03

Consolidated Financial Statements

Ericsson Nikola Tesla Group

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 sixty-five 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, and supply and maintenance of communications solutions and systems, 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 2017 and up to the release of these consolidated statements were:

Arun Bansal	Appointed on 6 June 2017	Chairman
Roland Nordgren	Resigned as chairman on 6 June 2017	
Ignac Lovrek	Reappointed on 2 June 2015	Member; Vice-Chairman
Vidar Mohammar	Appointed on 2 June 2015	Member
Dubravko Radošević	Reappointed on 27 May 2014	Member
Zvonimir Jelić	Reappointed on 8 July 2014	Member and employees' representative

Audit Committee

The Audit Committee members during 2017 and up to the release of these consolidated statements were:

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

Ericsson Nikola Tesla Group

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

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

Management Board

The Management Board has one member:

Gordana Kovačević	Reappointed on 1 January 2015	President

Executive management

As at 31 December 2017, the executive management comprised:

Gordana Kovačević	President
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Commercial Management (including Legal)
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
Luciano Barreto Ferreira	Director, Finance (including Sourcing)
Marijana Đuzel	Director, Human Resources
Milan Živković	Director, Strategy and Business Development
Miroslav Kantolić	Director, Sales and Marketing for VIPnet
Patrick Gerard Martin	Director, R&D Center
Snježana Bahtijari	Director, Marketing, Communications & Corporate Social Responsibility

Ericsson Nikola Tesla Group

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 118 to 167 were authorised by the Management Board on 25 April 2018 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 and Management Board of Ericsson Nikola Tesla d.d.:

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Ericsson Nikola Tesla d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated 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 Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 2017 to 31 December 2017, are disclosed in the note 5 to the consolidated financial statements.

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

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Our audit approach

Overview

- Overall materiality for consolidated financial statements as a whole: HRK 11.8 million, which represents 0.8% of sales revenue

- We conducted audit work at 3 legal entities in 2 countries (Croatia and Bosnia & Herzegovina)
- 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

We designed our audit by determining materiality and assessing 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. 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 Group 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.

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Overall materiality for consolidated financial statements as a whole	HRK 11.8 million
How we determined it	0.8% 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 internal Ericsson Group transactions 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
Recognition of revenue from sale of goods *Refer to Note 1 of the financial statements under heading "Recognition of revenues" and Note 24 (Accrued charges and deferred revenue).* We focused on revenue recognition because the customer payments set in the contracts usually do not align with timing of revenue recognition criteria. Revenue from delivery of goods is mostly recognised upon approved acceptance test by a customer.	We assessed the consistency of the application of the revenue recognition policy by performing following procedures: - 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 checked that revenue had been recognised at the correct time by testing a sample of transactions and contracts, and comparing the timing of revenue recognition to approved client acceptance tests. - We also tested on a sample basis the appropriateness of deferred revenue transactions by reference to the delivery status of the related contracts and timing of invoices. - We verified appropriate allocation of revenue among multiple performance obligations for a selected number of contracts by analysing reasonableness of margins. - 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. No exceptions were noted from our testing.

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.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component audit teams operating under our instructions. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Together with the parent entity, we identified 3 significant reporting units where full-scope audit procedures were performed, while no audit procedures were considered necessary for 5 insignificant reporting units.

The audit work performed at all the significant components and by the group engagement team enabled us to get 99 % coverage of the Group's total assets, 99 % coverage of the Group's revenue and 100 % coverage of the Group's absolute value of underlying profit before tax.

By performing the procedures at all the significant components combined with additional procedures at the Group level, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Reporting on other information including the 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 repor't) comprising also the Corporate Governance Statement, 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 its 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 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 Company on 26 May 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

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

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
26 April 2018

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.

Ericsson Nikola Tesla Group

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 HRK '000	2016 HRK '000
Sales revenue	3, 4	1,481,555	1,591,602
Cost of sales		(1,330,699)	(1,401,797)
Gross profit		150,856	189,805
Selling expenses		(45,621)	(44,153)
Administrative expenses		(33,943)	(33,548)
Other operating income		7,455	4,658
Other operating expenses		(3,069)	(3,179)
Operating profit		75,678	113,583
Finance (expense)/income, net	7	(2,632)	5,244
Profit before tax		73,046	118,827
Income tax	8	(5,159)	(8,083)
Profit for the year		67,887	110,744
Other comprehensive income - items that may be subsequently reclassified to profit or loss:			
Currency translation differences		(114)	(49)
Total comprehensive income for the year		**67,773**	**110,695**
Earnings per share (HRK)	9	51.02	83.34

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

Ericsson Nikola Tesla Group

Consolidated statement of financial position

as at 31 December 2017

Assets	Notes	2017 HRK '000	2016 HRK '000
Non-current assets			
Property, plant and equipment	10	108,712	122,897
Intangible assets	11	6,160	7,285
Loans and receivables	12	82,874	81,160
Deferred tax assets	8	14,901	14,250
Other non-current assets		40	40
Total non-current assets		212,687	225,632
Current assets			
Inventories	13	18,872	9,796
Trade receivables	14	144,445	174,952
Receivables from related parties	25 (c)	104,483	88,858
Other receivables	15	90,289	14,325
Income tax receivables		986	1,172
Financial assets at fair value through profit or loss	16	84,520	62,993
Prepayments and accrued income		6,457	5,671
Cash and cash equivalents	17	159,261	224,725
Total current assets		609,313	582,492
Total assets		**822,000**	**808,124**

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

Ericsson Nikola Tesla Group

Consolidated statement of financial position (continued)

as at 31 December 2017

Equity and liabilities	Notes	2017 HRK '000	2016 HRK '000
Equity			
Share capital	18 (a)	133,165	133,165
Treasury shares		(280)	(1,630)
Legal reserves	18 (c)	6,658	6,658
Retained earnings		96,031	148,686
Total equity		235,574	286,879
Non-current liabilities			
Borrowings	19	8,381	8,962
Other non-current liabilities	20	13,104	24,288
Employee benefits	21 (a)	8,576	8,560
Total non-current liabilities		30,061	41,810
Current liabilities			
Payables to related parties	25 (c)	113,078	73,215
Trade and other payables	22	220,390	156,413
Income tax payable		528	21,659
Provisions	23	26,619	16,011
Accrued charges and deferred revenue	24	195,750	212,137
Total current liabilities		556,365	479,435
Total liabilities		586,426	521,245
Total equity and liabilities		**822,000**	**808,124**

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

Ericsson Nikola Tesla Group

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Share capital HRK '000	Treasury shares HRK '000 Note 18 (b)	Legal reserves HRK '000	Retained earnings HRK '000	Total HRK '000
As at 1 January 2016	133,165	(3,434)	6,658	171,539	307,928
Changes in equity for 2016					
Total comprehensive income	-	-	-	110,695	110,695
Dividend distribution for 2015, Note 18 (d)	-	-	-	(132,846)	(132,846)
Purchases of treasury shares, Note 18 (b)	-	(1,140)	-	-	(1,140)
Share-based payments, Note 21 (b)	-	2,087	-	(2,087)	-
Sale of treasury shares, Note 21 (b)	-	857	-	123	980
Equity-settled transactions, Note 21 (b)	-	-	-	1,262	1,262
Total contributions by and distributions to owners of the parent recognised directly in equity	-	1,804	-	(133,548)	(131,744)
As at 31 December 2016	**133,165**	**(1,630)**	**6,658**	**148,686**	**286,879**
As at 1 January 2017					
Changes in equity for 2017					
Total comprehensive income	-	-	-	67,773	67,773
Dividend distribution for 2016, Note 18 (d)	-	-	-	(119,735)	(119,735)
Share-based payments, Note 21 (b)	-	926	-	(926)	-
Sale of treasury shares, Note 21 (b)	-	424	-	(35)	389
Equity-settled transactions, Note 21 (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**

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

Ericsson Nikola Tesla Group

Consolidated statement of cash flows

for the year ended 31 December 2017

	Notes	2017 HRK '000	2016 HRK '000
Cash flows from operating activities			
Profit before tax		73,046	118,827
Adjustments for:			
Depreciation and amortisation	5, 10, 11	41,314	48,734
Impairment losses and reversals		10,916	16,398
Net increase in provisions	23	21,172	18,999
Gain on sale of property, plant and equipment		(150)	(102)
Net loss/(gain) on remeasurement of financial assets		644	(2,033)
Amortisation of discount		3	(657)
Interest income		(4,948)	(3,346)
Interest expense	7	267	582
Foreign exchange losses/(gains), net		16,207	(5,322)
Equity-settled transactions	6	268	1,262
		158,739	193,342
Changes in working capital:			
In receivables		(76,264)	(75,303)
In inventories		(9,076)	11,391
In payables		55,731	60,289
Cash generated from operations		129,130	189,719
Interest paid		(267)	(582)
Income taxes paid		(20,628)	(2,100)
Net cash from operating activities		108,235	187,037
Cash flows from investing activities			
Interest received		2,397	2,753
Dividends received		77	212
Proceeds from sale of property, plant and equipment		149	83
Purchases of property, plant and equipment, and intangible assets		(29,405)	(37,488)
Deposits given to financial institutions - net		(2,200)	(19,846)
Purchases of financial assets at fair value through profit and loss		(54,008)	(89,000)
Proceeds from sale of financial assets at fair value through profit and loss		31,760	81,745
Net cash used in investing activities		(51,230)	(61,541)

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

Ericsson Nikola Tesla Group

Consolidated statement of cash flows (continued)

for the year ended 31 December 2017

	Notes	2017 HRK '000	2016 HRK '000
Cash flows from financing activities			
Purchase of treasury shares	18 (b)	-	(1,140)
Dividends paid	18 (d)	(119,887)	(132,846)
Net cash used in financing activities		(119,887)	(133,986)
Effects of exchange rate changes on cash and cash equivalents		(2,582)	20
Net decrease in cash and cash equivalents		(65,464)	(8,470)
Cash and cash equivalents at the beginning of the year		224,725	233,195
Cash and cash equivalents at the end of the year	17	**159,261**	**224,725**

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

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group

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 2017 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. The accounting policies have been consistently applied to all periods presented in these consolidated financial statements.

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Disclosure Initiative – Amendments to IAS 7

The adoption of the amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) Standards and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9 Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The other financial assets held by the Group include:

- equity instruments currently classified as available for sale AFS for which a fair value through other comprehensive income (FVOCI) election is available
- equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under IFRS 9, and
- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade creditors and other financial assets by 0.5 to 1 million kuna.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

This standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

(b) Standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from contracts with customer and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- 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.
- 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 12.5 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 99 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.
- The Group has completed its assessment of the impact of IFRS 15 to its financial statements for all open contractual obligations per customer projects at transition date, 1 January 2018. Additional processes were implemented as part of the quantification exercise to accurately identify material transition impact, thus enabling it to be disclosed as part of the financial reporting process.

The impact of IFRS 15 implementation is estimated to be immaterial to equity at transition date.

This standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)

IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

(b) Standards and interpretations issued but not yet effective (continued)

Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HRK 11,626 thousand, see note 27. At this stage, the Group is not able to estimate the total impact of the new standard on the Group's financial statements. It will make more detailed assessments of the impact over the next twelve months. The Management plans to adopt the standard on its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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.

Comparatives

As from 1 October 2017, the new segment structure as described in Note 4 on Segment reporting (Networks, Digital Services, Managed Services, Other) was introduced. Financial information for the previous period between 1 January and 31 December 2016, has been restated to the present segment structure. The restatement has no impact on the Statement of Comprehensive Income.

In order to ensure the comparability of data, the presentation of sales revenue in Note 3 for 2016 has been restated in accordance with the 2017 reporting method. To date, the principle of business unit analysis has been used, while the data in line with the new calculation has been obtained by analysing types of services. The reason for such new calculation method is frequent changes in units that do not provide the same data in the comparative period. As a result, an immaterial change in the amount of HRK 8.8 million occurred in 2016.

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

Property, plant and equipment (continued)

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.

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 assets

a) 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.

b) 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

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.

Trade and other receivables

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

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

Cash and cash equivalents

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

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

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.

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 HRK 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.

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

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.

Recognition of revenues

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:

- <u>Delivery-type contracts</u>: 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.
- <u>Construction-type contracts</u>: 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.
- <u>Service contracts</u>: 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

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.

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

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.

Government grants

Grants from the government are recognised 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 relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets and presented within “other income”.

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

1 Significant accounting policies (continued)

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 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

2 Critical accounting estimates and judgements (continued)

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

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 12).

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 20. 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 12) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 19).

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 20.

c) Revenue recognition

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 24) and unbilled revenue (Note 14).

3 Sales revenue

	2017	2016
	HRK '000	HRK '000
Sales revenue from products	454,918	418,840
Sales revenue from services	1,026,637	1,172,762
	1,481,555	1,591,602

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

4 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.

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.

	2017	2016
	HRK '000	HRK '000
Sales revenue in domestic market	276,571	268,842
Sales revenue in Belarus, Kazakhstan, Armenia, Moldova, Russia, Ukraine and Georgia	125,461	283,801
Sales revenue to Ericsson, Note 25 (a)	925,800	872,369
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	136,296	149,338
Other export sales revenue	17,427	17,252
	1,481,555	1,591,602

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

4 Segment reporting (continued)

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	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	739,306	806,548	559,558	593,115	178,883	185,860	3,808	6,079	-	-	1,481,555	1,591,602
Operating profit	95,214	72,523	19,872	60,005	5,744	6,489	585	1,248	(45,737)	(26,682)	75,678	113,583
Finance income											(2,365)	5,826
Finance expense											(267)	(582)
Profit before tax											73,046	118,827
Income tax											(5,159)	(8,083)
Profit for the year											67,887	110,744

5 Expenses by nature

	2017	2016
	HRK '000	HRK '000
Changes in contract work in progress (Note 13)	(9,082)	11,353
Material and external services [(1)]	591,121	662,329
Personnel expenses (Note 6)	799,510	753,260
Depreciation and amortisation (Notes 10, 11)	41,314	48,734
Less reclassifications in material and external services:		
(Other income)/other operating expenses	(12,600)	3,822
	1,410,263	1,479,498

[(1)] Including fees to auditors of HRK 577 thousand (2016: HRK 633 thousand). Fees to auditors mainly relate to statutory audit services. Other services provided by the firm providing statutory audit services include seminars and quality assurance related to impact of new accounting standards.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

6 Personnel expenses

	2017	2016
	HRK '000	HRK '000
Net salaries	430,830	393,455
Taxes and contributions	320,760	316,954
Other payroll-related costs	47,652	41,589
Equity-settled transactions (Note 21 (b))	268	1,262
	799,510	753,260

Personnel expenses include HRK 124,641 thousand (2016: HRK 118,376 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 12,213 thousand (2016: HRK 10,562 thousand), and to transportation expenses and vacation accrual cost.

As at 31 December 2017, the total number of employees was 3,060 (2016: 2,949).

7 Finance income and expense, net

	2017	2016
	HRK '000	HRK '000
Interest income	2,743	3,346
Net (losses)/gains from remeasurement of financial assets at fair value through profit or loss	(395)	2,283
Amortization of discount	(3)	-
Net foreign exchange (loss)/gain	(4,710)	197
Interest expense	(267)	(582)
	(2,632)	5,244

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

8 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:

	2017	2016
	HRK '000	HRK '000
Current income tax expense	(5,811)	(22,333)
Total deferred tax expense	652	14,250
Total income tax expense	(5,159)	(8,083)

Deferred tax from tax losses

The Group did not recognise deferred income tax assets of HRK 337 thousand (2016: HRK 214 thousand) in respect of cumulative tax losses amounting to HRK 3,268 thousand (2016: HRK 1,872 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 2015 – expires 31 December 2020	65
Tax loss for 2016 – expires 31 December 2021	1,660
Tax loss for 2017 – expires 31 December 2022	1,543
	3,268

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

8 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:

	2017	2016
	HRK '000	HRK '000
Profit before tax	73,046	118,827
Tax calculated at domestic tax rates applicable to profits in the respective countries	13,247	24,080
Tax effects of:		
Expenses not deductible for tax purposes	5,703	7,628
Recognition of previously unrecognized temporary differences	(652)	(14,250)
Tax incentives	(13,115)	(856)
Utilisation of tax losses	(24)	(8,519)
Tax charge	5,159	8,083
Effective tax rate	4.8%	5.3%

Tax incentives totalling HRK 13,115 thousand (2016: HRK 856 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 Company 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

8 Income tax expense (continued)

Deferred tax from other temporary differences

During 2016, the Group re-evaluated the potential for utilization of certain existing temporary differences for which deferred tax assets had not been previously recognized based on the uncertainty of their utilization. In view of the changed circumstances, the Group recognized deferred tax assets in the amount of HRK 14,901 thousand (2016: HRK 14,250 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 2016	-
Tax credited to the Income statement	14,250
Tax charged to the Income statement	-
As at 31 December 2016	14,250
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

9 Earnings per share

	2017	2016
Profit for the year (HRK '000)	67,887	110,744
Weighted Average Number of Shares Outstanding at the year-end	1,330,499	1,328,809
Earnings per share (HRK)	51.02	83.34

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

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

10 Property, plant and equipment

	Land and buildings HRK '000	Plant and equipment HRK '000	Other HRK '000	Total HRK '000
As at 1 January 2016				
Cost or valuation	160,367	378,541	328	539,236
Accumulated depreciation	(115,966)	(285,366)	(237)	(401,569)
Net book amount	44,401	93,175	91	137,667
Year ended 31 December 2016				
Opening net book amount	44,401	93,175	91	137,667
Additions	1,797	31,259	-	33,056
Disposals	-	(40)	-	(40)
Depreciation charge	(2,955)	(44,823)	(8)	(47,786)
Closing net book amount	43,243	79,571	83	122,897
As at 31 December 2016				
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

As at 31 December 2017, the Group had contracts totalling HRK 4,321 thousand (2016: HRK 2,673 thousand) related to future equipment purchases.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

10 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 11,281 thousand (2016: HRK 12,786 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:

	2017	2016
	HRK '000	HRK '000
Less than one year	3,285	3,271
Between one and five years	1,643	1,635
	4,928	4,906

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

11 Intangible assets

The movement on intangible assets in the year ended 31 December 2017 may be analysed as follows:

	Application software HRK '000	Goodwill HRK '000	Total HRK '000
As at 1 January 2016			
Cost or valuation	10,363	4,173	14,536
Accumulated amortization	(8,004)	-	(8,004)
Net book amount	2,359	4,173	6,532
Year ended 31 December 2016			
Opening net book amount	2,359	4,173	6,532
Additions	1,701	-	1,701
Amortization charge	(948)	-	(948)
Closing net book amount	3,112	4,173	7,285
As at 31 December 2016			
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 2017			
Cost or valuation	7,776	4,173	11,949
Accumulated amortization	(5,789)	-	(5,789)
Net book amount	1,987	4,173	6,160

(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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

12 Loans and receivables

	2017	2016
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	15,495	28,117
Deposits with financial institutions, denominated in HRK	12,360	-
Non-current receivables from foreign customers, denominated in foreign currency	46,413	42,889
Loans given, Note 2 (b)	11,498	10,119
Non-current receivables from domestic customers, denominated in HRK	1,552	2,922
Receivables for sold apartments	544	606
Total loans and receivables	87,862	84,653
Impairment allowance on loans and receivables	(4,988)	(3,493)
	82,874	81,160

Deposits with financial institutions in the amount of HRK 23,721 thousand (2016: 23,959) are used as a collateral for Supplier credit arrangement disclosed in Note 2 (b), with interest rate from 0.75% to 2% and maturing in year 2022.

The rest of the deposits with financial institutions of HRK 4,134 thousand (2016: HRK 4,159 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

	2017	2016
Due	HRK '000	HRK '000
2018	-	33,661
2019	39,388	9,214
2020	10,983	8,017
2021	8,548	5,038
2022	544	-
	59,463	55,930

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

13 Inventories

	2017	2016
	HRK '000	HRK '000
Raw materials	84	466
Contract work in progress	18,870	9,788
Total inventories	18,954	10,254
Impairment allowance	(82)	(458)
	18,872	9,796

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.

14 Trade receivables

	2017	2016
	HRK '000	HRK '000
Foreign trade receivables	77,450	102,847
Current portion of non-current foreign receivables	14,994	18,452
Total current foreign receivables	92,444	121,299
Domestic trade receivables	59,117	64,088
Current portion of non-current domestic receivables	67	-
Total current domestic receivables	59,184	64,088
Impairment allowance on receivables	(7,183)	(10,435)
	144,445	174,952

Included in trade receivables is HRK 4,050 thousand (2016: HRK 7,841 thousand) of unbilled revenue.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

14 Trade receivables (continued)

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

	2017	2016
	HRK '000	HRK '000
As at 1 January	15,513	7,477
Provision for receivables impaired during the year	12,715	21,571
Impact of discounting non- current receivables	1,956	3,135
Receivables written off during the year as uncollectible	(13,369)	(11,112)
Unused amounts reversed	(3,233)	(4,901)
Amortisation of discount	-	(657)
As at 31 December (1)	13,582	15,513

1) Including impairment provision for receivables from related parties of HRK 1,411 thousand (2016: HRK 1,585 thousand)

15 Other receivables

	2017	2016
	HRK '000	HRK '000
Advances given	14,375	11,934
Net VAT receivables /i/	73,745	1,325
Receivables for withholding tax	884	-
Other receivables	1,285	1,066
	90,289	14,325

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

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

16 Financial assets at fair value through profit or loss

	2017	2016
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,387	1,951
- Investment in open-ended investment funds	83,133	61,042
	84,520	62,993

17 Cash and cash equivalents

	2017	2016
	HRK '000	HRK '000
Cash and demand deposits	159,261	224,725
	159,261	224,725

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

18 Equity

(a) Share capital

As at 31 December 2017, the share capital is represented by 1,331,650 (2016: 1,331,650) of authorised, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2016: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2016: 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:

	Number of shares	% held	Number of shares	% held
		2017		2016
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Small shareholders	677,931	50.1	676,682	50.82
Treasury shares	246	0.02	1,495	0.11
	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 21 (b). During 2017, the Parent Company did not purchase its own shares.

Movements in treasury shares are as follows:

	Number of shares	Number of shares
	2017	2016
As at 1 January (Note 18 (a))	1,495	3,382
Purchased during the year	-	1,000
Distributed during the year	(1,249)	(2,887)
As at 31 December (Note 18 (a))	246	1,495

(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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

18 Equity (continued)

(d) Proposed dividend

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 6 June 2017, the General Assembly approved a regular dividend in respect of 2016 of HRK 20.00 per share, and additional extraordinary dividend of HRK 70.00 per share, totalling HRK 119,735 thousand.

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

	2017	2016
	HRK '000	HRK '000
HRK 90.00 per share for 2016	119,735	-
HRK 100.00 per share for 2015	-	132,846
Prior year dividend payout	152	-
	119,887	132,846

19 Borrowings

	2017	2016
	HRK '000	HRK '000
Borrowings, Note 2 (b)	8,378	8,954
Other long-term loans	3	8
	8,381	8,962

Changes in liabilities from financing activities

	HRK '000
Year ended 31 December 2016	
Opening net book amount	-
Other non-cash movements	8,962
Closing net book amount	8,962
Year ended 31 December 2017	
Opening net book amount	8,962
Foreign exchange differences	(581)
Closing net book amount	8,962

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

20 Other non-current liabilities

	2017	2016
	HRK '000	HRK '000
Accounts payable	1,541	2,400
NPV discount	(389)	(358)
Total accounts payable /i/	1,152	2,042
Deferred revenue /i/	6,263	14,341
Liabilities for issued guarantee, Note 2 (b)	648	782
Other non-current liabilities, Note 2 (b)	5,041	7,123
	13,104	24,288

/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.

21 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 10th year and ending in the 40th year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2017 were a 6% discount rate (2016: 6%) and a 7.12% (2016: 4.17%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
			2017			2016
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	7,071	1,489	8,560	7,308	1,752	9,060
Obligation created during the year	1,025	358	1,383	933	338	1,271
Obligation fulfilled during the year	(803)	(9)	(812)	(917)	(33)	(950)
Obligation reversed during the year	(20)	(535)	(555)	(253)	(568)	(821)
As at 31 December	7,273	1,303	8,576	7,071	1,489	8,560

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

21 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 372 shares (2016: 841) and received compensation in the amount of HRK 389 thousand (2016: HRK 980 thousand). The difference between the purchase price of the shares and selling price received from the employee in the amount of HRK 35 thousand (2016: HRK 123 thousand) has been recognised within retained earnings.

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

	2017	2016
	Number of shares	Number of shares
As at 1 January	1,297	4,557
Granted	2	-
Exercised	(1,249)	(2,887)
Expired	(25)	(373)
As at 31 December	25	1,297

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 2016 of shares granted in 2011-2013	373	1,373.20
Reversal in 2017 of shares granted in 2011-2013	25	1,373.20

During 2017, the Group recognised HRK 268 thousand (2016: HRK 1,262 thousand) of expenses in respect of share-based payments, which are included in personnel expenses as disclosed in Note 6.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

22 Trade and other payables

	2017	2016
	HRK '000	HRK '000
Trade payables	94,783	33,707
Liabilities to employees	105,255	92,982
Other current liabilities	20,352	29,724
	220,390	156,413

23 Provisions

Movements in provisions were as follows:

	Warranty reserve	Penalty reserve	Termination benefits	Other reserve	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2016	5,428	1,785	2,790	-	10,003
Additional provisions	8,568	-	10,471	497	19,536
Unused provisions reversed	(129)	(408)	-	-	(537)
Provisions used during the year	(2,322)	(902)	(9,767)	-	(12,991)
As at 31 December 2016	11,545	475	3,494	497	16,011
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

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 15,504 thousand was made to a complex project in the Community of Independent States market.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

24 Accrued charges and deferred revenue

	2017	2016
	HRK '000	HRK '000
Advances from domestic customers	1,122	96
Advances from foreign customers	3,107	19,780
Deferred revenue	103,645	104,905
Accrued charges for unused holidays	22,552	21,933
Accrued charges in respect of service contracts	25,320	31,337
Other accrued charges	40,004	34,086
	195,750	212,137

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

25 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% (2016: 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	
	2017	2016	2017	2016	2017	2016
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	-	925,800	872,369	925,800	872,369
Other income	-	-	318	22,526	318	22,526
	-	-	926,118	894,895	926,118	894,895
Purchases of goods and services						
Licences	2,712	3,523	18,853	20,890	21,565	24,413
Cost of sales	-	-	209,554	372,459	209,554	372,459
	2,712	3,523	228,407	393,349	231,119	396,872

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

25 Balances and transactions with related parties (continued)

(b) Key management compensation

The key management include the executive management listed on page 110, comprising the Management Board member and directors of the main organisational units.

	2017	2016
	HRK '000	HRK '000
Salaries and other short-term employee benefits	22,063	22,619
Other long-term benefits		17
	22,080	22,636

The members of the executive management and the Supervisory Board held 5,076 ordinary shares at the year-end (2016: 4,627 shares).

In addition, the Group paid remuneration totalling HRK 346 thousand (2016: HRK 357 thousand) to the Supervisory Board and Audit Committee members during 2017.

(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	
	2017	2016	2017	2016
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), main shareholder	10	-	919	1,699
Other Ericsson Group companies	104,473	88,858	112,159	71,516
	104,483	88,858	113,078	73,215

The Group recorded a non-current receivable (Note 12) of HRK 1,156 thousand (2016: HRK 2,042 thousand) and a non-current portion of deferred revenue of HRK 6,263 thousand (2016: HRK 14,341 thousand) and current portion of deferred revenue of HRK 5,038 thousand (2016: HRK 1,700 thousand) from Ericsson Services d.o.o. (ESK) relating to the five-year managed services contract with Hrvatski Telekom.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 2017, if the euro and US dollar had weakened/strengthened by 1% (2016: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 2,364 thousand higher/lower (2016: HRK 2,730 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 Financial risk management (continued)

(a) Currency risk (continued)
The tables below present the currency analysis and resulting gap.

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

2016	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	4,159	73,831	-	77,990	3,170	81,160
Trade and other receivables	118,336	72,935	1,876	193,147	86,160	279,307
Financial assets at fair value through profit or loss	-	-	-	-	62,993	62,993
Cash and cash equivalents	124,313	37,844	166	162,323	62,402	224,725
	246,808	184,610	2,042	433,460	214,725	648,185
Borrowings	-	8,954	-	8,954	8	8,962
Trade and other payables	62,825	18,700	284	81,809	193,766	275,575
	62,825	27,654	284	90,763	193,774	284,537
Currency gap	183,983	156,956	1,758	342,697	20,951	363,648

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 2017:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2016: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 34 thousand higher/lower (2016: HRK 33 thousand);
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2016: 1%) on an annual level, the net result due to changes in investment funds after tax for the reporting period would have been HRK nil thousand higher/ lower (2016: HRK 488 thousand).

The following table presents the annual average interest rates exposure of financial assets and liabilities:

	Average interest rates	Average interest rates
	2017	2016
	%	%
Loans and receivables	2.73	2.60
Trade and other receivables	-	-
Financial assets at fair value through profit or loss	-	-
Cash and cash equivalents	0.11	0.21

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 Financial risk management (continued)

(b) Interest rate risk (continued)

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

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

2016	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	48,447	-	1,023	1,812	1,155	4,765	57,202	23,958
Trade and other receivables	279,327	(20)	-	-	-	-	279,307	-
Financial assets at fair value through profit or loss	62,993	-	-	-	-	-	62,993	-
Cash and cash equivalents	-	224,725	-	-	-	-	224,725	-
	390,767	224,705	1,023	1,812	1,155	4,765	624,227	23,958
Borrowings	8,962	-	-	-	-	-	8,962	-
Trade and other payables	275,575	-	-	-	-	-	275,575	-
	284,537	-	-	-	-	-	284,537	-
Interest rate gap	106,230	224,705	1,023	1,812	1,155	4,765	339,690	29,958

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 47% of total net trade receivables (2016: 48%). The Group considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 12 and 14) and other receivables (Note 15), 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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 2017.

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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
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 1,552 thousand

2016						
Foreign receivables	2,848	62,407	56,044	43,065	9,943	174,307
Domestic receivables	1,761	59,450	2,877	523	-	64,611
Receivables from related parties *	8,027	77,588	4,827	2,400	-	92,842
	12,636	199,445	63,748	45,988	9,943	331,760

* include non-current portion of domestic receivables in the amount of HRK 2,400 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
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
2016					
Foreign receivables	2,656	192	-	-	2,848
Domestic receivables	1,677	84	-	-	1,761
Receivables from related parties	6,750	1,040	120	117	8,027
	11,083	1,316	120	117	12,636

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
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
2016					
Foreign receivables	2,848	19,357	624	-	22,829
Domestic receivables	1,761	13,145	2,007	-	16,913
Receivables from related parties	8,027	68,745	4,827	-	81,599
	12,636	101,247	7,458	-	121,341

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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
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
2016					
Foreign receivables	2,656	192	-	-	2,848
Domestic receivables	1,677	84	-	-	1,761
Receivables from related parties	3,635	294	84	-	4,013
	7,968	570	84	-	8,622

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 2017, the facility remained untapped.

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

2016	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	10	5,070	13,853	57,947	4,280	81,160
Trade and other receivables	142,599	43,166	92,758	784	-	279,307
Current financial assets	62,993	-	-	-	-	62,993
Cash and cash equivalents	224,725	-	-	-	-	224,725
	430,327	48,236	106,611	58,731	4,280	648,185
Borrowings	-	-	-	8,962	-	8,962
Trade and other payables	164,134	83,373	3,780	24,288	-	275,575
	164,134	83,373	3,780	33,250	-	284,537
Maturity gap	266,193	(35,137)	102,831	25,481	4,280	363,648

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 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 17).

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	Fair value	Unrecognised gain/(loss)	Carrying amount	Fair value	Unrecognised gain/(loss)
			2017			2016
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	82,874	82,366	(508)	81,160	82,617	1,457
Trade and other receivables	340,203	340,185	(18)	279,307	279,275	(32)
Financial assets at fair value through profit or loss	84,520	84,520	-	62,993	62,993	-
Cash and cash equivalents	159,261	159,261	-	224,725	224,725	-
Borrowings	(8,381)	(8,381)	-	(8,962)	(8,962)	-
Trade and other payables	(347,100)	(347,100)	-	(275,575)	(275,575)	-
	311,377	310,851	(526)	363,648	365,073	1,425

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.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

26 Financial risk management (continued)

(f) Fair value estimation (continued)

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:

	2017	2016
Loans and receivables	0.80%	1.40%

(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 18 to the consolidated financial statements.

Notes to the Consolidated Financial Statements of Ericsson Nikola Tesla Group (continued)

27 Leasing obligations

As of 31 December 2017, future minimum lease payment obligations related to non-cancellable lease contracts were distributed as follows:

	Operating leases
2018	9,689
2019	1,937
2020 and later	-
	11,626