Ericsson Nikola Tesla d.d.

Consolidated Financial Statements and Auditor's report
31 December 2018

Contents

Profile of the Parent Company and its subsidiaries (the Group)

History and incorporation

Ericsson Nikola Tesla d.d. (the Parent Company) is a Croatian company with over seventy years of continuous operations. It is a leading supplier and exporter of specialized telecommunications equipment, ICT solutions, software and services in Central and Eastern Europe.

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

Ericsson Nikola Tesla d.d. has prepared these consolidated financial statements for the Parent Company, its five active subsidiaries (of which two are domiciled in Croatia, one in Bosnia and Herzegovina, one in Kosovo and one in Belarus), and two inactive subsidiaries domiciled in Croatia.

Principal activities

The principal activities of the Group are research and development of telecommunications software and services, design, testing and integration of total communications solutions, managed services, supply and maintenance of communications solutions and ICT solutions, towards customers within the Ericsson Group, customers in the Republic of Croatia, and Bosnia and Herzegovina, and several customers in Central and Eastern Europe.

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

Code of Corporate Governance

The Group applies the Code of Corporate Governance of the Zagreb Stock Exchange and meets the obligations derived therefrom, with the exception of provisions whose application is not practical at the moment.

Supervisory Board, Audit Committee, Management Board and executive management

Supervisory Board

The Supervisory Board members during 2018 and up to the release of these consolidated statements were:

Franck Pierre Roland Bouétard	Chairman	Appointed on 20 June 2018
Arun Bansal		Resigned as chairman on 20 June 2018
Ignac Lovrek	Member; Vice-Chairman	Reappointed on 2 June 2015
Vidar Mohammar	Member	Appointed on 2 June 2015
Dubravko Radošević	Member	Reappointed on 20 June 2018
Zvonimir Jelić	Member and employees' representative	Mandate expired on 8 July 2018
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018

Profile of the Parent Company and its subsidiaries (the Group) (continued)

Supervisory Board, Audit Committee, Management Board and executive management (continued)

Audit Committee

The Audit Committee members during 2018 and up to the release of these consolidated statements were:

Ignac Lovrek	Chairmen	Reappointed on 2 June 2015
Vidar Mohammar	Member	Appointed on 3 September 2015
Vesna Vašiček	Member	Appointed on 21 February 2017

Management Board

The Management Board has one member:

Gordana Kovačević	President	Reappointed on 1 January 2015

Executive management

As at 31 December 2018, the executive management comprised:

Gordana Kovačević	President
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Commercial Management (including Legal) and acting Finance Director (including Sourcing)
Dario Runje	Director, Networks
Darko Huljenić	Director, Research
Dragan Fratrić	Director, General Services
Goran Ožbolt	Director, Sales and Marketing for Tele2 and Alternative Operators
Hrvoje Benčić	Director, Digital Services and Operations
Ivan Barać	Director, Sales and Marketing for Hrvatski Telekom and CIS Market
Jagoda Barać	Director, Sales and Marketing for Neighboring Countries
Marijana Đuzel	Director, Human Resources
Milan Živković	Director, Strategy and Business Development
Miroslav Kantolić	Director, Sales and Marketing for A1 Croatia
Patrick Gerard Martin	Director, R&D Center
Snježana Bahtijari	Director, Marketing, Communications & Corporate Social Responsibility

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual consolidated financial statements

The Management Board is required to prepare consolidated financial statements for each financial year which give a true and fair view of the financial position of the Group 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 consolidated 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 Group 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 consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group 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 Group together with the annual consolidated financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements which will be presented to the General Assembly of Shareholders.

The consolidated financial statements set out on pages 10 to 69 were authorised by the Management Board on 18 April 2019 for issue to the Supervisory Board and are signed below.

Gordana Kovačević
President
Ericsson Nikola Tesla d.d.
Krapinska 45
10000 Zagreb
Croatia

ERICSSON
Ericsson Nikola Tesla d.d.
Krapinska 45
HR-10 000 Zagreb
CROATIA 01

Independent auditor's report
to the Shareholders Board of Ericsson Nikola Tesla d.d.
Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Ericsson Nikola Tesla d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The consolidated financial statements of the Group which comprise:

- Consolidated statement of comprehensive income for the year ended as at 31 December 2018;
- Consolidated statement of financial position as at 31 December 2018;
- Consolidated statement of changes in equity for the year then ended;
- Consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

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

Independence

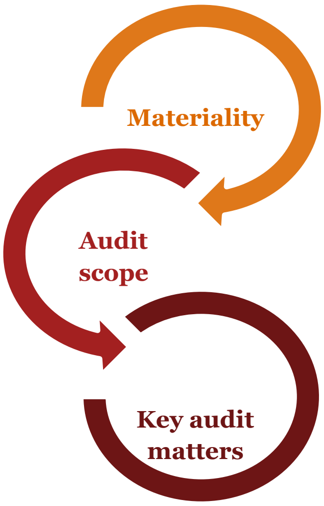
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 7 to the consolidated financial statements.

Our audit approach

Overview



- Overall materiality for the financial statements of the Group as a whole: HRK 10,980 thousand, which represents approximately 0.7% of sales revenues.

- Our audit scope addressed 99% of the Group's revenues and 100% of the Group's absolute value of underlying profit.

- Recognition of revenue from sale of goods

As part of designing our audit we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall materiality for the consolidated financial statements as a whole	HRK 10,980 thousand
How we determined it	approximately 0.7% of sales revenues
Rationale for the materiality benchmark applied	We consider revenue to be the benchmark against which the performance of the Group is most commonly measured by the shareholders. In addition, majority of the sales and purchases are realised from Ericsson Group and are subject to transfer pricing arrangements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition and adoption of IFRS 15 *Refer to Note 1 of the consolidated financial statements under heading "Revenue recognition" and Note 27 (Customer contract balances).* The adoption of the new standard for revenue recognition "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) had an impact from 2018 going forward. In line with the transitional provisions, the Group applied the expedient allowing it to recognise the cumulative effect of transition at initial adoption of the standard directly in equity (within retained earnings) as at 1 January 2018. The impact of IFRS 15 as at 1 January 2018 is described in Note 2 (Changes in accounting policies). The customer payment milestones set in the contracts do not necessarily follow revenue recognition criteria in accordance with IFRS 15. As a result, in the consolidated financial statements, the Group presents contract assets and contract liabilities for all active projects at the reporting date. In respect of those contracts, the Group recognised contract liabilities in the amount of HRK 171,645 thousand and contract assets in the amount of HRK 3,335 thousand at the balance sheet date. Given the complexity of the adoption of the new standard, revenue recognition in 2018 and presentation of the impact of the IFRS 15 adoption was of particular importance for our audit.	We have assessed the Group's revenue recognition processes and controls as part of our audit, including the following: • We tested the design and operating effectiveness of the controls (including IT controls) over revenue systems across the Group to determine the extent of reliance on the automated controls and overall IT environment. • We have obtained a detailed overview of the calculation of the cumulative effect of applying the new standard on 1 January 2018 and verified its completeness and compliance with appropriate documentation in order to confirm the appropriateness of revenue recognition in the relevant period and presentation of the impact of IFRS 15 adoption in the consolidated financial statements. • Based on the sample, we checked whether revenues from sale of equipment, software licenses, and installation and integration services were recognized when control over the equipment and licenses was passed on to the customer or when the services were performed. Regarding sale of equipment, we considered the transfer of titles and risks, formal customer acceptance, physical possession, billing rights and other evidence supporting the Group's view that the control over the goods was transferred to the buyer. • We verified appropriate allocation of revenue among multiple performance obligations for a selected number of contracts by analysing reasonableness of margins and by testing standalone selling prices. • We also discussed with management the status of customer contracts not yet finalised to identify any unrecognized loss provisions. Based on discussion with responsible project managers, we assessed the reasonableness of expected costs for these contracts in comparison to actual costs.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Group, which includes the General Report and Social Report (herein 'Management report'), but does not include the consolidated financial statements and our independent auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and their environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 26 May 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Maćašović.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
30 April 2019

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Consolidated statement of comprehensive income
as at 31 December 2018

	Notes	**2018 HRK '000**	**2017 HRK '000**
Sales revenue	*5, 6*	1,558,155	1,481,555
Cost of sales		(1,396,729)	(1,330,699)
Gross profit		161,426	150,856
Selling expenses		(37,502)	(45,621)
Administrative expenses		(30,473)	(33,943)
Other operating income		25,375	7,455
Other operating expenses		(534)	(3,069)
Operating profit		118,292	75,678
Finance income/(expense), net	*9*	2,340	(2,632)
Profit before tax		120,632	73,046
Income tax	*10*	(6,988)	(5,159)
Profit for the year		**113,644**	**67,887**
Other comprehensive income - items that may be subsequently reclassified to profit or loss:			
Currency translation differences		(68)	(114)
Total comprehensive income for the year		**113,576**	**67,773**
Earnings per share (HRK)	*11*	85.34	51.02

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2018

	Notes	**2018 HRK '000**	**2017 HRK '000**
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	114,654	108,712
Intangible assets	*13*	5,070	6,160
Loans and receivables	*14*	51,657	82,874
Deferred tax assets	*10*	21,358	14,901
Other non-current assets		-	40
Total non-current assets		192,739	212,687
Current assets			
Inventories	*15*	110,695	18,872
Trade receivables	*16*	160,724	144,445
Contract assets	*27*	3,335	-
Receivables from related parties	*28(c)*	109,900	104,483
Other receivables	*17*	14,170	90,289
Income tax receivables		472	986
Prepayments and accrued income		12,086	6,457
Financial assets at fair value through profit or loss	*18*	48,490	84,520
Cash and cash equivalents	*19*	187,888	159,261
Total current assets		647,760	609,313
TOTAL ASSETS		840,499	822,000

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position (continued)
as at 31 December 2018

	Notes	**2018** **HRK '000**	**2017** **HRK '000**
EQUITY AND LIABILITIES			
Equity			
Share capital	*20(a)*	133,165	133,165
Treasury shares		(240)	(280)
Legal reserves	*20(c)*	6,658	6,658
Retained earnings		165,396	96,031
Total equity		304,979	235,574
Non-current liabilities			
Borrowings	*21*	5,734	8,381
Other non-current liabilities	*22*	6,520	13,104
Employee benefits	*23(a)*	8,662	8,576
Total non-current liabilities		20,916	30,061
Current liabilities			
Payables to related parties	*28(c)*	33,306	113,078
Borrowings		36	-
Trade and other payables	*24*	178,908	220,390
Income tax payable		270	528
Provisions	*25*	16,023	26,619
Accrued charges and deferred revenue	*26*	114,416	195,750
Contract liabilities	*27*	171,645	-
Total current liabilities		514,604	556,365
Total liabilities		535,520	586,426
TOTAL EQUITY AND LIABILITIES		840,499	822,000

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Share capital HRK '000	Treasury shares HRK '000	Legal reserves HRK '000	Retained earnings HRK '000	Total HRK '000
As at 1 January 2017	133,165	(1,630)	6,658	148,686	286,879
Changes in equity for 2017					
Total comprehensive income	-	-	-	67,773	67,773
Dividend distribution for 2016, Note 20 (d)	-	-	-	(119,735)	(119,735)
Share-based payments, Note 23 (b)	-	926	-	(926)	-
Sale of treasury shares, Note 23 (b)	-	424	-	(35)	389
Equity-settled transactions, Note 23 (b)	-	-	-	268	268
Total contributions by and distributions to owners of the parent recognised directly in equity	-	1,350	-	(120,428)	(119,078)
As at 31 December 2017	133,165	(280)	6,658	96,031	235,574
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018, Note 2	-	-	-	(1,016)	(1,016)
Adjustment to retained earnings from adoption of IFRS 15 on 1 January 2018, Note 2	-	-	-	72	72
As at 1 January 2018	133,165	(280)	6,658	95,087	234,630
Changes in equity for 2018					
Total comprehensive income	-	-	-	113,576	113,576
Dividend distribution for 2017, Note 20 (d)	-	-	-	(43,272)	(43,272)
Share-based payments, Note 23 (b)	-	23	-	(23)	-
Sale of treasury shares, Note 23 (b)	-	17	-	28	45
Total contributions by and distributions to owners of the parent recognised directly in equity	-	40	-	(43,267)	(43,227)
As at 31 December 2018	133,165	(240)	6,658	165,396	304,979

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2018

	Notes	2018 HRK '000	2017 HRK '000
Cash flows from operating activities			
Profit before tax		*120,632*	*73,046*
Adjustments for:			
Depreciation and amortisation	*7,12,13*	34,872	41,314
Impairment losses and reversals		9,408	10,916
Net increase in provisions	*23*	39,110	21,172
Gain on sale of property, plant and equipment		(58)	(150)
Net loss on remeasurement of financial assets		121	644
Interest income		(1,498)	(4,948)
Interest expense		19	267
Foreign exchange gain/losses, net		(6,876)	16,207
Equity-settled transactions	*8*	-	268
Other		(2,550)	3
		193,180	158,739
Changes in working capital:			
In receivables		85,358	(76,264)
In inventories		(91,823)	(9,076)
In payables		(109,898)	55,731
Cash generated from operations		*76,817*	*129,130*
Interest paid		(19)	(267)
Income taxes paid		(1,622)	(20,628)
Net cash from operating activities		***75,176***	***108,235***
Cash flows from investing activities			
Interest received		2,218	2,397
Dividends received		70	77
Disposal of subsidiaries		40	-
Proceeds from sale of property, plant and equipment		143	149
Purchases of property, plant and equipment, and intangible assets		(41,115)	(29,405)
Deposits given to financial institutions - net		-	(2,200)
Purchases of financial assets at fair value through profit and loss		-	(54,008)
Proceeds from sale of financial assets at fair value through profit and loss		35,909	31,760
Net cash used in investing activities		***(2,735)***	***(51,230)***

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)
for the year ended 31 December 2018

	Notes	**2018** **HRK '000**	**2017** **HRK '000**
Cash flows from financing activities			
Dividends paid	*20(d)*	(43,291)	(119,887)
Net cash used in financing activities		***(43,291)***	***(119,887)***
Effects of exchange rate changes on cash and cash equivalents		(523)	(2,582)
Net decrease in cash and cash equivalents		28,627	(65,464)
Cash and cash equivalents at the beginning of the year		159,261	224,725
Cash and cash equivalents at the end of the year	*19*	***187,888***	**159,261**

The accompanying notes form an integral part of these consolidated financial statements.

1 Significant accounting policies

Reporting entity

Ericsson Nikola Tesla d.d. (the Parent 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 Parent Company's shares are listed on the Public Joint Stock Company listing on the Zagreb Stock Exchange. Ericsson Nikola Tesla d.d. has prepared these consolidated financial statements as at 31 December 2018 and for the year then ended for the Parent Company, its five active subsidiaries (of which two are domiciled in Croatia, one in Bosnia and Herzegovina, one in Kosovo and one in Belarus), and two inactive subsidiaries domiciled in Croatia (together "the Group"). A summary of the Group's principal accounting policies is set out below.

Statement of compliance

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

Basis of preparation

The consolidated 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 value through profit or loss. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 3 and 27). The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented in Note 28.

The preparation of consolidated financial statements in conformity with IFRSs requires 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 executive management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates are discussed in Note 2.

Going concern

The executive management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Parent Company's functional and the Group's presentation currency.

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15, “Revenue from Contracts with Customers” is a principle-based model of recognizing revenue from customer contracts. It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.

The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of the Ericsson’s business is for the sale of standard products and services.

Standard solution

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time, from the delivery of the related products.

These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.

Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer’s perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset.

Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly.

For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Software licences may be provided to the customer at a point in time, activated or ready to be activated by the customer at a later stage, therefore revenue is recognised when customer obtains control of the software.

Contractual terms may vary; therefore judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement. Costs incurred relating to performance obligations not yet fully delivered are recognised as inventories.

Transaction prices under these contracts are usually fixed, and mostly billed upon delivery of the hardware or software and completion of installation services. Customer finance agreements may be agreed separately with some customers where payment terms exceed 179 days.

Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Costs incurred in delivering recurring services are recognized as cost of sales as they are incurred. Transaction prices under these contracts are billed over time, often on a quarterly basis.

Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears. Contract for standard products and services applies to business in all segments.

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution

Some products and services are sold together as part of a customized solution to the customer. This type of contract requires significant installation and integration services to be delivered within the solution, normally over a period of more than 1 year. These products and services are viewed together as a combined performance obligation. This type of contract is usually sold as a firm contract in which the scope of the solution and obligations of both parties are clearly defined for the duration of the contract.

Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method determines revenue milestones over the duration of the contract, and it is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects. If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer. Costs incurred in delivering customised solutions are recognized as costs of sales when the related revenue milestone is recognized in the Income Statement. Costs incurred relating to future revenue milestones are recognized as Inventories and assessed for recoverability on a regular basis.

Transaction price under these contracts is usually a fixed fee, split into a number of progress payments or billing milestones as defined in the contract. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts.

Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days.

Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

The nature of Ericsson's promise is to provide a right to use Ericsson's IP as it exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all the remaining benefits from, the license at the point in time at which the license transfers.

Customer contract related balances

Trade receivables include amounts that have been billed in accordance with customer contract terms and amounts that the Group has an unconditional right to, with only passage of time before the amounts can be billed in accordance with the customer contract terms.

Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 29(d) for further information on credit risk management of trade receivables and customer finance credits.

In accordance with IFRS 15, where significant financing is provided to the customer, revenue is adjusted to reflect the impact of the financing transaction. These transactions could arise from the customer finance credits above if the contracted interest rate is below the market rate or through implied financing transactions due to payment terms of more than one year from the date of transfer of control.

1 Significant accounting policies (continued)

Revenue recognition (continued)

Contract asset is unbilled sales amount relating to performance obligation that has been satisfied under customer contract but is conditional on terms other than only the passage of time before payment of the consideration is due. Under previous standards these unbilled sales balances have been included within trade receivables.

Contract liability relates to amounts that are paid by or due from customers for which performance obligations are unsatisfied or partially satisfied. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Group concluded that the balances meet the definition of contract liability under IFRS 15. Advances from customers are also included in the contract liability balance.

Property, plant and equipment

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

The Group 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 Group 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 is 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
Buildings	5 - 30 years
Plant and equipment	2 - 10 years
Other	5 - 7 years

The depreciation method, useful lives and residual values 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 consolidated statement of comprehensive income.

1 Significant accounting policies (continued)

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 computer software and are amortised on a straight-line basis over their useful life of 2 - 4 years. Cost associated with maintaining computer software is recognised as an expense as incurred.

Impairment of non- financial assets

Assets that have an indefinite useful life (such as goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets at amortized cost

Financial assets are classified as amortized cost if the contractual terms give rise to payments that are solely payments of principal and interest on the principal amount outstanding and the financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows. These assets are subsequently measured at amortized cost using the effective interest method, minus impairment allowances. Interest income and gains and losses from financial assets at amortized cost are recognized in financial income.

Financial assets at fair value through profit or loss (FVTPL)

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term. Derivatives are classified as held for trading, unless they are designated as hedging instruments for the purpose of hedge accounting. Assets held for trading are classified as current assets. Debt instruments classified as FVTPL, but not held for trading, are classified on the balance sheet based on their maturity date (i.e., those with a maturity longer than one year are classified as non-current). Investments in shares and participations are classified as FVTPL and classified as non-current financial assets. Gains or losses arising from changes in the fair values of the FVTPL category (excluding derivatives and customer financing) are presented in the income statement within financial income in the period in which they arise. Gains and losses on derivatives are presented in the income statement as follows. Gains and losses on derivatives that hedge operating assets or liabilities, financial assets and financial liabilities are presented as cost of sales, financial income and financial expense, respectively. Gains and losses on customer financing are presented in the income statement as selling expenses. Dividends on equity instruments are recognized in the income statement as part of financial income when the Group's right to receive payments is established.

1 Significant accounting policies (continued)

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. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit and loss.

Impairment of cash, trade receivables and contract assets in 2018

By implementation of new IFRS 9 from 1 January 2018, model of financial assets was established and in use from 1 January 2018. Affected financial assets by new model are cash and cash equivalents, deposits, trade receivables and contract assets.

Two unified models were developed for relatable financial assets. Cash equivalents and deposits are assessed for impairment under one unified model and trade receivables and contract assets are assessed for impairment under another unified model.

Cash equivalents and deposits are assessed based on probability of default as well as Group exposure to certain financial institution at the time of default. To determine probability of default, country credit rating of financial institution is used, as well rating future outlook.

Expected loss on cash, cash equivalents and deposits for each financial institution gives the total expected credit loss. There were no significant changes to the model during the year. The Group has determined that credit risk largely depends on both the payment pattern of the customer as well as the risk in the country where the customer resides (e.g. ability to make cross border payments).

Therefore, expected credit losses (ECLs) are calculated using a provision matrix that specifies a fixed rate depending both on the number of days past due and the country risk rating. The country risk ratings depend on the ratings used by all Export Credit Agencies within the OECD. The rates defined in the provision matrix are based on historical loss patterns for certain portfolio of customers. Each customer is regulatory monitored and these rates are adjusted for current conditions as well as management expectations for changes to political risks and payment patterns of certain customer in the future. There were no significant changes to the model during the year.

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.

Financial liabilities

Financial liabilities are recognized when the Group becomes bound to the contractual obligations of the instrument. Financial liabilities are derecognized when they are extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expires.

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 existing 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

Share capital is stated in Croatian kuna at nominal value.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Parent Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders.

Income tax

The tax expense for the period is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised by using the balance sheet liability method on temporary differences arising between tax basis of assets and liabilities and their carrying amount in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss. 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 Group reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets.

1 Significant accounting policies (continued)

Income tax (continued)

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.

Foreign currencies

Transactions denominated in foreign currencies are translated into functional currency 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 functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are included in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to functional currency 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.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment where the entity operates (‘the functional currency’). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Parent Company’s functional and the Group’s presentation currency.

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

1 Significant accounting policies (continued)

Employee benefits

a) Long-term service benefits

The Group provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using the 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 Group operates an equity-settled, share-based compensation plan allowing the employees to receive shares according to internal policy. The fair value of the employee services received in exchange for the grant of the 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 Parent 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 consolidated statement of comprehensive income, with a corresponding adjustment to equity. When distributed upon vesting date, treasury shares are credited at average purchase cost and recorded against retained earnings.

c) Bonus plans

The Group recognises a liability and an expense for bonuses as a provision where contractually obliged or where there is past practice that has created a constructive obligation.

1 Significant accounting policies (continued)

Provisions

A provision is recognised when the Group 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 consolidated 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. The increase in the provision due to passage of time is recognised as interest expense.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Government grants

Grants from the government are recognised within “Other operating income” at their fair value where there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants totalling HRK 24,184 thousand (2017: HRK 6,435 thousand) are approved for employment expenditure that occurred in previous periods.

Government grants relating to costs are deferred and recognised over the period necessary to match them with the costs that they are intended to compensate. In 2017 Group has recognised HRK 630 thousand relating to capital expenditure, in 2018 there was no release of grants from deferral.

1 Significant accounting policies (continued)

Leases

Leases on terms in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset, although the depreciation period must not exceed the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases, and the leased assets under such contracts are not recognized on the balance sheet. Payments made under operating leases (net of any incentives received from the lessor) are recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Dividend distribution

Dividend distribution to the shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the shareholders.

Consolidation and Goodwill

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of identifiable acquiree’s net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Changes in accounting policies

Two new IFRS standards are effective as from 1 January 2018, IFRS 9, “Financial instruments” and IFRS 15, “Revenue from Customer Contracts”. The following table illustrates the impact of the implementation of IFRS 9 and IFRS 15 on equity and other balance sheet items at the transition date of 1 January 2018. The Group applied simplified method of transition to IFRS 15 and elected to apply the practical expedient available for simplified transition method. The Group has applied IFRS 9 retrospectively on the required effective date 1 January 2018. The 2018 opening balances have been adjusted, but the previous periods have not been restated.

Impact of IFRS 9 and IFRS 15 on balance sheet items:

	As reported 31 December 2017	IFRS 15 reclassification	IFRS 15 remeasurements	Adjusted balance 31 December 2017	IFRS 9 adjustment	Adjusted balance 1 January 2018
	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000
Loans and receivables, non-current	82,874	-	-	82,874	(56)	82,818
Cash and cash equivalents	159,261	-	-	159,261	(315)	158,946
Contract assets	-	3,450	-	3,450	-	3,450
Trade receivables	144,445	(3,450)	-	140,995	(645)	140,350
Prepayments and accrued income	6,457	-	10,225	16,682	-	16,682
Equity	235,574	-	72	235,646	(1,016)	234,630
Provisions	26,619	-	(4,196)	22,423	-	22,423
Contract liabilities	-	103,206	14,349	117,555	-	117,555
Trade and other payables	220,390	(4,230)	-	216,160	-	216,160
Accrued charges and deferred revenue	195,750	(98,976)	-	96,774	-	96,774

2 Changes in accounting policies (continued)

Adoption of IFRS 9 "Financial Instruments"

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 updates the classification, measurement and impairment of financial assets as well as provides new requirements for hedge accounting. The Group has applied IFRS 9 retrospectively on the required effective date, 1 January 2018, and has not restated comparative information.

The significant new accounting policies applied in the current period are described in Note 1. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 31.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

Reclassification of financial instruments as of 1 January 2018

	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 HRK '000	Carrying amount under IFRS 9 HRK '000
Financial assets				
Loans and receivables, non-current	Amortised cost	Amortised cost	82,874	82,818
Cash and cash equivalents	Amortised cost	Amortised cost	159,261	158,946
Trade receivables	Amortised cost	Amortised cost	140,995	140,368
Receivables from related parties	Amortised cost	Amortised cost	104,483	104,483
Other receivables	Amortised cost	Amortised cost	90,289	90,289
Equity securities	FVTPL	FVTPL	1,387	1,387
Investment in open ended funds	FVTPL	FVTPL	83,133	83,133

2 Changes in accounting policies (continued)

Adoption of IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 replaced guidance in IAS 18 and IAS 11. This standard establishes a new principle-based model of recognizing revenue from customer contracts. It introduces a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.
The Group has considered the key areas impacted above and implemented the significant changes to the accounting principles, internal processes and internal controls framework to reflect the new revenue recognition model from 1 January 2018.

Examples of areas where the impact is estimated as not significant include the following:

- Accounting for contract modifications,
- Accounting for licences,
- Accounting for costs to obtain a contract,
- Accounting for costs to fulfil a contract,
- Additional performance obligations identified,
- Accounting for variable consideration,

The impact of IFRS 15 was a net increase to equity at transition date, 1 January 2018, of HRK 72 thousand. The main impacted areas are described below.

Accounting for the extended warranty

If a supply contract includes explicit or implicit warranty terms that provide a customer with a service in addition (SIA) to the assurance that the HW/SW complies with agreed-upon specifications, the promised service is a separate performance obligation. The transaction price shall be allocated to the separately identified performance obligation of the promised service until the end of the contractual warranty period. The impact of IFRS 15 was a net increase to equity at transition date, 1 January 2018, of HRK 72 thousand.

Discount in a contract

The definition of a contract in IFRS 15 is stricter than standards effective prior to 2018 (previous standards) in that a contract exists only when enforceable rights and obligations are present. Most of the Group’s business is conducted via frame agreements. Typically, a customer purchase order, together with a frame agreement, creates a firm enforceable commitment. The stricter definition of a contract affects how discounts are accounted for, as discounts shall be applied over the value and duration of a contract. For a business covered by frame agreement this may result in a longer timeframe for recognition of related discounts as future expected purchases are included in the assessment. Above mentioned area had no impact at transition.

2 Changes in accounting policies (continued)

Adoption of IFRS 15 “Revenue from Contracts with Customers” (continued)

Customized solution

Under IFRS 15 revenue for customized solution contracts shall be recognized over time if certain criteria are met. These contracts relate to the solutions specifically customized for the customer and with no alternative use to the Group. IFRS 15 also requires the Group to have enforceable right to payment for performance completed to date. The Group recognized revenue under previous standards over the duration of these contracts based on defined delivery milestones. No significant changes are expected in the method of measuring progress of completion over the duration of the contract. However, the additional requirement under IFRS 15 will ensure that revenue is recognized for performance completed to date based on enforceable right to payment that exists at that point. The Group has identified ongoing contracts where revenue will be deferred as the performance completed to date is restricted under IFRS 15 to enforceable billing rights under the contracts. Above mentioned area had no impact at transition.

Transfer of control for equipment

Under IFRS 15, revenue shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer’s perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights.

For hardware sale, transfer of control is usually deemed to occur when equipment arrives at the customer site and for software sale, when the licences are made available to the customer.

Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset. Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly.

Contractual terms may vary; therefore judgment will be applied when assessing the indicators of transfer of control.

Under previous standards revenue was recognized on these contracts when risk of the equipment was transferred at handover points, but the definition of transfer of control in IFRS 15 means that other factors such as billing rights and physical possession together indicate that transfer of control occurs at a later point.

Above mentioned area had no impact at transition.

2 Changes in accounting policies (continued)

Adoption of IFRS 15 "Revenue from Contracts with Customers" (continued)

Accounting for significant financing component

A contract is deemed to have a significant component if the timing of payments provides either party with a significant benefit of financing the transfer of products/services to the customer. In determining the transaction price, if the criteria for significant financing are met then the promised amount of consideration shall be adjusted for the time value of money. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the contractual payment terms.

Criteria for significant financing:

(i) Credit period shall exceed one year, measured from transfer of control (transfer of product or service) to a fixed or estimated due date (payment is conditional to approval). E.g.: Payment is conditional on customer approval of acceptance test.

(ii) Payment terms that provides (explicitly or implicitly) the customer with a significant benefit of financing, i.e. Ericsson has an intent to finance the customer.

The Group has identified HRK 1,893 thousand of financing component at transition date. Under previous standards, the component was recognised in cost of sales. Following IFRS 15 to be accounted for as a reduction to sales revenue but having no impact to equity at transition date, 1 January 2018.

Presentation of contract related balances

The new requirement for classification and presentation of contract-related balances under IFRS 15 will result in a separate presentation of the contract asset and contract liability balances. At transition date, contract asset balance, estimated to be HRK 3.4 million, will be presented separately within current assets. Under previous standards these balances have been included within trade receivables as the accounting policy for 2017 states that trade receivables include amounts where risks and rewards have been transferred to the customer but not yet invoiced. Under IFRS 15, these balances will be presented as contract assets since the Group concluded that they relate to contract assets that are conditional on terms other than only the passage of time. At transition date, contract liability balance, estimated to be HRK 103.2 million, will be presented separately within current liabilities. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Group concluded that they meet the definition of contract liability under IFRS 15.

2 Changes in accounting policies (continued)

Adoption of IFRS 15 "Revenue from Contracts with Customers" (continued)

Estimated impact of IFRS 15 in the current reporting period as compared to old IAS policies and interpretations are presented in the tables below:

Income statement lines:	**2018 as reported HRK '000**	**Impact of IFRS 15 HRK '000**	**2018 restated to old IAS policy HRK '000**
Sales revenue	1,558,155	(2,669)	1,555,486
Cost of sales	(1,396,729)	749	(1,395,980)
Gross profit	161,426	(1,920)	159,506
Operating profit	118,292	(1,920)	116,372
Finance income/ (expense)- net	2,340	-	2,340
Income tax	(6,988)	-	(6,988)
Profit for the year	113,644	(1,920)	111,724

2 Changes in accounting policies (continued)

Adoption of IFRS 15 "Revenue from Contracts with Customers" (continued)

Balance sheet items:	**31 December 2018 as reported**	**Impact of IFRS 15**	**31 December 2018 restated to old IAS policy**
	HRK '000	**HRK '000**	**HRK '000**
Total non-current assets:	**192,739**	**-**	**192,739**
Current assets:			
Inventories	110,695	-	110,695
Trade receivables	160,724	-	160,724
Contract assets	3,335	(3,335)	-
Receivables from related parties	109,900	3,335	113,235
Other receivables	14,170	-	14,170
Income tax receivable	472	-	472
Financial assets at fair value through profit or loss	48,490	-	48,490
Prepayments and accrued income	12,086	(6,066)	6,020
Cash and cash equivalents	187,888	-	187,888
Total current assets:	**647,760**	**(6,066)**	**641,694**
TOTAL ASSETS	**840,499**	**(6,066)**	**834,433**
EQUITY AND LIABILITIES			
Equity:			
Share capital	133,165	-	133,165
Treasury shares	(240)	-	(240)
Legal reserves	6,658	-	6,658
Retained earnings	165,396	(1,992)	163,404
Total equity	**304,979**	**(1,992)**	**302,987**
Total non-current liabilities:	**20,916**	**-**	**20,916**
Current liabilities:			
Payables to related parties	33,306	-	33,306
Borrowings	36	-	36
Trade and other payables	178,908	-	178,908
Income tax payable	270	-	270
Provisions	16,023	6,563	22,586
Accrued charges and deferred revenue	114,416	161,008	275,424
Contract liabilities	171,645	(171,645)	-
Total current liabilities	**514,604**	**(4,074)**	**510,530**
Total liabilities	**535,520**	**(4,074)**	**531,446**
TOTAL EQUITY AND LIABILITIES	**840,499**	**(6,066)**	**834,433**

3 New accounting standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, the lessee always obtains the right to use an asset for a period of time and has an obligation to pay for that right. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the group's operating leases. The main types of assets leased by the Group are, in the order of materiality, real estate and vehicles.
The Group will apply the standard from its mandatory adoption date of 1 January 2019 to contracts previously identified as leases, or as containing a lease under IAS 17 and IFRIC 4. The group will elect to implement the standard using the simplified transition method. There will be no restated information presented for previous years.
At transition, the Group will apply practical expedient under IFRS 16 and treat the service cost as one single lease. The weighted average incremental borrowing rate to be applied to lease liabilities recognized in the balance sheet at the transition date is estimated to be 2,5%. Right-of-use assets will for all contracts be recognised based on the amount equal to the related lease liability.
A new classification in the income statement will be made. Under IFRS 16, as a lessee, the finance cost is reported under finance costs while under operating leases they were embedded in the lease expenses, either as costs of sales or operating expenses.
The timing of the cash flows will not be impaired. The reported amortization of lease liabilities will, however, be reported as from the effective date as financing cash flows and not operating cash flows as prior to 2019. The impact of this reclassification is in 2019 estimated to be HRK 22,157 thousand.

Estimated opening balance sheet impact of IFRS 16 (discounted):

	IFRS 16 adjustment HRK '000
Right-of-use asset	65,016
Lease liabilities, current	22,157
Lease liabilities, non-current	42,859

The estimated increase of right-to-use assets is HRK 65,016 thousand. This will increase total assets value by 8%

The minimum lease payments for operating lease contracts at 31 December 2018 was HRK 9,598 thousand, as disclosed in the note 30.

The group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements.

4 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. The Group 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) Impairment losses on loans and receivables

The Group reviews its receivables to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group 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.

(b) Derecognition of receivables with off-balance sheet financing

In 2016, the Group entered into several new customer contracts in the foreign market. The contracts include delivery of equipment and sale of services with 15% up-front payment while remaining 85% have deferred payment terms up to 54 months.

The Group financed the sale of equipment through a Supplier credit arrangement. The arrangement includes:

i) matching cash receipts from customer with payments to the bank, ii) assignation of insurance policy to the bank, and iii) ceding future cash receipts from the customer to the bank through special purpose accounts secured by special purpose deposits (Note 14).

By transferring to the bank its contractual right to receive the cash flows, the Group transferred the financial asset to the bank. In terms of derecognition criteria, the Group analysed transfer of risk and rewards of the receivable, specifically related to credit risk and late payment risk.

The Credit risk is shifted from international customer to the risk from domestic insurance company default which is considered as significant transfer in credit risk. The Group issued guarantees to the financing bank for risk of non-performance by the insurance company which is disclosed in Note 29. The issued guarantee for non-performance of the insurance company is recognized initially at fair value and subsequently at the higher of the unamortized balance of the initial fair value and the best estimate of expenditure required to settle the obligation under the guarantee.

Late payment risk was transferred based on the fact that the special purpose deposit covers the late payment charges and/or history of payments with the customer do not historically evidence late payment risk as substantial to the agreement.

Having transferred the right to cash flows and substantially all the risk and rewards relating to 90% of receivables, management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 21).

Following derecognition, the residual difference between interest receivable from the customer and interest payable to the bank represents separate liability recognized at fair value and is disclosed in Note 22.

4 Critical accounting estimates and judgements (continued)

(c) Revenue recognition

The Group uses estimates and judgments in determining the amount and timing of revenue under IFRS 15, particularly when determining the transaction price and its allocation to performance obligations identified under the contract.

Transaction price may consist of variable elements such as discounts and contract penalties. Transaction price, including variable considerations, is estimated at the commencement of the contract (and periodically thereafter). Judgment is used in the estimation process based on historical experience with the type of business and customer.

IFRS 15 also requires revenue to be allocated to each performance obligations by reference to their standalone selling prices. The Group considers that an adjusted market assessment approach should be used to estimate stand-alone selling prices for its products and services for the purposes of allocating transaction price. These estimates are comprised of prices set for similar customer and circumstances, adjusted to reflect appropriate profit margins for the market. Estimates are used to determine discounts that relate specifically to each performance obligations, thus impacting their stand-alone selling prices.

Management applies judgment when assessing the customer's ability and intention to pay in a contract. The assessment is based on the latest customer credit standing and the customer's past payment history. This assessment may change during the contract execution, and if there is evidence of deterioration in the customer's ability or intention to pay, then under IFRS 15 no further revenue shall be recognized until the collectability criteria is met. Conversely, this assessment may also change favorably over time, upon which revenue shall now be recognized on a contract that did not initially meet the collectability criteria.

Revenue for standard products shall be recognised when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer's perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights.

Control of an asset therefore refers to the ability to direct use of and obtain substantially all the remaining benefits from the asset. Control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. Judgment may be applied in determining whether risk and rewards have been transferred to the customer and whether the customer has accepted the products. In a sale of software licence, judgment may also be applied to determine when the software is made available to the customer by considering when they can direct the use of, and obtain substantially all the benefits of, the licence. Often all indicators of transfer of control are assessed together and an overall judgment formed as to when transfer of control has occurred in a customer contract.

Revenue for customised solutions shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. Judgment are applied when determining the appropriate revenue milestones that best reflect the progress of completion and are aligned with key acceptance stages within the contract.

5 Sales revenue

Analysis of revenue by category:

	2018 HRK ‘000	2018 HRK ‘000 At a point in time	2018 HRK ‘000 Over time	2017 HRK ‘000
Sales revenue from products	388,989	315,027	73,962	454,918
Sales revenue from services	1,169,166	1,020,671	148,495	1,026,637
	1,558,155	1,335,698	222,457	1,481,555

6 Segment reporting

The Group has determined the operating segments based on the reports reviewed by the Management Board that are used to make strategic decisions. The Management Board assesses the performance of the operating segments based on a measure of adjusted Operating profit. The measurement basis excludes the effects of gains/losses on operating exchange rate differences and administration expenses.

When determining the operating segments, the Group has looked at which market and to what type of customers the Group's products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development.

To best reflect the business focus and to facilitate comparability with the Ericsson Group, four operating segments are reported:

- Networks include radio and transport solutions with supporting services, based on industry standards and offered via scalable modular platforms. The portfolio enables customers to evolve their telecom networks across generations to 5G.
- Digital Services include products and services providing solutions for our Telecom and Industry & Society customers' digital transformation journeys across the support systems BSS and OSS, Telecom Core, and IT Cloud domains through a combination of products, technology and expertise in networks, software, cloud, and business processes.
- Managed Services are offered in three main areas: Networks, IT, and Network Design & Optimization.
- Other includes products and services that enable content owners, broadcasters, TV service providers and network operators to efficiently deliver, manage and monetize new TV experiences. In addition, segment Other includes iconectiv and emerging business such as Internet of Things and Unified Delivery Network (UDN).

The Management Board does not monitor assets and liabilities by segments and therefore this information is not disclosed.

6 Segment reporting (continued)

Revenues determined based on the geographic location of customers are disclosed in this note. The Group's assets are located in Croatia and Bosnia & Herzegovina.

	2018	2018	2018	2017
	HRK '000	HRK '000 At a point in time	HRK '000 Over time	HRK '000
Sales revenue in domestic market	372,523	247,640	124,883	276,571
Sales revenue in Russia, Belarus, Kazakhstan, Georgia, Moldova, Ukraine and Armenia	92,629	52,299	40,330	125,461
Sales revenue to Ericsson	955,802	955,802	-	925,800
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	121,803	68,191	53,612	136,296
Other export sales revenue	15,398	11,766	3,632	17,427
	1,558,155	1,335,698	222,457	1,481,555

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales revenue	939,831	739,306	439,809	559,558	177,087	178,883	1,428	3,808	-	-	1,558,155	1,481,555
Timing of revenue recognition:												
At a point in time	820,256	N/A	337,540	N/A	177,087	N/A	815	N/A	-	N/A	1,335,698	N/A
Overtime	119,575	N/A	102,269	N/A	-	N/A	613	N/A	-	N/A	222,457	N/A
Operating profit	108,879	95,214	36,208	19,872	5,090	5,744	238	585	(32,123)	(45,737)	118,292	75,678
Finance income/(expense), net											2,340	(2,632)
Profit before tax											120,632	73,046
Income tax											(6,988)	(5,159)
Profit for the year											**113,644**	**67,887**

7 Expenses by nature

Cost of sales, selling expenses and administrative expenses consist of the following expenses by nature:

	2018	2017
	HRK '000	HRK '000
Changes in contract work in progress (Note 15)	(91,824)	(9,082)
Material and external services [1]	720,638	591,121
Personnel expenses (Note 8)	801,060	799,510
Depreciation and amortisation (Notes 12, 13)	34,872	41,314
Other	(42)	(12,600)
	1,464,704	1,410,263

1) Including fees to auditors of HRK 659 thousand (2017: HRK 577 thousand). Fees to auditors mainly relate to statutory audit services. Other services provided by the firm providing statutory audit services include seminars and aassistance related to the assessment and implementation of new standards.

8 Personnel expenses

	2018	2017
	HRK '000	HRK '000
Net salaries	444,805	430,830
Taxes and contributions	313,347	320,760
Other payroll-related costs	42,908	47,652
Equity-settled transactions (Note 23 (b))	-	268
	801,060	799,510

Personnel expenses include HRK 126,919 thousand (2017: HRK 124,641 thousand) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries (Gross I).
Other payroll-related costs mainly relate to termination benefits in the amount of HRK 7,762 thousand (2017: HRK 12,213 thousand), and to transportation expenses and vacation accrual cost.

As at 31 December 2018, the total number of employees was 3,173 (2017: 3,060).

9 Finance income and expense, net

	2018 HRK '000	2017 HRK '000
Interest income	810	2,743
Net gains/(losses) from remeasurement of financial assets at fair value through profit or loss	36	(395)
Net foreign exchange loss	(229)	(4,710)
Interest expense	(58)	(267)
Other	1,781	(3)
	2,340	(2,632)

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rates applicable to profits in the respective countries.
Income tax expense recognised in the consolidated statement of comprehensive income comprises:

	2018 HRK '000	2017 HRK '000
Current income tax expense	(13,445)	(5,811)
Total deferred tax expense	6,457	652
Total income tax expense	(6,988)	(5,159)

Deferred tax from tax losses

The Group did not recognise deferred income tax assets of HRK 570 thousand (2017: HRK 337 thousand) in respect of cumulative tax losses amounting to HRK 5,698 thousand (2017: HRK 3,268 thousand) that can be carried forward against future taxable income.
Tax incentives included in the tax returns from 2011 till 2014 were inspected by the Ministry of Science and Education and consequently tax loss adjusted.
A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	HRK '000
Tax loss for 2016 – expires 31 December 2021	1,577
Tax loss for 2017 – expires 31 December 2022	1,543
Tax loss for 2018 – expires 31 December 2023	2,578
	5,698

10 Income tax expense (continued)

Effective tax rate reconciliation

The tax on the profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2018 HRK '000	**2017 HRK '000**
Profit before tax	120,632	73,046
Tax calculated at domestic tax rates applicable to profits in the respective countries	22,073	13,247
Tax effects of:		
Expenses not deductible for tax purposes	6,917	5,703
Recognition of previously unrecognized temporary differences	(6,457)	(652)
Tax incentives	(15,523)	(13,115)
Utilisation of tax losses	(22)	(24)
Tax charge	6,988	5,159
Effective tax rate	3.6%	4.8%

Tax incentives totalling HRK 15,523 thousand (2017: HRK 13,115 thousand) include tax allowances for certain expenditure, as employment and education and training, as defined by Croatian tax legislation. The underlying expenditure is included in cost of sales.

The Croatian Income Tax Act is subject to different interpretations and changes in respect of certain expenses which reduce the tax base. The Management Board's interpretation of the law relating to these transactions and activities of the Group may be disputed by the relevant authorities. The Tax Authority may take a different view in interpreting the laws and judgments, and it is possible that those transactions and activities that have not been disputed in the past may be disputed now. The Tax Authority may carry out a tax audit within three years from the year in which the income tax liability for a certain financial period was established.

10 Income tax expense (continued)

Deferred tax from other temporary differences

Group recognized deferred tax assets in the amount of HRK 21,358 thousand (2017: HRK 14,901 thousand) relating to temporary differences arising from:

- Accrued interest expenses;
- Impairment of receivables;
- Accrued expenses from contracts;
- Warranty provisions and
- Provisions for jubilee awards and retirement.

	Impairments, provisions and accrued expenses HRK '000
As at 1 January 2017	14,250
Tax credited to the Income statement	8,311
Tax charged to the Income statement	(7,660)
As at 31 December 2017	**14,901**
As at 1 January 2018	14,901
Tax credited to the Income statement	10,087
Tax charged to the Income statement	(3,630)
As at 31 December 2018	**21,358**

11 Earnings per share

	2018	**2017**
Profit for the year (HRK '000)	113,644	67,887
Weighted Average Number of Shares Outstanding at the year-end	1,331,640	1,330,499
Earnings per share (HRK)	85.34	51.02

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

12 Property, plant and equipment

	Land and buildings HRK '000	Plant and equipment HRK '000	Other HRK '000	Total HRK '000
As at 1 January 2017				
Cost or valuation	162,164	389,183	328	551,675
Accumulated depreciation	(118,921)	(309,612)	(245)	(428,778)
Net book amount	**43,243**	**79,571**	**83**	**122,897**
Year ended 31 December 2017				
Opening net book amount	43,243	79,571	83	122,897
Additions	5,499	20,537	-	26,036
Disposals	-	(32)	-	(32)
Depreciation charge	(3,065)	(37,116)	(8)	(40,189)
Closing net book amount	**45,677**	**62,960**	**75**	**108,712**
As at 31 December 2017				
Cost or valuation	167,664	388,627	328	556,619
Accumulated depreciation	(121,987)	(325,667)	(253)	(447,907)
Net book amount	**45,677**	**62,960**	**75**	**108,712**
Year ended 31 December 2018				
Opening net book amount	45,677	62,960	75	108,712
Additions	3,730	36,064	-	39,794
Disposals	-	(76)	-	(76)
Depreciation charge	(3,272)	(30,497)	(7)	(33,776)
Closing net book amount	**46,135**	**68,451**	**68**	**114,654**
As at 31 December 2018				
Cost or valuation	171,394	424,615	328	596,337
Accumulated depreciation	(125,259)	(356,164)	(260)	(481,683)
Net book amount	**46,135**	**68,451**	**68**	**114,654**

As at 31 December 2018, the Group had contracts totalling HRK 5,622 thousand (2017: HRK 4,321 thousand) related to future equipment purchases.

12 Property, plant and equipment *(continued)*

The Group acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 9,942 thousand (2017: HRK 11,281 thousand) is included within land and buildings. These assets are depreciated at the same depreciation rates as other buildings. 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:

	2018	2017
	HRK '000	HRK '000
Less than one year	3,270	3,285
Between one and five years	1,635	1,643
	4,905	4,928

13 Intangible assets

The movement on intangible assets in the year ended 31 December 2018 may be analysed as follows:

	Application software HRK '000	Goodwill (i) HRK '000	Total HRK '000
As at 1 January 2017			
Cost or valuation	12,064	4,173	16,237
Accumulated amortization	(8,952)	-	(8,952)
Net book amount	**3,112**	**4,173**	**7,285**
Year ended 31 December 2017			
Opening net book amount	3,112	4,173	7,285
Additions	-	-	-
Amortization charge	(1,125)	-	(1,125)
Closing net book amount	**1,987**	**4,173**	**6,160**
As at 31 December 2018			
Cost or valuation	7,776	4,173	11,949
Accumulated amortization	(5,789)	-	(5,789)
Net book amount	**1,987**	**4,173**	**6,160**
Year ended 31 December 2018			
Opening net book amount	1,987	4,173	6,160
Additions	6	-	6
Amortization charge	(1,096)	-	(1,096)
Closing net book amount	**897**	**4,173**	**5,070**
As at 31 December 2018			
Cost or valuation	5,388	4,173	9,561
Accumulated amortization	(4,491)	-	(4,491)
Net book amount	**897**	**4,173**	**5,070**

(i) In September 2014, Group signed business unit transfer agreements by which the Group acquired a business from Hrvatski Telekom d.d. The agreements included transfer of 641 employees, supplier contracts, organisational structure, activities and operational processes. The business comprises of acquired assets and assumed liabilities to employees.

14 Loans and receivables

	2018 HRK '000	2017 HRK '000
Deposits with financial institutions, denominated in foreign currency	15,804	15,495
Deposits with financial institutions, denominated in HRK	12,360	12,360
Non-current receivables from foreign customers, denominated in foreign currency	19,682	46,413
Loans given, Note 4 (b)	6,833	11,498
Non-current receivables from domestic customers, denominated in HRK	-	1,552
Receivables for sold apartments	512	544
Total loans and receivables	55,191	87,862
Impairment allowance on loans and receivables	(3,534)	(4,988)
	51,657	82,874

Deposits with financial institutions in the amount of HRK 24,082 thousand (2017: 23,721) are used as a collateral for Supplier credit arrangement disclosed in Note 4 (b), with interest rate from 0.75% to 2% and maturing in year 2022.

The rest of the deposits with financial institutions of HRK 4,081 thousand (2017: HRK 4,134 thousand) are placed as guarantee deposits for housing loans provided to the employees 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 from customers:

Due	2018 HRK '000	2017 HRK '000
2019	-	39,388
2020	12,562	10,983
2021	10,082	8,548
2022	3,871	544
	26,515	59,463

Housing loans to employees are linked to the counter value of euro, repayments are made by deduction from monthly salary and the loans are secured with collateral 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.

15 Inventories

	2018 HRK '000	2017 HRK '000
Raw materials	10	84
Contract work in progress	110,694	18,870
Total inventories	110,704	18,954
Impairment allowance	(9)	(82)
	110,695	18,872

Slow-moving or obsolete inventories have been written down to their estimated realisable value through an impairment allowance. The impairment allowance is included within other operating expenses in the consolidated statement of comprehensive income.

16 Trade receivables

	2018 HRK '000	2017 HRK '000
Foreign trade receivables	55,862	77,450
Current portion of non-current foreign receivables	10,954	14,994
Total current foreign receivables	66,816	92,444
Domestic trade receivables	109,518	59,117
Current portion of non-current domestic receivables	-	67
Total current domestic receivables	109,518	59,184
Impairment allowance on receivables	(15,610)	(7,183)
	160,724	144,445

Movements in impairment allowance on loans and receivables were as follows:

	2018 HRK '000	2017 HRK '000
As at 1 January	13,582	15,513
Provision for receivables impaired during the year	11,809	12,715
Impact of discounting non- current receivables	(1,089)	1,956
Receivables written off during the year as uncollectible	(2,949)	(13,369)
Unused amounts reversed	(2,058)	(3,233)
IFRS 9 Impairment on receivables	711	-
As at 31 December (1)	20,006	13,582

1) Including impairment provision for receivables from related parties of HRK 862 thousand (2017: HRK 1,411 thousand)

17 Other receivables

	2018 HRK '000	2017 HRK '000
Advances given	6,107	14,375
Net VAT receivables /i/	7,332	73,745
Receivables for withholding tax	-	884
Other receivables	731	1,285
	14,170	90,289

/i/ Year 2017 includes accrual for VAT in the amount of HRK 47,734 thousand, which represents adjustment of VAT per previously issued invoices.

18 Financial assets at fair value through profit or loss

	2018 HRK '000	2017 HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,316	1,387
- Investment in open-ended investment funds	47,174	83,133
	48,490	84,520

19 Cash and cash equivalents

	2018 HRK '000	2017 HRK '000
Cash and demand deposits	188,724	159,261
Impairment loss (Note 29(d))	(836)	-
	187,888	159,261

20 Equity

(a) Share capital

As at 31 December 2017, the share capital is represented by 1,331,650 (2017: 1,331,650) of authorised, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2017: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2017: 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 shareholders as at 31 December are:

	2018 Number of shares	2018 % held	2017 Number of shares	2017 % held
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Small shareholders	677,966	50.91	677,931	50.91
Treasury shares	211	0.02	246	0.02
	1,331,650	100.00	1,331,650	100.00

(b) Treasury shares

These shares are initially held as "treasury shares" and are regularly granted to key management and other employees as a part of the share-based program established during 2004, as described in Note 23 (b). During 2018, the Parent Company did not purchase its own shares.

Movements in treasury shares are as follows:

	2018 Number of shares	2017 Number of shares
As at 1 January (Note 20 (b))	246	1,495
Purchased during the year	-	-
Distributed during the year	(35)	(1,249)
As at 31 December (Note 20 (b))	211	246

(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 to cover losses if the losses are not covered by current net profit or if other reserves are not available. The Group recorded the required level of legal reserves in 2000 and no further allocation to legal reserves is required. Legal reserves up to 5% of total share capital are not distributable.

20 Equity (continued)

(d) Dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 20 June 2018, the General Assembly approved a regular dividend in respect of 2017 of HRK 20.00 per share, and additional extraordinary dividend of HRK 12.50 per share, totalling HRK 43,272 thousand.

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

	2018 **HRK '000**	**2017** **HRK '000**
HRK 90.00 per share for 2016	-	119,735
HRK 32.50 per share for 2017	43,272	-
Prior year dividend payout	19	152
	43,291	119,887

21 Borrowings

	2018 **HRK '000**	**2017** **HRK '000**
Borrowings, Note 4 (b)	5,668	8,378
Other long-term loans	66	3
	5,734	8,381

Changes in liabilities from financing activities:

Year ended 31 December 2017	
	HRK '000
Opening net book amount	8,962
Foreign exchange differences	(581)
Closing net book amount	8,381
Year ended 31 December 2018	
Opening net book amount	8,381
Foreign exchange differences	294
Release of obligations (Note 4b)	(2,941)
Closing net book amount	5,734

22 Other non-current liabilities

	2018 HRK '000	2017 HRK '000
Accounts payable	171	1,541
NPV discount	(93)	(389)
Total accounts payable /i/	78	1,152
Deferred revenue /i/	3,614	6,263
Liabilities for issued guarantee, Note 4 (b)	692	648
Contract labilities – Long term	52	-
Other non-current liabilities, Note 4 (b)	2,084	5,041
	6,520	13,104

/i/ The non-current portion of deferred revenue and accounts payable to Ericsson Services d.o.o. (ESK) relates to the five-year managed services contract with Hrvatski Telekom.

23 Employee benefits

(a) Long-term service benefits

The Group 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 personnel, such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian Pension Insurance Institute to the Croatian employees upon their retirement. Additionally, during 2001 the Parent Company signed an Annex to the Union Agreement based on which employees are entitled to a benefit upon early retirement.

However, the Group pays a one-time benefit amounting to HRK 8,000 for each employee who retires. Additionally, the Group pays jubilee awards in respect of each 5 years of service, of an employee, starting from the 10^{th} year and ending in the 40^{th} year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2018 were a 6% discount rate (2017: 6%) and a 4.89% (2017: 7.12%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	2018 Jubilee awards HRK '000	2018 Retirement HRK '000	2018 Total HRK '000	2017 Jubilee awards HRK '000	2017 Retirement HRK '000	2017 Total HRK '000
As at 1 January	7,273	1,303	8,576	7,071	1,489	8,560
Obligation created during the year	1,038	172	1,210	1,025	358	1,383
Obligation fulfilled during the year	(817)	(24)	(841)	(803)	(9)	(812)
Obligation reversed during the year	(32)	(251)	(283)	(20)	(535)	(555)
As at 31 December	7,462	1,200	8,662	7,273	1,303	8,576

23 Employee benefits (continued)

(b) Share-based payments

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

In addition, the Parent 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.

Part of the share-based programme from 2014 relates to the right of employee to purchase certain shares, which are settled according to fair value relevant at the date of the purchase. Based on this programme, the Parent Company sold to its employees 15 shares (2017: 372 shares) and received compensation in the amount of HRK 45 thousand (2017: HRK 389 thousand). The difference between the purchase price of the shares and selling price received from the employee in the amount of HRK 28 thousand (2017: HRK 35 thousand) has been recognised within retained earnings.

Movements in shares under the Award and Loyalty programs are as follows:

	2018 Number of shares	**2017 Number of shares**
As at 1 January	35	1,297
Granted	-	12
Exercised	(35)	(1,249)
Expired	-	(25)
As at 31 December	-	35

Vesting conditions for shares granted under Loyalty program are two to five years of service.

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 at grant date**
		HRK
Reversal in 2017 of shares granted in 2011-2013	25	1,373.20
Reversal in 2018 of shares granted in 2011-2013	35	1,373.20

During 2018, the Group did not have expenses (2017: HRK 268 thousand) in respect of share-based payments, which would be included in personnel expenses as disclosed in Note 8.

24 Trade and other payables

	2018 HRK '000	2017 HRK '000
Trade payables	46,199	76,426
Liabilities to employees	92,120	105,255
Factoring liabilities	17,181	18,357
Other current liabilities	23,408	20,352
	178,908	220,390

25 Provisions

Movements in provisions were as follows:

	Warranty reserve HRK '000	Penalty reserve HRK '000	Termination benefits HRK '000	Other reserve HRK '000	Total HRK '000
As at 1 January 2017	11,545	475	3,494	497	16,011
Additional provisions	8	-	6,251	15,504	21,763
Unused provisions reversed	(117)	(475)	-	-	(592)
Provisions used during the year	(2,661)	-	(7,405)	(497)	(10,563)
As at 31 December 2017	**8,775**	**-**	**2,340**	**15,504**	**26,619**
As at 1 January 2018	**8,775**	**-**	**2,340**	**15,504**	**26,619**
Additional provisions	1,373	-	11,195	30,661	43,229
Unused provisions reversed	(4,119)	-	-	-	(4,119)
Provisions used during the year	(2,516)	-	(12,286)	(34,904)	(49,706)
As at 31 December 2018	**3,513**	**-**	**1,249**	**11,261**	**16,023**

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

Followed by the prudence principle and based on the circumstances and other factors, including expectations of future events, a provision in the amount of HRK 11,261 thousand (2017: HRK 15,504 thousand) was made to a complex project on domestic market (in 2017 on Community of Independent States market).

26 Accrued charges and deferred revenue

	2018	2017
	HRK '000	HRK '000
Advances from customers (Note 2 IFRS 15 Reclassification)	-	4,230
Deferred revenue	4,725	103,645
Accrued charges for unused holidays	24,885	22,552
Accrued charges in respect of service contracts	33,353	25,320
Other accrued charges	51,453	40,003
	114,416	195,750

Deferred revenue represents amounts due to customers under contracts for work not performed but invoices issued or cash received and thus present a liability to perform a service or delivery.
Accrued charges in respect of service contracts mainly represent costs incurred for which no invoice has been received from supplier or other external contractor at the balance sheet date.

27 Customer contract balances

The Group has recognised the following assets and liabilities arising from contracts with customers:

	31 December 2018	1 January 2018
	HRK '000	HRK '000
Contract assets from contracts with customers	3,335	3,450
Loss allowance	-	-
Total current contract assets	3,335	3,450
Contract liabilities – advances from customers	2,088	4,230
Contract liabilities – deferred revenue	169,557	113,325
Total current contract liabilities	171,645	117,555

At 31 December 2018 the Group recognised HRK 3,335 thousand of contract asset net of impairment loss provisions (refer to Note 27) in respect of managed services contracts that relates to future service performance (at 1 January 2018: HRK 3,450 thousand) and will be realized when contract conditions are met.

At 31 December 2018 the Group recognised HRK 171,645 thousand of contract liabilities in respect of the following contracts related to modernisation of mobile and fixed network, project related services and support activities, E-Health Information Systems and other (at 1 January 2018: HRK 117,555 thousand).

HRK 92,488 thousand of revenue was recognized in the current reporting period related to the contract liabilities as at 1 January 2018, of which HRK 4,230 thousand related to advances and HRK 113,325 thousand to deferred revenue.

27 Customer contract balances (continued)

The following table presents information on unsatisfied performance obligations resulting from long-term contracts with customers.

	31 December 2018	1 January 2018
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied as at 1 January 2018 and 31 December 2018	4,972	5,418
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied as at 1 January 2018 and 31 December 2018	72,442	102,673
	77,414	108,091

The Group expects to recognise approximately 57% of the transaction price allocated to the remaining performance obligations as revenue in 2019, and 26% as revenues in the 2020 financial year.
All other contracts are for periods of one year or less or are billed based on time incurred. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

28 Balances and transactions with related parties

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.
The Group is a related party to the Ericsson Group via the 49.07% (2017: 49.07%) shareholding by Telefonaktiebolaget LM Ericsson, which is also the ultimate parent of the Ericsson Group.
The Group has related-party relationships 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	
	2018	2017	2018	2017	2018	2017
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	-	955,802	925,800	955,802	925,800
Other income	-	-	17,897	318	17,897	318
	-	-	973,699	926,118	973,699	926,118
Purchases of goods and services						
Licences	2,945	2,712	20,688	18,853	23,633	21,565
Cost of sales	-	-	390,081	209,554	390,081	209,554
	2,945	2,712	410,769	228,407	413,714	231,119

28 Balances and transactions with related parties *(continued)*

The sales of goods and services transactions have been directly negotiated between the involved parties and agreed on an individual basis. The Group pays: (i) licence fees on sales of services and wireline products, (ii) corporate trade mark licences, (iii) support services, (iv) R&D tools and (v) IS/IT fee. The licence fee is paid as a percentage of sales of services and sales of wireline products.

(b) Key management compensation

The key management include the executive management listed on page 2, comprising the Management Board member and directors of the main organisational units.

	2018	2017
	HRK '000	HRK '000
Salaries and other short-term employee benefits	19,364	22,063
Other long-term benefits	-	17
	19,364	22,080

The members of the executive management and the Supervisory Board held 4,971 ordinary shares at the year-end (2017: 5,076 shares).
In addition, the Group paid remuneration totalling HRK 331 thousand (2017: HRK 346 thousand) to the Supervisory Board and Audit Committee members during 2018.

(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	
	2018	2017	2018	2017
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), main shareholder	-	10	643	919
Other Ericsson Group companies	109,900	104,473	32,663	112,159
	109,900	104,483	33,306	113,078

The Group recorded a non-current receivable (Note 14) of HRK nil thousand (2017: HRK 1,156 thousand) and a non-current portion of deferred revenue of HRK 3,614 thousand (2017: HRK 6,263 thousand) and current portion of deferred revenue of HRK 3,487 thousand (2017: HRK 5,038 thousand) from Ericsson Services d.o.o. (ESK) relating to the five-year managed services contract with Hrvatski Telekom.

29 Financial risk management

The Group'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 Group'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 Group 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 Group. Risk management policies that relate to financial instruments can be summarised as follows:

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to US dollars and to the 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. The Group may enter into foreign currency forward contracts to hedge economically its exposure to currency risk arising on operating cash flows.

As at 31 December 2018, if the euro and US dollar had weakened/strengthened by 1% (2017: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 1,649 thousand higher/lower (2017: HRK 2,364 thousand), mainly as a result of foreign exchange losses/gains on translation of cash, cash equivalents, deposits, trade payables, customer receivables and customer financing denominated in euro.

The Group continues to focus on securing natural hedges and active currency management and to minimise impacts from currency moves. The Group's exposure to foreign currencies is shown in the table below.

29 Financial risk management (continued)

(a) Currency risk (continued)

The tables below present the currency analysis and resulting gap.

2018	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	7,850	43,807	-	51,657	-	51,657
Trade and other receivables	116,465	28,442	9,709	154,616	133,985	288,601
Financial assets at fair value through profit or loss	-	-	-	-	48,490	48,490
Cash and cash equivalents	60,246	6,548	9,065	75,859	112,029	187,888
	184,561	**78,797**	**18,774**	**282,132**	**294,504**	**576,636**
Borrowings	-	5,668	-	5,668	102	5,770
Trade and other payables	49,687	6,282	418	56,387	162,617	219,004
	49,687	**11,950**	**418**	**62,055**	**162,719**	**224,772**
Currency gap	**134,874**	**66,847**	**18,356**	**220,077**	**131,785**	**351,862**

2017	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	4,134	68,918	-	73,052	9,822	82,874
Trade and other receivables	121,089	57,155	2,060	180,304	159,899	340,203
Financial assets at fair value through profit or loss	-	-	-	-	84,520	84,520
Cash and cash equivalents	77,116	10,371	6,233	93,720	65,541	159,261
	202,339	**136,444**	**8,293**	**347,076**	**319,782**	**666,858**
Borrowings	-	8,378	-	8,378	3	8,381
Trade and other payables	31,780	14,898	469	47,147	299,953	347,100
	31,780	**23,276**	**469**	**55,525**	**299,956**	**355,481**
Currency gap	**170,559**	**113,168**	**7,824**	**291,551**	**19,826**	**311,377**

29 Financial risk management (continued)

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group mainly has its customer financing at a fixed interest rate and only a small portion of customer financing is affected by possible changes in market interest rates, the risk of fluctuating market interest rates is considered low. The Group also has deposits in financial institutions at a variable interest rate.

As at 31 December 2018:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2017: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 33 thousand higher/lower (2017: HRK 34 thousand);

The following table presents the annual average interest rates exposure of financial assets.

	2018 Average interest rates	**2017 Average interest rates**
	%	**%**
Loans and receivables	0.82	2.73
Trade and other receivables	-	-
Financial assets at fair value through profit or loss	-	-
Cash and cash equivalents	0.08	0.11

29 Financial risk management (continued)

(b) Interest rate risk (continued)

The tables below present the interest rate repricing analysis and resulting gap.

2018

	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	23,495	-	-	-	24,081	4,081	51,657	-
Trade and other receivables	288,601	-	-	-	-	-	288,601	-
Financial assets at fair value through profit or loss	48,490	-	-	-	-	-	48,490	-
Cash and cash equivalents	187,888	-	-	-	-	-	187,888	-
	548,474	**-**	**-**	**-**	**24,081**	**4,081**	**576,636**	**-**
Borrowings	5,770	-	-	-	-	-	5,770	-
Trade and other payables	216,227	-	-	-	2,777	-	219,004	-
	221,997	**-**	**-**	**-**	**2,777**	**-**	**224,774**	**-**
Interest rate gap	**326,477**	**-**	**-**	**-**	**21,304**	**4,081**	**351,862**	**-**

2017

	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	53,831	-	774	414	-	4,134	59,153	23,721
Trade and other receivables	340,203	-	-	-	-	-	340,203	-
Financial assets at fair value through profit or loss	84,520	-	-	-	-	-	84,520	-
Cash and cash equivalents	-	159,261	-	-	-	-	159,261	-
	478,554	**159,261**	**774**	**414**	**-**	**4,134**	**643,137**	**23,721**
Borrowings	8,381	-	-	-	-	-	8,381	-
Trade and other payables	347,100	-	-	-	-	-	347,100	-
	355,481	**-**	**-**	**-**	**-**	**-**	**355,481**	**-**
Interest rate gap	**123,073**	**159,261**	**774**	**414**	**-**	**4,134**	**287,656**	**23,721**

* include interest payable of HRK 3 thousand

29 Financial risk management *(continued)*

(c) Price risk

The Group has insignificant exposure to debt securities price risk due to low investments and all classified on the balance sheet at fair value through profit or loss (investments funds).

(d) 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 high level of customer finance receivables.
The internal directives to manage the credit risks have been tightened during 2015 with the implementation of updated credit management framework and implementation of credit evaluation tools to manage credit risks.

Credit Management function within the Group Treasury has been established to further assist the Group in managing its credit risk exposure. 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 on a quarterly or annual basis depending on risk category. Impairment losses are calculated by discounting of receivables. Additionally, there is credit concentration risk as the Group has a significant portion of receivables outstanding from a small number of customers. As at 31 December 2017, the five largest customers represent 51% of total net trade receivables (2017: 47%). The Group considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 14 and 16) and other receivables (Note 17), not impaired as doubtful. Ageing analysis of these receivables is within the maturity analysis table shown further in this note.

Letters of credit are used as a method for securing payments from customers operating in certain markets, in particular in markets with unstable political and/or economic environments. By having banks confirming the letters of credit, the political and commercial credit risk exposures are mitigated.
Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating (for political and commercial risk) of each transaction. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

The Group defines customer financing as any credit period longer than 179 days. The Group is working closely with Croatian Bank for Reconstruction and Development (HBOR) and partnership banks to secure risk mitigation.
Provisions related to customer finance risk exposures are only made when they are reliably measurable and where, after the financing arrangement has become effective, certain events occur which are expected to have a significant adverse impact on the borrower's ability and/or willingness to service the outstanding debt. These events can be political (normally outside the control of the borrower) or commercial, e.g. the borrower's deteriorating creditworthiness.
Security arrangements for customer finance facilities normally include pledges of equipment and pledges of certain of the borrower's assets. If available, third-party risk coverage may also be arranged. "Third-party risk coverage" means that a financial payment guarantee covering the credit risk has been issued by a bank, an export credit agency or other financial institution. It may also be a credit risk transfer under the so-called "sub-participation arrangement" with a bank, whereby the credit risk and the funding is taken care of by the bank for the part covered by the bank. A credit risk cover from a third party may also be issued by an insurance company.

29 Financial risk management *(continued)*

(d) Credit risk (continued)

Cash equivalents and deposits amounted to HRK 182,934 thousand as of December 31, 2018. Provisions for expected credit losses on cash and deposits amounted to HRK 905 thousand as of December 31, 2018. The Group's write-offs have historically been low.

Trade receivables and contract assets together amounted to HRK 160,724 thousand as of December 31, 2018. Provisions for expected credit losses on trade receivables and contract assets amounted to HRK 676 thousand as of 31 December 2018. The Group's write-offs have historically been low.

29 Financial risk management (continued)

(d*) Credit risk (continued)*

The following tables provide an ageing detail of current and overdue amounts in respect of all customer loans and receivables as at 31 December 2018.

Table 1	Payment due date for total customer loans and receivables					
	Due balance	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	**Total**
2018	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Foreign receivables	17,267	41,338	8,210	25,009	1,589	**93,413**
Domestic receivables	3,210	104,467	1,840	-	-	**109,517**
Receivables from related parties *	8,545	95,381	6,837	-	-	**110,763**
	29,022	**241,186**	**16,887**	**25,009**	**1,589**	**313,693**

*excluding impairment allowance in the amount of HRK 862 thousand

2017						
Foreign receivables	520	65,448	26,476	52,331	5,580	**150,355**
Domestic receivables	2,128	55,006	1,983	67	-	**59,184**
Receivables from related parties *	4,584	91,698	9,613	1,551	-	**107,446**
	7,232	**212,152**	**38,072**	**53,949**	**5,580**	**316,985**

*include non-current portion of domestic receivables in the amount of HRK 1,551 thousand

Table 2	Ageing of total due customer loans and receivables				
	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	**Total**
2018	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Foreign receivables	5,635	11,632	-	-	**17,267**
Domestic receivables	2,576	592	42	-	**3,210**
Receivables from related parties	7,005	1,295	192	53	**8,545**
	15,216	**13,519**	**234**	**53**	**29,022**
2017					
Foreign receivables	520	-	-	-	**520**
Domestic receivables	2,067	61	-	-	**2,128**
Receivables from related parties	3,333	971	195	85	**4,584**
	5,920	**1,032**	**195**	**85**	**7,232**

29 Financial risk management *(continued)*

(d) Credit risk (continued)

Table 3

Payment due date for total customer loans and receivables (in respect of accounts with any portion falling due)

	Due balance	Up to 3 months	3 months to 1 year	1 to 3 years	Total
2018	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Foreign receivables	17,267	7,439	74	-	**24,780**
Domestic receivables	3,210	48,717	1,831	-	**53,758**
Receivables from related parties	8,545	87,034	-	-	**95,579**
	29,022	**143,190**	**1,905**	**-**	**174,117**
2017					
Foreign receivables	520	13,256	-	-	**13,776**
Domestic receivables	2,128	1,068	47	-	**3,243**
Receivables from related parties	4,584	80,441	1,508	-	**86,533**
	7,232	**94,765**	**1,555**	**-**	**103,552**

Table 4

Past due but not impaired customer loans and receivables

	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
2018	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Foreign receivables	2,935	260	-	-	**3,195**
Domestic receivables	2,539	539	-	-	**3,078**
Receivables from related parties	6,955	226	-	-	**7,181**
	12,429	**1,025**	**-**	**-**	**13,454**
2017					
Foreign receivables	520	-	-	-	**520**
Domestic receivables	2,067	61	-	-	**2,128**
Receivables from related parties	2,487	635	194	-	**3,316**
	5,074	**696**	**194**	**-**	**5,964**

29 Financial risk management *(continued)*

(e) 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 Group has no significant commitments in financial instruments, the risk lies only in its daily operations. The Group has a strong focus on its cash flow with daily updates on actual development and monthly updated forecasts. The Group's maturity profile demonstrates the strong liquidity position of the Group and therefore the risk is considered low. The table below presents the maturity analysis and resulting gap.

The Group has a revolving credit facility with our core banks should an extraordinary liquidity need arise. As at 31 December 2018, the facility remained untapped.

2018	**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	387	2,250	8,184	36,756	4,080	51,657
Trade and other receivables	218,728	60,199	9,540	134	-	288,601
Current financial assets	48,490	-	-	-	-	48,490
Cash and cash equivalents	187,641	-	-	247	-	187,888
	455,246	**62,449**	**17,724**	**37,137**	**4,080**	**576,636**
Borrowings	-	-	-	5,770	-	5,770
Trade and other payables	65,577	146,461	444	6,522	-	219,004
	65,577	**146,461**	**444**	**12,292**	**-**	**224,774**
Maturity gap	**389,669**	**(84,012)**	**17,280**	**24,845**	**4,080**	**351,862**

2017	**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	761	3,336	11,472	62,931	4,374	82,874
Trade and other receivables	243,762	72,285	23,456	700	-	340,203
Current financial assets	84,520	-	-	-	-	84,520
Cash and cash equivalents	159,013	-	248	-	-	159,261
	488,056	**75,621**	**35,176**	**63,631**	**4,374**	**666,858**
Borrowings	-	-	-	8,381	-	8,381
Trade and other payables	57,791	275,357	849	13,103	-	347,100
	57,791	**275,357**	**849**	**21,484**	**-**	**355,481**
Maturity gap	**430,265**	**(199,736)**	**34,327**	**42,147**	**4,374**	**311,377**

29 Financial risk management *(continued)*

(f) Fair value estimation

Financial assets at fair value through profit and loss are carried at fair value at the balance sheet date. The fair value is estimated by reference to their quoted active market price at the balance sheet date which represents Level 1 input (Note 18).

A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. There are no financial assets derived from level 2 inputs which represent different valuation techniques based on observable market data or from level 3 inputs which represent different valuation techniques based on no observable market data.

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

	Carrying amount 2018 HRK '000	Fair value 2018 HRK '000	Unrecognised gain/(loss) 2018 HRK '000	Carrying amount 2017 HRK '000	Fair value 2017 HRK '000	Unrecognised gain/(loss) 2017 HRK '000
Loans and receivables	51,657	51,804	146	82,874	82,366	(508)
Trade and other receivables	288,601	288,702	101	340,203	340,185	(18)
Financial assets at fair value through profit or loss	48,490	48,490	-	84,520	84,520	-
Cash and cash equivalents	187,888	187,888	-	159,261	159,261	-
Borrowings	(5,770)	(5,770)	-	(8,381)	(8,381)	-
Trade and other payables	(219,004)	(219,004)	-	(347,100)	(347,100)	-
	351,862	352,110	247	311,377	310,851	(526)

The fair value of loans and receivables and the fair value of 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 the reporting year. Current financial assets 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 reflects 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 and which are all subject to normal trade credit terms reflect fair values. The following interest rates were used for determining fair values, which are based on available market rates for similar financial instruments:

	2018	2017
Loans and receivables	1.70%	0.80%

29 Financial risk management (continued)

(g) Capital management

The Group'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;
- To maintain a prudent balance sheet with adequate component of cash and short-term assets, as well as equity and other investments; and
- To secure adequate back-up funding facilities should a need arise.

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

The Group monitors capital using the statutory minimum capital requirement. Shareholders' equity is disclosed in Note 20 to the consolidated financial statements.

30 Leasing obligations

Non-cancellable lease is period of the lease which cannot be terminated without consent of other contract party or without significant penalties.

As of 31 December 2018, future minimum lease payment obligations related to non-cancellable lease contracts were distributed as follows:

	Operating leases
2019	8,484
2020	1,114
2021 and later	-
	9,598

31 Accounting policies before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Financial instruments

The Group classifies its financial assets in the following categories: loans and receivables, and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', ‘deposits’ and 'cash and cash equivalents' in the balance sheet.
Loans and receivables are carried at amortised cost using the effective interest method.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are categorised as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

c) Impairment of financial assets
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

31 Accounting policies before 1 January 2018 (continued)

Recognition of revenues

a) Significant accounting policies

Sales revenue represents the value of goods and services supplied to customers during the period, excluding value added taxes, trade discounts and rebates. Revenue is recognized with reference to all significant contractual terms when the product or service has been delivered, when transfer of risk has occurred, when the revenue amount is fixed or determinable, and when collection is reasonably assured. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognized.

The Group uses 3 main contract types with end customers as follows:

- Delivery-type contracts: Contracts for delivery of a product or a combination of products to form a whole or a part of a network as well as delivery of stand-alone products. Medium-size and large delivery type contracts generally include multiple elements. Such elements are normally standardized types of equipment or software as well as services such as network rollout.
  Revenue is recognized when risks and rewards have been transferred to the customer, normally stipulated in the contractual terms of trade. For delivery-type contracts that have multiple elements, revenue is allocated to each element based on relative fair values.
- Construction-type contracts: Contracts where the Group supplies to a customer a complete network, which to a large extent is based upon new technology or includes major components which are specifically designed for the customer. Revenues from construction-type contracts are recognized according to the stage of completion, using either the milestone output method or cost incurred method. Long-term construction contracts are assessed on a contract by contract basis and reflected in the consolidated statement of comprehensive income by recording revenue and related costs in line with contract activity.
- Service contracts: Contracts for various services such as: training, consulting, engineering, installation, and multi-year managed services.
  Revenue is generally recognized when the services have been provided. Revenue for fixed price service contracts covering longer periods is recognized pro rata over the contract period.

The majority of the Group's products and services are sold under delivery-type contracts including multiple elements, such as base stations, base station controllers, mobile switching centers, routers, microwave transmission links, various software products and related installation and integration services. Such contract elements generally have individual item prices in agreed price lists per customer.

The profitability of individual contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

b) Critical accounting estimates and judgements

The Group recognises revenues upon delivery of goods or service which may not always align with the timing of issuing invoices to customer since their timing is set in the contract. Revenues are recognised upon approved acceptance test by the customer. Consequently, the Group recognises deferred revenue (Note 26) and unbilled revenue (Note 16).