accrued charges for unused holidays	10,906	9,168
Accrued charges for court cases	801	1,233
Accrued charges in respect of service contracts	70,126	71,907
Other accrued charges	11,906	14,934
	143,001	**196,325**

Deferred revenue represents amounts due to customers under contracts for work not performed. Accrued charges in respect of service contracts mainly represent expected future costs of contracts for services performed.

Accrued charges in respect of court cases mainly relate to probable cost for injury at work, labour and property disputes.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company is a related party to the Ericsson Group via the 49.07% (2007: 49.07%) shareholding by Telefonaktiebolaget LM Ericsson, which is also the ultimate parent of the Ericsson Group.

The Company has a related-party relationship with Telefonaktiebolaget LM Ericsson, Ericsson Group subsidiaries and associates, the Supervisory Board, the Management Board and other executive management.

(a) Key transactions with the related parties

Major transactions with the Ericsson Group companies may be summarised as follows:

	Telefonaktiebolaget LM Ericsson		Other Ericsson Group consolidated companies		Total	
	2008	2007	2008	2007	2008	2007
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	36	453,187	428,552	453,187	428,588
Commission income	-	-	1,601	-	1,601	-
Total sales	**-**	**36**	**454,788**	**428,552**	**454,788**	**428,588**
Purchases of goods and services						
Licences	6,770	6,447	35,955	35,354	42,725	41,801
Technical cooperation fee	-	-	5,022	7,058	5,022	7,058
Cost of sales	-	490	766,377	819,779	766,377	820,269
Total purchases	**6,770**	**6,937**	**807,354**	**862,191**	**814,124**	**869,128**

The sales of goods and services transactions have been directly negotiated between the involved parties and agreed on an individual basis. The Company pays licence fees on sales of wireline products, sales of services, corporate trade mark licences and technical cooperation fees. The licence fee is paid as a percentage of sales of wireline products and solutions, and sales of services, per product sold. The transactions between related parties are carried out on an arm's length basis.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(b) Key management compensation

The Company's key management include the executive management listed on page 55, comprising the Management Board member and directors of the main organisational units.

	2008	2007
	HRK '000	**HRK '000**
Salaries and other short-term employee benefits	24,122	16,168
Other long-term benefits	-	9
Share-based payments	4,365	10,698
Reversal of share-based payments reserve from prior year (Note 25 b)	(5,472)	-
	23,015	**26,875**

The members of the executive management and the Supervisory Board held 4,981 ordinary shares at the year-end (2007: 3,906 shares).

Included in the loans and receivables are HRK 77 thousand (2007: HRK 158 thousand) in respect of loans and advances granted to key management. During 2008 the Company collected HRK 6 thousand (2007: HRK 8 thousand) of interest from these loans.

In addition, the Company paid remuneration totalling HRK 314 thousand (2007: HRK 302 thousand) to the Supervisory Board.

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(c) Year-end balances arising from sales and purchases of goods and services

Year-end balances arising from key transactions with Ericsson Group companies may be summarised as follows:

	Receivable		Payable	
	2008	2007	2008	2007
	HRK '000	HRK '000	HRK '000	HRK '000
The main shareholder				
Telefonaktiebolaget LM Ericsson (LME)	-	-	477	103
Ericsson Group consolidated companies				
Ericsson Enterprise AB (EBC)	-	519	-	3,064
Ericsson AB (EAC)	-	-	5,531	-
Ericsson AB (EAB)	45,439	38,248	63,487	69,986
Ericsson Telecomunicazioni S.P.A. (TEI)	-	495	-	13
Ericsson Corporatia AO (ECR)	4,895	770	-	65
LM Ericsson Limited (LMI)	-	472	425	338
Ericsson SP. Z.O.O. (EPO)	157	157	-	-
Ericsson Network Technologies AB (ECA)	-	-	510	671
Ericsson Austria A.G. (SEA)	5	199	-	-
Ericsson Sverige AB (ESE)	-	228	-	-
Ericsson SPOL.S.R.O. (ECZ)	4	131	-	-
Ericsson Egypt Ltd. (EEL)	401	(134)	-	-
Ericsson Telecomm. Equipment S.A. (ETG)	124	82	-	-
Ericsson Hungary Ltd. (ETH)	468	705	41	67
Ericsson Ltd. (ETL)	303	1,839	74	40
Ericsson Telecommunicatia B.V. (ETM)	487	511	2,415	4,429
OY LM Ericsson AB (LMF)	18	246	-	414
Ericsson Slovakia SPOL.S.R.O. (SBB)	150	35	-	-
Ericsson d.o.o. (EBA)	88	1,767	172	34
Ericsson GMBH Group (EDD)	-	133	405	877
Ericsson De Panama S.A. (EDP)	14	-	-	-
Ericsson Espana S.A. (EEM)	101	250	-	683
Ericsson Maroc SARL (EMO)	1,120	1,113	-	-
Ericsson Telekomunications Bulgaria EOOD (ETB)	75	1,389	-	-
Ericsson Inc. (EUS)	-	12	-	-
Ericsson d.o.o. (EVN)	2	85	104	219
Ericsson International Services B.V. Group (ISN)	-	-	-	91
LM Ericsson Ltd. (Nigeria) Group (LMN)	90	110	-	-
Nippon Ericsson K.K. Group (NRJ)	-	211	-	-
Ericsson Telecomunicacoes LDA Group (SEP)	-	153	-	-
Ericsson TEMS AB Group (TMS)	-	-	96	1,569
Marconi Sud S.P.A. (MSI)	-	-	26	4,486
Ericsson Australia PTY LTD. (EPA)	-	-	82	-

29 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(c) Year-end balances arising from sales and purchases of goods and services (continued)

	Receivable		Payable	
	2008	2007	2008	2007
	HRK '000	HRK '000	HRK '000	HRK '000
Ericsson Group consolidated companies (continued)				
Kuwait Ericsson Telephone Equipment and Services (KET)	-	362	-	-
Telefonaktiebolaget LM Ericsson, Abu Dabi Branch (TKU)	376	-	-	-
Telefonaktiebolaget LM Ericsson, Tech. Office Oman (TKA)	-	69	-	-
Ericsson AB, Saudi Arabia Branch (BSA)	965	1,105	-	-
LM Ericsson Israel Ltd. (EOI)	-	108	-	-
Ericsson India Private Ltd. (EIL)	-	49	-	-
Ericsson Training Center (ELR)	-	99	-	-
Ericsson Algerie S.A.R.L. (EAL)	15	34	-	-
Ericsson Telecomunicazioni S.p.A.(TEI)	68	-	-	-
Ericsson Serrvicos De Telecomunicacoes LTDA (EBS)	154	-	-	-
Ericsson Telecomunicacoes LDA (SEP)	107	-	-	-
Ericsson Regional Office (RJO)	286	-	-	-
P.T. Ericsson Indonesia (EID)	46	-	-	-
Ericsson telecommunications Romania S.R.L. (ETR)	85	-	-	-
Ericsson South Africa Ltd. (ESA)	592	-	-	-
Ericsson d.o.o. za telekomunikacije (EYU)	231	-	-	-
Ericsson AB Bahrain Branch (BBH)	117	-	-	-
Ericsson Sub-Saharan Africa L.T.D.(ASL)	63	-	-	-
Ericsson AB Jordan (BJO)	171	-	-	-
TOO Ericsson Kazahstan (EKZ)	-	-	217	-
Kuwait Ericsson Telephone Equipment and Services (KET)	-	-	211	-
Ericsson Canada Inc. (EMC)	-	-	8	-
Other	1,894	2,038	-	-
	59,111	**53,590**	**74,281**	**87,149**

30 FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. Exposure to currency, interest rate and credit risk arises in the normal course of the Company's business. Risk management is carried out by a treasury department and its principal role is to actively manage investment of excess liquidity as well as financial assets and liabilities, and to manage and control financial risk exposures. The Company also has a customer finance function with the main objective to find suitable third-party financing solutions for customers and to minimize recourse to the Company. Risk management policies that relate to financial instruments can be summarised as follows:

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to US dollars and to euro, as a substantial proportion of receivables and foreign revenues are denominated in these currencies. Risk management relies on attempts to match, as much as possible, revenues in each currency with the same currency expenditure. Additionally, the Company enters into foreign currency forward contracts to hedge economically its exposure to currency risk arising on operating cash flows. All derivative contracts have maturities of less than one year after the balance sheet date. The tables below present the currency analysis and resulting gap.

2008	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Loans and receivables	314,648	13,453	-	328,101	21,810	349,911
Trade and other receivables	199,275	215,498	60	414,833	151,534	566,367
Financial assets at fair value through profit or loss	-	4,198	-	4,198	45,133	49,331
Cash and cash equivalents	263,077	11,775	26	274,878	43,425	318,303
	777,000	**244,924**	**86**	**1,022,010**	**261,902**	**1,283,912**
Interest-bearing borrowings	8,833	-	-	8,833	-	8,833
Trade and other payables	57,067	28,154	466	85,687	90,614	176,301
Financial liabilities at fair value through profit or loss	-	6,360	-	6,360	-	6,360
	65,900	**34,514**	**466**	**100,880**	**90,614**	**191,494**
Currency gap	**711,100**	**210,410**	**(380)**	**921,130**	**171,288**	**1,092,418**

30 FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

2007	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Loans and receivables	349,242	10,254	690	360,186	23,924	384,110
Trade and other receivables	295,243	176,992	2,497	474,732	199,415	674,147
Financial assets at fair value through profit or loss	-	1,861	-	1,861	55,880	57,741
Cash and cash equivalents	40,031	16,010	383	56,424	281,852	338,276
	684,516	**205,117**	**3,570**	**893,203**	**561,071**	**1,454,274**
Interest-bearing borrowings	1,411	-	-	1,411	-	1,411
Trade and other payables	91,386	4,112	5,760	101,258	98,106	199,364
	92,797	**4,112**	**5,760**	**102,669**	**98,106**	**200,775**
Currency gap	**591,719**	**201,005**	**(2,190)**	**790.534**	**462,965**	**1,253,499**

30 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Company maintains its liquid funds mainly on short-term notice, the risk is limited to investments in the Ministry of Finance bonds, as well as non-current deposits in financial institutions (Notes 13, 19). The tables below present the interest rate repricing analysis and resulting gap and average interest rates.

2008	Non interest bearing	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	Fixed interest
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	-	26	1,130	256,197	83,610	8,948	349,911	83,783
Trade and other receivables	287,758	31,372	42,560	204,677	-	-	566,367	269,695
Financial assets at fair value through profit or loss	5,186	-	-	44,145	-	-	49,331	44,145
Cash and cash equivalents	-	318,303	-	-	-	-	318,303	318,303
	292,944	**349,701**	**43,690**	**505,019**	**83,610**	**8,948**	**1,283,912**	**715,926**
Interest-bearing borrowings	-	363	-	2,045	6,425	-	8,833	748
Trade and other payables	176,301	-	-	-	-	-	176,301	-
Financial liabilities at fair value through profit or loss	6,360	-	-	-	-	-	6,360	-
	182,661	**363**	**-**	**2,045**	**6,425**	**-**	**191,494**	**748**
Interest rate gap	**110,283**	**349,338**	**43,690**	**502,974**	**77,185**	**8,948**	**1,092,418**	**715,178**

2007	Non interest bearing	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total	Fixed interest
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	1,220	2,363	38	290,177	80,037	10,275	384,110	88,124
Trade and other receivables	431,700	29,893	45,186	167,368	-	-	674,147	240,742
Financial assets at fair value through profit or loss	13,503	-	-	-	30,735	13,503	57,741	44,238
Cash and cash equivalents	-	338,276	-	-	-	-	338,276	338,047
	446,423	**370,532**	**45,224**	**457,545**	**110,772**	**23,778**	**1,454,274**	**711,151**
Interest-bearing borrowings	-	-	-	-	1,411	-	1,411	838
Trade and other payables	199,364	-	-	-	-	-	199,364	-
	199,364	**-**	**-**	**-**	**1,411**	**-**	**200,775**	**838**
Interest rate gap	**247,059**	**370,532**	**45,224**	**457,545**	**109,361**	**23,778**	**1,253,499**	**710,313**

30 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk (continued)

Average interest rates

	2008 Average interest rates %	2007 Average interest rates %
Loans and receivables	6.37	6.12
Trade and other receivables	4.78	2.71
Financial assets at fair value through profit or loss	5.38	4.21
Cash and cash equivalents	5.03	7.05
Interest-bearing borrowings	7.15	5.21

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Significant risk is associated with the high level of trade receivables, mainly because of the inability of customers to obtain outside funding for projects. Therefore, the Company finances its customers to a significant extent, which exposes it to a significant risk. New customers are only accepted on satisfactory completion of a detailed credit check of the customer and a review of the related country risk. Outstanding credit arrangements are monitored at least once a month. Impairment losses are calculated using the net present value method. Additionally, there is credit concentration risk as the Company has a significant portion of receivables from some customers. As at 31 December 2008, the five largest customers represent 63% of total net trade receivables (2007: 56%). The Company considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 13 and 17) and other receivables (Note 18), net of impairment loss for doubtful receivables. Ageing analysis of these receivables is within the maturity analysis table shown further in this note.

30 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company has no commitments in financial instruments, the risk lies only in its daily operations. The Company has a strong focus on its cash flow with daily updates on actual development and monthly updated forecasts. The Company's maturity profile demonstrates the strong liquidity position of the Company and therefore the risk is considered low. The table below presents the maturity analysis and resulting gap.

2008	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	26	1,130	4,598	260,247	83,910	349,911
Trade and other receivables	212,701	130,002	223,664	-	-	566,367
Financial assets at fair value through profit or loss	-	-	49,331	-	-	49,331
Cash and cash equivalents	318,303	-	-	-	-	318,303
	531,030	**131,132**	**277,593**	**260,247**	**83,910**	**1,283,912**
Interest-bearing borrowings	363	-	2,045	6,425	-	8,833
Trade and other payables	162,296	14,005	-	-	-	176,301
Financial liabilities at fair value through profit or loss	4,013	2,194	153	-	-	6,360
	166,672	**16,199**	**2,198**	**6,425**	**-**	**191,494**
Maturity gap	**364,358**	**114,933**	**275,395**	**253,822**	**83,910**	**1,092,418**

2007	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	549	2,308	255	262,148	118,850	384,110
Trade and other receivables	273,341	171,718	229,088	-	-	674,147
Financial assets at fair value through profit or loss	320	583	56,838	-	-	57,741
Cash and cash equivalents	338,276	-	-	-	-	338,276
	612,486	**174,609**	**286,181**	**262,148**	**118,850**	**1,454,274**
Interest-bearing borrowings	-	-	-	1,411	-	1,411
Trade and other payables	182,007	17,287	70	-	-	199,364
	182,007	**17,287**	**70**	**1,411**	**-**	**200,775**
Maturity gap	**430,479**	**157,322**	**286,111**	**260,737**	**118,850**	**1,253,499**

30 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value estimation

The fair value of financial assets at fair value through profit or loss is estimated by reference to their quoted market price at the balance sheet date. The Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, non-current loans and receivables, trade and other payables and interest-bearing borrowings.

The fair values of financial instruments together with carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)
	2008	2008	2008	2007	2007	2007
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	349,911	348,799	(1,112)	384,110	383,086	(1,024)
Trade and other receivables	566,367	566,367	-	674,147	674,147	-
Financial assets at fair value through profit or loss	49,331	49,331	-	57,741	57,741	-
Cash and cash equivalents	318,303	318,303	-	338,276	338,276	-
Interest-bearing borrowings	(8,833)	(8,230)	603	(1,411)	(1,410)	1
Trade and other payables	(176,301)	(176,301)	-	(199,364)	(199,364)	-
Financial liabilities at fair value through profit or loss	(6,360)	(6,360)	-	-	-	-
	1,092,418	**1,091,909**	**(509)**	**1,253,499**	**1,252,476**	**(1,023)**

Fair value of loans and receivables and fair value of interest-bearing borrowings are calculated based on the management's best estimate of discounted expected future principal and interest cash flows, using the market-related rate for a similar instrument at the balance sheet date as a discount rate. Fair values and carrying amounts are not significantly different as the loans and receivables were granted at market rates, which were not substantially different from market rates at the end of 2008. Current financial assets, including derivatives are stated at fair value that is based on quoted prices at the balance sheet date without any deduction for transaction costs.

The carrying amount of cash and cash equivalents and of bank deposits deemed to reflect the fair value due to the short-term maturity of these financial instruments. Similarly, the amortised cost carrying amounts of trade receivables and payables with remaining life of less than one year which are all subject to normal trade credit terms deemed to reflect the fair values.

The following interest rates were used for determining fair values, which are based on available market rates for similar financial instruments:

	2008	2007
Loans and receivables	8%	6%
Interest-bearing borrowings	10.75%	6%

31 DERIVATIVE INSTRUMENTS

Since 2003, the Company entered into foreign currency forward agreements to hedge economically its operating cash flows denominated in foreign currency, predominately USD and EUR. As these hedges do not qualify for hedge accounting, these are accounted for as trading instruments, with all gains and losses on fair value being recognised in the income statement.

The contractual notional amount of these derivatives (over the counter) at the year-end amounted to HRK 166 million (2007: HRK 32 million). Their fair values amounted to HRK 4,198 thousand (assets) and HRK 6,360 thousand (liability) (2007: 1,861 thousand (assets)). These derivatives have remaining periods to maturity of less than one year.

The majority of the Company's purchases and sales contracts are denominated in foreign currency. The embedded derivative component of these contracts is not measured and presented separately as derivatives given that EUR and USD are functional currencies to the counterparties of these contracts and/ or EUR and USD are commonly used currencies for the Company's main markets or lines of business.

32 CONTINGENT LIABILITIES

In December 1999 the Company received notification of a lawsuit brought against it by a number of small shareholders. According to this lawsuit, the Zagreb Commercial Court was required to declare certain decisions of the General Assembly, held on 18 June 1998, null and void. The Company has submitted its response to the Court. In January 2004 the Zagreb Commercial Court published the first instance judgement in which the plaintiffs' requests have been refused. On 2 March 2004 the plaintiffs appealed and the Appeal Court (Croatian High Commercial Court) has still not made a decision on appeal. The Company's Management Board is of the opinion that no material liabilities for the Company will result from this lawsuit. No developments have occurred since 2005.