Ericsson Nikola Tesla d.d.

Annual report
31 December 2019

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01 General report
Highlights

- We actively participate in the digital transformation of the society
- We base our business success on technology leadership, our employees’ knowledge and partnership with our customers
- In collaboration with leading Croatian operators (HT, A1 HR), we modernize the network and prepare it for the introduction of 5G
- We gain new responsibilities in 4G and 5G
- We continue to create jobs for young and educated experts, predominantly those having STEM degrees
- We successfully collaborate with academia in our country and abroad
- We are focused on cost and operational efficiency, capital efficiency and strategic risk management

Ericsson Nikola Tesla Group in brief

mother company

Ericsson Nikola Tesla d.d.

Core business

Provider of modern information and communications products, solutions, software and services

Address

Krapinska 45, PO Box 93, HR-10 002 Zagreb
Poljička cesta 39, HR-21 000 Split
Ulica Hrvatske Republike 29, HR-31 000 Osijek

Telephone

Zagreb / +385 1 36 53 535
Split / +385 21 20 58 00
Osijek / +385 1 36 53 535

Fax

Zagreb / +385 1 36 53 156
Split / +385 21 43 58 34
Osijek / +385 1 36 53 156

E-Mail: etk.company@ericsson.com
Web: www.ericsson.hr/en/homepage
Personal identification number (OIB): 84214771175
Commercial court registration number (MBS): 080002028
Statistical number (MB): 03272699
Share capital: HRK 133,165,000
Number of shares: 1,331,650 registered shares
Ownership structure: Ericsson 49.07 percent, other shareholders 50.91 percent, treasury shares 0.02 percent (as at 31 December 2019)
Share trading: Ericsson Nikola Tesla shares (ERNT-R-A) are traded in the Regular Market of the Zagreb Stock Exchange (ZSE).
IBAN:

RBA HR7624840081100331673
ZABA HR8423600001101235687
PBZ HR2223400091110012058
ERSTE HR8824020061100414168

Management Board / Managing Director: Gordana Kovačević, MSc
Chairman of the Supervisory Board: Franck Pierre Roland Bouétard

affiliated companies

- Ericsson Nikola Tesla Servisi d.o.o.

Core business: Provider of network infrastructure build and maintenance services
Address: Krapinska 45, HR-10 002 Zagreb
Telephone: +385 1 30 38 503
Fax: +385 1 30 38 601
E-mail: ehr.company@ericsson.com
Web: www.ericsson.hr/en/ericsson-nikola-tesla-servisi-doo
Personal identification number (OIB): 47445593925
Commercial court registration number (MBS): 080921748
Ownership structure: Ericsson Nikola Tesla d.d. 100 percent
IBAN: RBA HR2124840081107008882
Director: Dario Runje
Chairperson of the Supervisory Board: Gordana Kovačević, MSc

- Ericsson Nikola Tesla BH d.o.o.

Core business:
Provider of modern information and communications products, solutions, software and services
Address: Kralja Petra Krešimira IV, Lamela B-bb, Mostar, Bosnia and Herzegovina
Telephone: +387 36 446 492
Fax: +387 36 446 494
Web: www.ericsson.hr/en/ericsson-nikola-tesla-bh-en
Unique identification number (JIB): 4201717070003
Tax number (VAT id): 201717070003
Registration number: 65-01-0996-11
Ownership structure: Ericsson Nikola Tesla d.d. 100 percent
IBAN:
UniCredit Bank BA393386904896538387
Raiffeisen Bank BA391611000002324857
Director: Jagoda Barać
Chairperson of the Supervisory Board: Gordana Kovačević, MSc

- Branch office Sarajevo

Address: Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
Telephone: +387 33 252 260
Fax: +387 33 209 419
Unique identification number (JIB): 4201717070011
Director: Adnan Halimić

- Libratel d.o.o

Core business: Provider of telecom services; installation, putting into service and upgrading telecom equipment (core and access network)
Address: Selska 93, HR-10 002 Zagreb
Telephone: +385 1 36 54 035
Fax: +385 1 36 54 038
E-mail: libratel@libratel.hr
Web: www.libratel.hr/eng/
Personal identification number (OIB): 97566215530
Commercial court registration number (MBS): 080300404
Ownership structure: Ericsson Nikola Tesla d.d. 100 percent
IBAN: ZABA HR7623600001101211096
Director: Branko Dronjić

- Ericsson Nikola Tesla d.d. - Branch office Kosovo

Address: Vicianum Arbëria 3 Veranda C2.7 LI.II Lok.5, Pristina, Republic of Kosovo
Telephone: +381 38 749 080
Tax number (VAT id): 600411235
Registration number: 70633647
Ownership structure: Ericsson Nikola Tesla d.d. 100 percent
Director: Besar Spahija

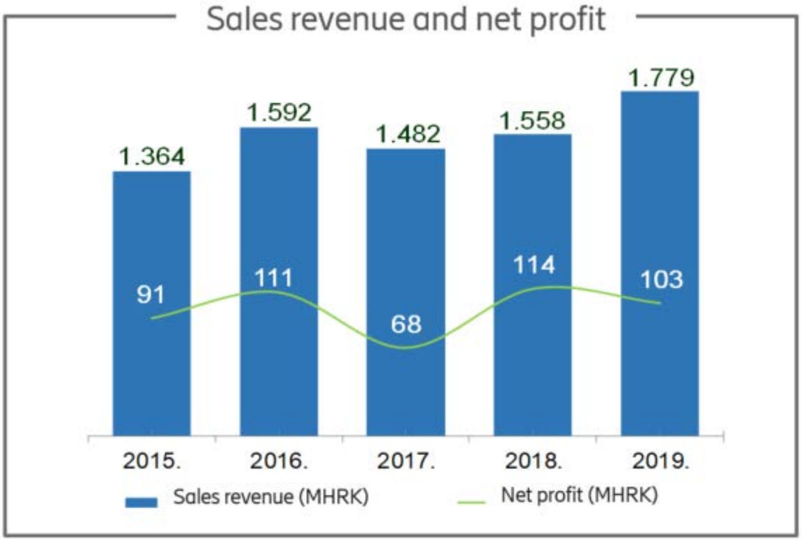
- Ericsson Nikola Tesla BY d.o.o

Address: 2 Zybitskaya St., administrative room 17, room 5, 220030 Minsk, Republic of Belarus
Registration number: 192753195
Ownership structure: Ericsson Nikola Tesla d.d. 100 percent
Director: Mario Lovreković

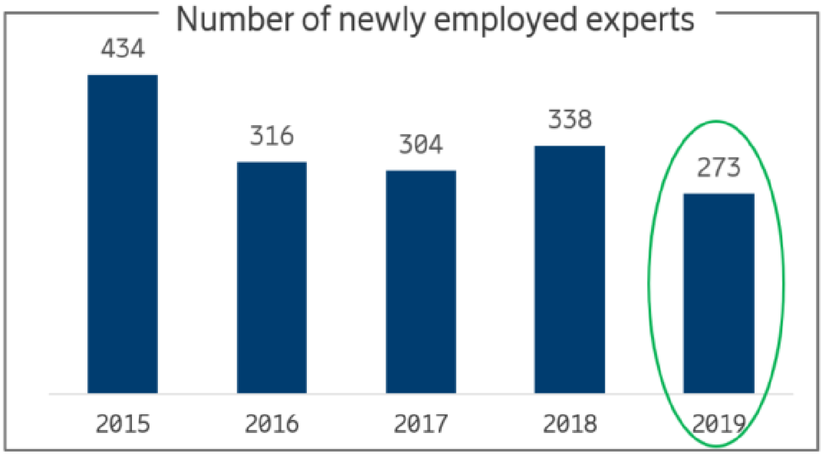
2019 highlights

- Realized sales revenue **MHRK 1,779** (2018: MHRK 1,558)
- Realized gross margin **9.2%** (2018: 9.1 %).
- Realized net profit **MHRK 103** (MHRK 114)
- Realized cash flow from operating activities **MHRK 69** (2018: MHRK 75)
- New responsibilities in 4G and 5G
- In collaboration with the leading Croatian operators (HT, A1 HR) - network modernization and preparation for the introduction of 5G network
- Strong market activities in line with our focused strategy
- Further investments in solutions/products/services, testing equipment, development of strategic knowledge and skills
- Focus on cost and operational efficiency, capital efficiency and strategic risk management
- Further employment: **273** new experts employed (mainly highly educated and having STEM degrees)

Sales revenue and net profit (in MHRK)



Newly employed experts



Annual report on Group performance

In 2019, Ericsson Nikola Tesla celebrated 70 years of its operations. During this long period, we have always been focusing on the future and creation of new opportunities and we have been continuously investing to integrate our experts into global technological development processes. We have transformed by timely reacting to the needs of our customers and end users. Teamwork, partnership with our customers and suppliers and care for our employees, were, and remain, the foundations on which we build our future. We have been proactively working and have positioned ourselves within the Ericsson Corporation. At our own initiative and in an innovative way, we have also been developing our own solutions that fit into the concept of a connected world. Owing to all the above mentioned, Ericsson Nikola Tesla Group has its place among the renowned Croatian companies and largest Croatian exporters of high value-added products. An important part of our activities takes place in Research and Development Center in Zagreb, Split and Osijek, where our experts participate in the development of 5G technology, among other.

Namely, the leading global operators started intensive activities on 5G networks implementation. The leading operators in the domestic market have been following those global technology trends and are modernizing their networks to be 5G-ready, once the Croatian Regulatory Authority for Network Industries (HAKOM) announces the conditions and allocates the radio-frequency spectrum. With numerous contracts and 5G networks in operation in four continents, Ericsson Corporation is the global leader in 5G implementation, of which we are especially proud.

5G technology will enable high speed data transfer, low latency and better network safety. By implementing 5G, we are creating a new platform for innovations that will improve business and society at large, and enable new revenue streams for our customers, whilst at the same time optimizing their business performance. The technological possibilities of 5G seem like science fiction - data is exchanged in real time among people and connected devices with an increased efficiency and reliability. According to expectations presented in Ericsson Mobility Report from November 2019), digital transformation will significantly increase the number of 5G technology users, and it is expected that in 2025, there will be more than 2.6 billion of 5G subscribers and 5 billion of mobile IoT connections.

Market overview

In 2019, Ericsson Nikola Tesla Group total sales revenue amounted to MHRK 1,779.3, up by 14.2% year-over-year, with sales revenue growth in all markets.

As per requirements of our strategic customer, Hrvatski Telekom (HT), we have successfully modernized their network, which is now fully 5G-ready. The realization of this project improved and evened the quality of mobile services for users of HT's network, in the entire territory of the Republic of Croatia. During project implementation, almost 500 experts worked daily across 40 locations in Croatia. Radio equipment was replaced in 1960 locations, and 1469 rooftop antenna mounts or towers have been replaced or modernized. Our strategic customer A1 Hrvatska, has been cooperating with our company and using Ericsson technology ever since it was founded 20 years ago. We have continued our long-term successful cooperation with A1 Hrvatska by signing a framework agreement that encompasses additional modernization and expansion of their radio access network by using the latest technology solutions from Ericsson Radio System (ERS) portfolio, which allows A1 Hrvatska to have a flexible 5G-ready solution at their disposal. In the domestic market, in the ICT Industry & Society segment, we have continued to deliver services on projects in the fields of e-Health, e-Business (Land Registry and Cadaster) and Public Safety (State Border Control).

In the export markets, we continued a good cooperation with the operators HT Eronet (Bosnia and Herzegovina), Crnogorski Telekom (Montenegro), Ipko (Kosovo), and beCloud (Belarus), on the modernization, expansion and maintenance of telecommunication networks. I would like to highlight the activities with HT Eronet, our strategic customer, on the expansion of LTE network across the entire territory of Bosnia and Herzegovina. With the operator beCloud, we have continued the activities on the project of LTE network expansion (turn-key) in four Belarus regions. In the segment of ICT solutions for Industry & Society, within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan, we have successfully completed the managed services phase and started the system maintenance phase.

Business in Ericsson market continued to grow in 2019. In addition to new responsibilities for the development of 4G and 5G, our R&D Center was selected as the consolidation point for 2G and 3G radio access network services, and we also gained new responsibilities within Cloud platform. Along with the global projects related to Unified Data Management (UDM), the Center has also been working on development of demo systems for key customers in USA, Japan, and Europe, and worked on virtualization and modernization projects for Mobile Switching Centre (MSC). Networks Services and Solutions Center has been working on complex activities of expert analytics, creation of new innovative solutions, optimization and upgrading of the existing networks, and consultancy services. Experts from Digital Services and Solutions Center have been working on complex projects of introducing 5G technology, Operations and Business Support Systems (OSS/BSS), as well as numerous projects of introducing core solutions in Cloud. Furthermore, our teams from IT&Engineering Services and Industry and Society achieved good results on projects of Test environment management, IT Operations management, IoT platform and Connected Urban Transport solutions.

Our daughter company, Ericsson Nikola Tesla Servisi d.o.o. successfully provided the services of monitoring, maintenance and build of telecommunication network of Hrvatski Telekom. The goals on optical distribution networks rollout were realized, and during the year optical access for 37,374 users was enabled.

Key performance indicators

Year-over-year, gross profit increased by 16%, amounting to MHRK 164.5, while gross margin remained almost the same amounting to 9.2%. Operating profit amounted to MHRK 102.6, down by 14.5%, primarily due to lack of incentives based on the Investment Promotion Act, although positive impacts of this Act in 2019 are visible in the decrease of tax liability, i.e. effective tax rate. Operating profit was lower also due to increased selling expenses for activities related to seizing new business opportunities. Net profit amounted to MHRK 102.6, while return on sales (ROS) was 5.8%. We concluded the year with a lean balance sheet and an equity ratio of 33%. A positive cash flow from operating activities was also realized amounting to MHRK 68.9, primarily as a result of quality realization of strategic projects. At the end of 2019, total cash and cash equivalents, including short-term financial assets, amounted to MHRK 135.8. Group's Working Capital efficiency, expressed in Working Capital Days (WCD), was 41 days, and if we exclude services to Ericsson, working capital efficiency was 110 days as a result of increased engagement on network modernization projects, primarily in the domestic market. Cash conversion rate was 36 percent.

Main business risks

COVID-19 pandemic, which spread throughout the world, and is also present in Croatia, could significantly impact the Company's business performance. We estimate that, currently, the biggest negative impact on our business realization, could come from the reduced possibility of business travels and field work of our employees, including posted workers, who are currently in risk countries. Furthermore, we expect that our customers could slow down or postpone the realization of already signed contracts. Should the COVID-19 pandemic persist, the realization of several export deals could be obstructed due to movement restrictions and care for health of our employees. Nevertheless, with a strong focus on cost and operating efficiency, the Group believes that it has sufficient funds and external financing possibilities and that, combined with the corresponding measures taken by the government to relieve business performance in these circumstances, it can adequately address the challenges and continue its business performance. In addition, the business results can be significantly impacted by managed services, the delivery of which significantly depends on automation and development of software tools, as well as the transformation process of our customers and Ericsson Nikola Tesla Group, and the limited possibility for realization of field services by Ericsson Nikola Tesla Group and our subcontractors related to COVID-19 pandemic in Croatia.

Considering the demanding market environment, some business risks which marked the previous years remain present. The economic environment and the political situation in certain markets remain challenging. The demand for customer financing continues, as well as the exposure to an increased credit and commercial risk, should our customers face adverse financial conditions. A challenging global environment, as well as consolidation among the manufacturers of products and services, and new ICT companies entering the telecommunication markets leads to an increased competition, which impacts the demand and prices of our products and services. Given that a great part of Ericsson Nikola Tesla Group’s revenue is export generated in EUR and USD, the exposure to financial impact on foreign exchange differences continues.

Considering the uncertainty of impact that COVID-19 will have on Group's business performance in 2020 as well as other mentioned risks, Management Board and Supervisory Board propose to the Annual General Meeting to make a decision that the Company’s net profit for 2019 is allocated into retained earnings.

Sustainability and corporate responsibility

The sustainable development of our business performance is based on partnership with customers, continuous cooperation with employees, care for health and safety of our employees, customers and partners, excellence in everything we do, and technology leadership. The market has recognized us as an innovative company, whose products, solutions and services have a positive impact on people’s lives, business, environment and society development. We strengthen our competitiveness by continuously improving business performance and by good change management, achieved primarily by investment into the development of human resources, innovation culture, and new ways of working and management. Our company culture is implemented throughout the entire organization, and our employees apply the principles of company values and show respect towards colleagues, customers and partners in their daily activities.

Our company is doing business with customers in different markets and wherever we are doing business, we are devoted to developing transparent and long-term relationships. In Croatia, we are the leaders in building a smart, sustainable economy, with a high rate of employment, productivity, social connectivity and inclusion. Here I would like to highlight the energy efficiency project encompassing one part of the Company’s plants and buildings at the Company’s headquarters in Krapinska 45, Zagreb, co-funded by the EU. We started the project in 2017, and the completion is expected by end of 2020. Once the project is completed, the Company will realize annual energy savings of more than 4.6 million kWh, with the simultaneous reduction of CO2 emissions by almost 1400 tones. This project is in line with the conclusions of Ericsson Nikola Tesla’s Action Plan to reduce its carbon footprint, which was earlier created within the European LIFE Clim’Foot project, in which the Company also participated.

At Ericsson Nikola Tesla Group, we believe that ICT has a great impact on achieving all of 17 UN’s Sustainable Development (SDGs), and we are also encouraged by the fact that an increasing number of relevant factors in Croatia share the same opinion.

I am satisfied with our achievements in the area of sustainability and corporate responsibility in 2019. Aiming for excellence, we shall continue to act in all the segments of sustainable business development in the future, as well. Integration of sustainability and corporate social responsibility into our business practice is crucial to our long-term progress and growth. Therefore, I will continue to encourage all employees to contribute to sustainability and corporate responsibility goals as the strategic topics of our business.

The Non-financial report of this Annual Report presents numerous projects realized in the field of corporate social responsibility.

Ethics and compliance

The corporate culture and strategy of Ericsson Nikola Tesla Group are based on responsible business performance. The Group is continuously working on strengthening its business practice in the field of Ethics and Compliance, highlighting trust, transparency and integrity. In order for the Group to continuously do business in line with the highly set goals to conduct business responsibly, the Management Board, the Executive Management and all employees are obliged to act in line with the Code of Conduct for Business Partners and Code of Business Ethics in their everyday activities. This is also a requirement for all other stakeholders who are in a contractual relation with the Group. Pursuant to the Whistleblower Protection Act, the Group has, along with all the previously established systems and ways of reporting irregularities, prepared a Rulebook on internal reporting of irregularities, in order to additionally encourage employees to report, in good faith, any reasonable doubt in breaching the law and Company's policies regarding business performance.

The Management Board and Executive Management have zero tolerance on corruption and promote fair market competition. Such messages, along with a comprehensive set of rules, processes and targeted trainings, are communicated to all the Group's employees through daily operations and to all other stakeholders.

Conclusion - strategic directions

In line with our strategy, we remain focused on developing solutions and providing services, as well as sales in the field of mobile broadband Internet access (4G/5G mobile solutions), digital transformation, managed services and Industry & Society segment (healthcare, public safety, e-Business, etc.), in the domestic and export markets. We have been intensively working on strategic contracts and have been investing in 5G and new business models, which will impact our margins short term, but should also strengthen our market position in the long term.

Furthermore, we continue to strengthen our position providing services for Ericsson through activities of our R&D Center as well as our expert centers for services and solutions, by focusing on high quality, innovation and cost efficiency. In 2020, we shall continue to implement the Digital Transformation program at Ericsson Nikola Tesla Group level, with the aim to further simplify the Company's key processes and introduce additional automation.

In aggravated conditions to business performance that we expect related to the COVID-19 pandemic, the Management Board and Executive Management are monitoring the situation, analyzing risks and reaching concrete decisions in line with the instructions and recommendations from the competent state authorities, with the aim to ensure the health and safety of employees, customers and partners, and further sustainable development of Ericsson Nikola Tesla Group.

In order to keep the successful business performance in a demanding environment and be competitive, we shall continue to focus on cost efficiency and responsible risk management.

All other data comprising the annual company report pursuant to Article 250a of the Companies Act can be found in the enclosed 2019 Annual Report, consisting of General Report, Non-financial report, and Consolidated and Non-Consolidated Financial Statements as at December 31, 2019.

Gordana Kovačević,
president of Ericsson Nikola Tesla d.d.

Business model

In a constantly changing and diverse business environment, we use an agile and efficient business model to offer our customers leading, high performing and sustainable solutions. Our business model is built to manage changing market requirements and capture new business opportunities. Customer focus and motivated employees drive our business to create new value for our stakeholders.

Focused business strategy

ICT solutions play a key role in the digital transformation of all industries and are essential to society and people. Our company's purpose is in empowering an intelligent, sustainable and connected world by offering innovative ICT solutions that are easy to adopt, use and scale. With communication service providers having a key role in a connected world and where everyone and everything is connected, our mission is to enable the full value of connectivity for service providers and lead digital transformation in the selected industries through ICT experience.
Our focused strategy is based on four pillars – technology leadership by leading Ericsson Nikola Tesla, Ericsson and 3PP portfolio, innovative I&S solutions, cost-effectiveness and highly competent resources and strong local presence.
We will secure a successful implementation of our strategy by being:

- a partner of choice that leads digital transformation in selected I&S verticals and a trusted advisor to our customers;
- among the best performing, most reliable and highly competent R&D and service centers offering highly efficient and innovative services.

Our way of working
Purpose & vision: Empowering an intelligent, sustainable and connected world
Mission: Enabling the full value of connectivity for service providers and lead digital transformation in selected industries

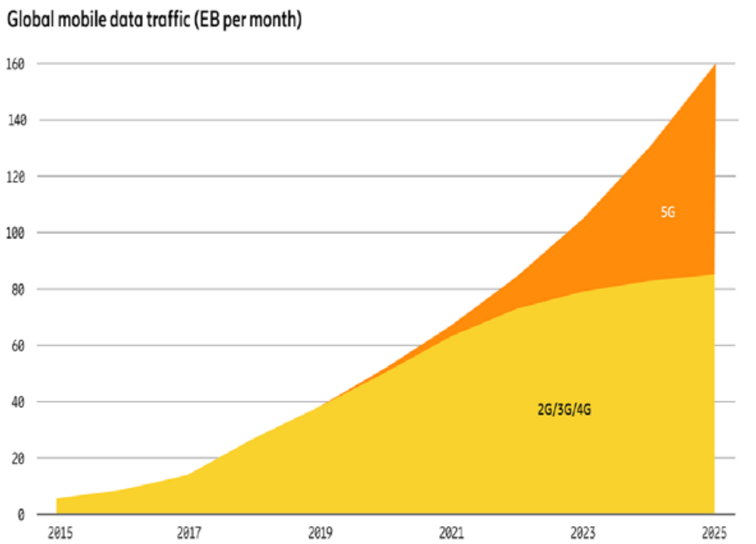
Our customers' needs

Relentless efficiency | End-customer experience | New revenue streams

Our business and operations

Telecom operators
Highly scalable and modular platforms offering based on Ericsson Nikola Tesla, Ericsson and 3PP portfolio; leadership in 5G; digitalize service providers through cloud and automation; lead data-driven Managed Services
Industry & Society
Innovative platform-based offering for Industry&Society that increase efficiency, reduce costs and enable new services
R&D
Top delivery performance, efficiency, agility; permanent focus on innovations, quality and cost
Professional services
Services based on leading edge technical expertise, data analytics, automation, optimization and AI-driven operations
Foundation
Technology leadership by leading edge Ericsson Nikola Tesla, Ericsson and 3PP portfolio
Innovative I&S solutions
Cost efficiency
Highly competent resources & strong local presence

5G enables digital transformation
4th Industrial revolution enabled by ICT



+68% YoY mobile data growth between Q3/18 and Q3/19

We create new value for our customers

Relentless efficiency

- Virtualization and automation for cost efficiencies
- Serviceability
- Technology and cost leadership
- Smooth network evolution & transformation
- 5G for performance and efficiency
- Smart ICT solutions

End-customer experience

- New approaches using artificial intelligence, cloud, automation and analytics to create a unique customer experience
- Significantly reduce lead-time and increase flexibility in launching service

New revenue streams

- Cellular IoT to extend the value of connectivity
- 5G to enable new use cases
- Digitalization of industries & enterprises

Business responsibilities and activities

Ericsson Nikola Tesla d.d.
Ericsson Nikola Tesla is the leading provider of communication products and services in the operator segment, as well as a provider of innovative ICT solutions related to health care, national and public safety, state administration, transport, utilities and multimedia communication. Through innovation and leadership, we reflect on and encourage business opportunities and a profitable sales growth. By combining technology leadership, excellence in services, regional presence and e2e abilities, the employees in collaboration with the customers create added value. As an associated member of Ericsson corporation, our company operates in the Market Area Europe and Latin America (MELA).
The company's main activities encompass the following:

- research and development
- creating and implementing e2e communication solutions in the operator segment and ICT solutions for Industry & Society
- local, regional, and global delivery of services
- marketing and sales network.

Ericsson Nikola Tesla:

- creates innovative ICT solutions that strengthen an intelligent, sustainable and connected world
- enables the full value of connectivity for communication service providers and leads transformation in selected industries and areas of human activities
- works with advanced technologies
- is among leading exporters in the country, and number one when it comes to exporting knowledge
- provides a modern test environment with a wide range of innovative solutions that enable the testing of operators' and internal Ericsson's users' networks in a cost-effective and operatively efficient way.

Ericsson Nikola Tesla Servisi d.o.o.
Ericsson Nikola Tesla Servisi's core business is providing services related to the monitoring, build and maintenance of telecommunications network infrastructure.
The company's activities are the following:

- consultancy services, including design, geodetic activities, controlling and resolving property-legal affairs
- constructing and maintaining telecommunications network
- controlling and operating telecommunications network
- mounting telecommunications equipment; telecommunications system power and cooling.

With regard to the services portfolio and the experience in managing telecommunications projects, the company can offer a service on a turnkey basis, meeting the most complex market and technology requirements and delivering high-quality services.

Ericsson Nikola Tesla BH d.o.o.
The company operates on the market of Bosnia and Herzegovina and delivers products and services offered by Ericsson Nikola Tesla Group.

Libratel d.o.o
Libratel's core activity is providing telecom services; installation, putting into service, and telecom equipment upgrade (core and access network).

Ericsson Nikola Tesla d.d. - Branch office Kosovo
The company operates on the market of Kosovo and delivers products and services offered by Ericsson Nikola Tesla Group.

Ericsson Nikola Tesla BY d.o.o.
The company operates on the Belarusian market and delivers products and services offered by Ericsson Nikola Tesla Group.

Products and services

Ericsson Nikola Tesla Group provides its customers and partners with an entire portfolio of both Ericsson's and other selected providers' communication products, solutions and services in the following segments:

- high performance networks
- services focused on network evolution and efficient management
- solutions with leading Operations and Business Support Systems (OSS/BSS) and media distribution
- strong support to a connected world by delivering solutions for selected Industry & Society segments and IoT solutions
- virtualization of telecommunication solutions and transformation of companies' business in the cloud environment
- automation of business processes and IS/IT services ranging from design, implementation and integration to maintenance.

Sales by markets

The domestic market accounted for 28%, services to Ericsson accounted for 57.7% (out of which Managed Services in Croatia accounted for 10.4%) of the total sales revenue, while other export markets accounted for 14.3%.

In the domestic market, sales revenue amounted to MHRK 497.0 (2018: MHRK 372.5), up by 33.4% year-over-year.

Radio Access Network Modernization project, i.e. the replacement of Hrvatski Telekom's (HT) equipment with the latest Ericsson solutions in the segment of mobile telecommunication networks, contracted with HT in H1 2018, was successfully completed within the planned timeline during Q4 2019. The project's key performance indicators include a significantly increased capacity of HT's radio network with better population coverage of the overall HT's 4G network, amounting to 98% in outdoor coverage. The cooperation between Ericsson Nikola Tesla and HT in the field of radio access network continues with the aim to secure further capacity increase. In addition, by completion of this project, the prerequisites have been made in HT's network infrastructure for the commercial introduction of 5G technology once the necessary radio-frequency spectrum has been allocated.

Ericsson Nikola Tesla supported HT in noncommercial testing of 5G network in 3.5 GHz band in Zagreb, Samobor, Krk and Osijek with the aim of analyzing 5G technology operation in live networks.

In addition to the mobile telecommunication network, we have continued the long-term successful cooperation in the segments of fixed telecommunication network, as well as delivering services of rollout and maintenance of HT's telecommunication infrastructure.

We have been successfully cooperating with A1 Hrvatska for 20 years now, ever since they entered the Croatian market. A1 Hrvatska crowned their anniversary with a prestigious P3 certificate for the best network in Croatia, relying on Ericsson technology and partnership with Ericsson Nikola Tesla since the beginning of their operation in Croatia. This successful partnership will continue within a multi-year framework agreement (until the end of 2023) for additional modernization and expansion of radio access network signed in September 2019. A1 Hrvatska will have a flexible 5G - ready solution based on ERS (Ericsson Radio System) portfolio at their disposal.,

Furthermore, A1 Hrvatska put into operation NB-IoT (Narrowband Internet of Things) service for business users, based on Ericsson solution in the segment of radio access network. This technology enables secure and reliable wireless connectivity of a large number of devices and is considered 5G technology due to its advanced characteristics.

During 2019, 5G test network, based on commercially available Ericsson products, was also put into operation and integrated with other network elements, which placed A1 Hrvatska among the most advanced operators in Europe and worldwide. Furthermore, we have continued the cooperation in the field of core network and transport telecommunication network, which contributes to an increased network quality and new services for end users.

With the mobile operator Tele2, we have been working on the database capacity increase with 4G user information and upgrade of the entire core network to the latest software release. We have continued to provide support services for voice core network and software solution for data traffic shaping. During 2019, we also delivered the equipment for microwave transport network expansion.

With the company RUNE Crow, the activities are ongoing on preparing project documentation related to the implementation of the ultra-fast broadband fiberoptic infrastructure for users in Croatian rural areas (Istria County and Primorje-Gorski Kotar County).

In ICT Industry & Society segment, we have delivered a range of new functionalities in the upgrade of the Central Healthcare Information System of the Republic of Croatia (CEZIH). Furthermore, an Annex to the agreement for the project of upgrade of the Central Healthcare Information System of the Republic of Croatia (CEZIH) for 2020 was also signed. We have delivered an IT solution for the exchange of “Patient Summary” within the Connected Europe Facility (CEF) for the Croatian Health Insurance Fund (HZZO). We have continued the upgrade of the Central Information System of Land Registry and Cadaster (JIS). The final phase of the delivery of the project of State Border Control was completed, as well as the delivery of the solution for the integration of 112-192 system, i.e. the improvement in the operations of the Operational and Communications Center (OKC) of the Ministry of the Interior.

In export markets (excluding Ericsson market) sales revenue increased by 10.8% year-over-year to MHRK 254.6 (2018: MHRK 229.8).

In the neighboring market of Bosnia and Herzegovina, 2019 was marked by the issuing of the long-awaited licenses for the introduction of the fourth generation of mobile communications. With the operator HT Eronet, we have been working on the expansion of LTE network across Bosnia and Herzegovina. We have continued to cooperate on the modernization and maintenance of telecommunication networks with the operators Crnogorski Telekom (Montenegro) and IPKO (Kosovo). In the market of Belarus, we have continued our cooperation with the operator beCloud on the project of LTE network expansion.

In ICT for Industry & Society segment we signed an agreement on the continuation of healthcare system maintenance for the Ministry of Healthcare of Armenia. Within the project of healthcare system informatization in Kazakhstan, in cooperation with the Ministry of Healthcare of the Republic of Kazakhstan, we successfully completed the managed services phase and started the maintenance of the national information healthcare system.

In Ericsson market, sales revenue amounted to MHRK 1,027.8 (2018: MHRK 955.8), up by 7.5% year-over-year. The contribution of Ericsson Nikola Tesla Servisi d.o.o., a daughter company of Ericsson Nikola Tesla d.d., to the revenue in this market segment amounts to MHRK 188.5 (2018: MHRK 178.0).

Ericsson Nikola Tesla’s R&D Center was focused on expansion of responsibilities for the development

of 5G network systems, competence strengthening and technology transfer. The major part of activities concerns radio development within the business segment Networks. It should be noted that the Center is especially recognized within Ericsson's global R&D community for its end2end competencies and advanced knowledge in software development on Multi Standard Ericsson Radio Base Station. In addition, the Center has responsibilities for some of the key Ericsson R&D projects.
Ericsson Nikola Tesla's R&D Center realized a range of significant functionalities for 5G and the evolution of 4G systems, which were implemented in Ericsson's global customers' networks. Furthermore, our experts have been working on virtualization and modernization projects for Mobile Switching Centre (MSC). In addition to global projects related to Unified Data Management (UDM) systems, we note the development of demo systems for multiple operators. For the development unit Cloud, we have been working on verification and quality control of new platform solutions. Along with all these activities, the focus on the quality of the deliveries continued, which led to another important achievement: the year was concluded with excellent results and evaluations of our R&D Center.

Experts from Services and Solutions Center for Networks, along with projects for the customers of Ericsson Nikola Tesla Group, have worked on projects for Ericsson customers in Germany, Switzerland, the United Kingdom, France, Qatar, Saudi Arabia, Pakistan, Egypt, the Republic of South Africa, Brazil, Mexico and elsewhere. There is still a great demand for Ericsson Nikola Tesla's experts by Ericsson global/regional organizations. Our experts are included in activities of integration and optimization of various technologies, with an increasing focus on 5G in key markets (USA, Japan, China). We have continued to work on the development and implementation of software tools for mobile networks management and optimization.

Experts from Services and Solutions Center for Digital Services and Operations (including Media), along with working on projects for our customers, were engaged on projects for Ericsson customers in Austria, Germany, Sweden, Switzerland, United Kingdom, the Netherlands, Belgium, Denmark, France, Ireland, Norway, Greece, Italy, Luxembourg, Slovenia, Czech Republic, Moldova, Albania, Serbia, Qatar, Libya, Mexico, USA and elsewhere. Their activities include complex projects of 5G technology introduction, operational and business support systems, as well as projects of introduction of core solutions in Cloud.

The teams working in the unit for IT& Engineering Services have achieved excellent results on projects of test environment management and IT operations management and have been recognized within Ericsson for the quality of services delivered. Industry & Society segment records good results on projects in the fields of IoT platforms and Connected Urban Traffic.

Ericsson Nikola Tesla Servisi have been successfully realizing the services of monitoring, maintenance and rollout of telecommunication network of Hrvatski Telekom. The planned targets for optical distribution networks rollout have been realized and optical access for 37,374 users was enabled. Modernization of mobile infrastructure comprised nearly 1,500 locations that are enabled for new technology introduction.

Scientific and research activities

Scientific and research activities at Ericsson Nikola Tesla are in line with long-term strategic goals of business development. They are based on applied research for the development of new products, research of new processes and technologies, as well as the application of new functionalities for the needs of our products.

The driving force behind scientific and research activities in our company is Ericsson Nikola Tesla's Research Unit. Moreover, this unit is responsible for Ericsson Nikola Tesla's Institute which virtually connects all the scientists in the company. Research work implies collaboration on joint projects with R&D centers in the corporation as well as universities, institutes and companies in Croatia and abroad.

A very important part of research activities refers to participating in projects funded by the European Union. Early in 2018, the implementation of LIVING INNOVATIONS project began, as part of Horizon 2020 – the biggest EU Research and Innovation program ever – in which we participate as an industry partner. The project aims at developing methods for the implementation of responsible research and development with the purpose of improving people's lives by applying technology. The project's duration is three years, and all the activities are being carried out as planned.

The activities on the URBAN INNO project from HORIZON 2020 - REGPOT program were completed mid-2019. The aim of these activities was to improve the creation of innovation systems in the regions of the European Union. We cooperate in the ERASMUS++ BENEFIT project, which aims at improving telecommunication study programs in the region. Mid-2019, we started a new HORIZON 2020 project called INSULAE, which will last for four years. The purpose of this project is to apply technology to improve lives on the European islands. Our company participates particularly in the case for the island Unije in Croatia. At the end of 2019, we started another 4-year HORIZON 2020 project called PHArA-ON, which aims to test and consolidate platforms that can make life easier for the elderly and infirm. Our role in the project is to ensure the integration of various solutions for providing services, as well as to support various pilot projects in Europe.

The company continued its very successful collaboration in the field of research with the Faculty of Electrical Engineering and Computing (University of Zagreb) in the field of research. A prominent position was given to the project of researching into the communication between different devices in the overall machine communication. The research of the system for the optimization of radio signal transmission was continued. Special focus was placed on research of new radio elements in the build of antenna systems for multiple sending and receiving of signal, as well as the elaboration of support for radio signal arraying. With the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture (University of Split), we worked on the project of optimum service positioning in complex networks. There was research in the project of defining access networks reliability to connecting a large number of nodes for the Internet of Things, with special attention being paid to communication-critical use cases and decision-making, as well as multiple sensors application.

Traffic and Logistics Data Science Lab at the Faculty of Transport and Traffic Science (University of Zagreb) was founded.

The research team continued with analyzing Big Data and continued with a great number of projects in the field of machine learning and artificial intelligence. Activities were resumed on the analysis and creation of systems for automated recognition of events that may cause irregularities in industrial plant operations by applying a robot hand model. We continued with activities in IoT application in the domain of environment control with a specific case of testing drinking water. Collaboration with educational institutions was continued through the joint organization of the 19th Ericsson Nikola Tesla's Summer Camp, in which 54 students and 28 mentors from our company and universities participated. This student activity was organized in collaboration with the Faculty of Electrical Engineering and Computing, University of Zagreb (FER), the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split (FESB), the Faculty of Electrical Engineering, Computer Science and Information Technology, Josip Juraj Strossmayer University of Osijek (FERIT), the Faculty of Electrical Engineering in Podgorica, University of Montenegro, the Faculty of Humanities and Social Sciences, University of Zagreb (FFZG), the

Faculty of Mechanical Engineering and Computing, University of Mostar (FSRE), the Faculty of Transport and Traffic Sciences, University of Zagreb (FPZ), the Faculty of Science, University of Split (PMFST), the Faculty of Organization and Informatics, University of Zagreb (FOI), and through cooperation with the faculties from the region on the ERASMUS+ project BENEFIT. Participants from neighboring countries in the project were: Faculty of Electrical Engineering, University of Tuzla, Faculty of Electrical Engineering, University of Sarajevo, Faculty of Electrical Engineering, University of Banja Luka, University of Belgrade, Faculty of Electrical Engineering, University of Niš, and Faculty of Electrical Engineering, University of Novi Sad. During the Summer Camp, the students worked on the company's premises in Zagreb and the premises equipped with computers at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split.

Students' activities were aimed at studying selected research and development issues that are important to Ericsson Nikola Tesla and at developing prototype apps:

- studying selected research issues that are important to Ericsson Nikola Tesla and developing prototype applications
- working on apps and demo models for customers
- internal tools intended for future needs
- extended activities related to proposed solutions and ideas obtained through innovation process.

During the year, we continued to collaborate with our partners in the framework of Scientific Center for Data Science and Cooperative Systems, whose member is our company. We participated in preparing projects that aim at encouraging research, development and innovations in the Republic of Croatia: in one project as the holder, and in two projects as partners.

Furthermore, we supported presentations of the solution that was realized through a garage project "Smart Habits" for the application of non-invasive analytics in taking care of elderly and infirm people living alone. This analyzes the changes in the situations of standard behavior and reports to people who are taking care of them. In addition, we used the results of our research project to estimate environmental parameters in a prototype for predicting fires, as a use case for commercial presentations.

We have continued the project from the "garage" in Split. The project researched analytics methods for connecting various types of data with the aim of better prediction and creation of artificial intelligence in the field of enriching available sensor data, with the aim to be more precise and faster in concluding and reduce the number of required physical sensors. New methods for data correlation, and a prototype new platform for fast searching and reaching conclusions from various available data types were also researched into.

Important events
2019

January-March

- An all employee meeting was held in Split and – as part of the meeting – a mini version of Innovation Day was held. An overview of the 20-year long innovation process at Ericsson Nikola Tesla as well as of the most significant achievements of the company's team working in Split was presented.
- Ericsson Nikola Tesla's modernized lab was opened at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture, University of Split, in cooperation with Ericsson Nikola Tesla.
- Ericsson Nikola Tesla Group business results in 2018 as well as the outlook and business expectations in 2019 were presented at a press conference held on the Company's premises.
- At MWC Barcelona, leading global event in the world of mobile communications, president of the company Gordana Kovačević participated in this important event along with the company's delegation and had a series of meetings with customers and partners.
- Croatian Minister of Economy, Entrepreneurship and Crafts Darko Horvat, accompanied by high-level officials of the Ministry, paid an official visit to our company. At the meeting with the president of the company Gordana Kovačević and her associates, the minister got acquainted with the Group's business results and most important projects. Moreover, they discussed current digital transformation of the society, the strengthening of R&D activities in Croatia as well as possible areas of cooperation between the economy and state administration.
- In its mobile network, our customer Crnogorski Telekom achieved for the first time a speed of 925 Mbps. This speed is twice the speed of the ones previously measured in this operator's network. This was achieved in LTE network on which our experts worked in cooperation with local Ericsson teams.

April-June

- Ericsson Nikola Tesla experts took part in International Economy Fair – Mostar 2019. Numerous visitors were attracted by the content and visual appearance of the Company's exhibition stand. At the fair, our customer HT ERONET launched 4G in a symbolic way.
- Ericsson Nikola Tesla and RUNE Crow company signed a contract for the implementation of broadband optical network access in rural areas in Istria County and Primorje-Gorski Kotar County. Rural Network Project (RUNE) is the first and currently the only international project at the European level which aims to connect the territory of several member states by a unique cross-border optical network. This project will be financed by Connecting Europe Broadband Fund (CEBF), as a first investment platform for the support of broadband infrastructure within the European Fund for Strategic Investment (EFSI), the central pillar of the investment plan for Europe.
- A new contract was signed with HT Mostar for the expansion and modernization of the system for mobile network monitoring as well as expansion of the IMS system and radio access network. Realization of this contract will provide our customer with a higher quality of monitoring mobile network elements as well as new business opportunities; moreover, users of LTE technologies will be provided with greater rates and a better user experience.
- The signing of contracts with selected contractors in the project "Improvement of energy efficiency and the use of renewable energy sources at Ericsson Nikola Tesla d.d." marked the completion of the first phase.

- In the project of swapping our customer Hrvatski Telekom's base stations with Ericsson's equipment, the thousandth swapped base station was put into operation at St John's Fortress in Šibenik.
- Following the world premiere of the latest Ericsson research and development achievements in the field of 5G technology at the Mobile World Congress in Barcelona, a presentation of the technology under the title Barcelona Unboxed was held on the company's premises in Zagreb.
- The second international ICT Society Forum, organized by the Institute for European and Globalization Studies in collaboration with the French institute *Laboratoire d'Ingénierie des Systèmes de Versailles* (LISV), was held on Ericsson Nikola Tesla's premises in Osijek. The theme "Robots Are Coming. The Influence of Robotization on Economy and Social Changes" gathered numerous businessmen and experts, representatives from the academia and public administration.
- The Faculty of Transport and Traffic Sciences of the University of Zagreb, the Faculty of Maritime Studies of the University of Rijeka, University North, Ericsson Nikola Tesla and Orbico signed in Zagreb a Partnership Agreement related to a three-year ProLog project. The project aims to develop higher education standards of the profession, qualification standards and study programs on the basis of the Croatian Qualifications Framework in transport and logistics. The project is financed from the European Social Fund, Operational Programme Efficient Human Resources 2014-2020.
- The Ministry of Justice of the Republic of Croatia, State Geodetic Administration and Ericsson Nikola Tesla signed a two-year frame agreement on providing services of maintaining the Joint Information System of Land Registry and Cadaster (JIS). The agreement includes the following services: basic maintenance, adaptive and perfective maintenance, special services and support of digital geodetic technical report.
- Portal katastar.hr was officially launched in the State Geodetic Administration. Ericsson Nikola Tesla's experts worked on the development of the portal. The main purpose of the new portal is to provide in a simple and intuitive way information to all citizens about spatial data of the State Geodetic Administration.
- On the company's premises in Zagreb, Ericsson Nikola Tesla joint-stock company held its Annual General Meeting, at which all the proposed decisions were adopted.

July-September

- Ministry of the Interior of the Republic of Croatia and a group of economic operators headed by Ericsson Nikola Tesla d.d., whose members are Securitas Hrvatska d.o.o. and Hidraulika Promet d.o.o., signed a supply contract with the aim to implement the project "Strengthening surveillance of the state border through the procurement of a thermovision camera on a trailer with a field vehicle". The purpose of the project is to protect the state border, that is, to establish surveillance of the state border in accordance with Schengen standards.
- Ericsson Nikola Tesla and HT Eronet signed a frame agreement on the expansion of LTE network in the whole Bosnia and Herzegovina. The contracted work relates to LTE network (800MHz and 1800MHz), project management services, integration of new nodes into the network as well as training.
- Central management system for the management of healthcare system organizational structure, supplied by Ericsson Nikola Tesla, was officially launched in Zadar.
- Ericsson Nikola Tesla and its long-term customer A1 Hrvatska signed a Frame agreement on further development of radio access network of this Croatian operator until 2023. The agreement covers modernization and expansion of the network by using the latest solutions from Ericsson Radio System (ERS) portfolio.

- A consortium consisting of Ericsson Nikola Tesla and KING ICT signed with the Ministry of the Interior of the Republic of Croatia a Frame Agreement for a three-year period and a supply agreement for the year 2019 for the integration of the 112-192 system.

October-December

- The closing ceremony marked the completion of the 19th Ericsson Nikola Tesla Summer Camp, in which participated graduate students of technical faculties from Croatia and the region. The students worked under the mentorship of the company's experts as well as members of academia on projects related to 5G – radio access networks, 5G augmented and virtual reality (AR/VR), IoT and machine learning.
- At the Faculty of Transport and Traffic Science (FPZ), University of Zagreb, a new joint Traffic and Logistics Data Science Lab was officially opened. Within the framework of this cooperation, Ericsson Nikola Tesla will lead the processes for data gathering, preprocessing, processing and visualization; FPZ students and teachers will analyze obtained data from a traffic and logistics perspective and use them in teaching as well as for expert and science research.
- Ericsson Nikola Tesla celebrated 70 years of successful business. The unforgettable event in Arena Zagreb was attended by over 4000 guests, famous people from public life and scientific community, customers, business partners, employees and retired employees. On the occasion of the anniversary, a monograph "Ericsson Nikola Tesla – 70 godina" was published. It gives an overview of the most important events and activities of the company during the 70 years of its existence.
- On the company's premises in Osijek, Ericsson Nikola Tesla Day in Osijek was held. It was attended by numerous guests from the city administration, academia and the media.
- Gordana Kovačević, president of Ericsson Nikola Tesla, was elected by the Supervisory Board for another term of office which began on January 1, 2020.
- In the year when it marked the 70th anniversary of its successful business, Ericsson Nikola Tesla donated HRK 361,140 for the needs of pediatric oncology patients in Zagreb, Split and Osijek, as well as soup kitchen in Zagreb, Split, Osijek and Vukovar. The company's employees joined the action by donating food, toiletries and holiday presents to the users of St Joseph's Church soup kitchen.

Membership in associations

The Group is recognized in the wider community for advanced practices and knowledge, and very often it is perceived as a point of reference for particular areas and activities.

Being aware of our own values and responsibilities as well as driven by the desire to contribute to the growth and development of the society in which we operate, with our own involvement in numerous professional associations, and sharing our knowledge and experience, we initiate positive changes in society and the economy. Through memberships in various professional organizations, associations, bodies of scientific institutions, etc., the Group and its experts make their valuable contributions, while expanding their own competences and potential.
In addition to compulsory memberships in umbrella institutions prescribed by law, such as the Croatian Chamber of Economy and its bodies (Croatian International Chamber of Commerce – ICC Croatia, etc.), the Group is also a regular member of the following organizations:
— Croatian Employers' Association (HUP)
— Croatian Managers' and Entrepreneurs' Association (CROMA)
— Croatian Exporters
— *Lider*'s Club of Exporters
— Croatian Competitiveness Cluster for ICT Industry
— Croatian Business Council for Sustainable Development (HR PSOR)
— Croatian Standards Institute
— IEEE Institute (Institute of Electrical and Electronics Engineers)
— Croatian Society for Information and Communication Technology, Electronics and Microelectronics (MIPRO)
— Croatian Chamber of Electrical Engineers
— AMAC – FER
— World PMI Association
— PMI Croatia
— Agile Croatia
— Croatian Chamber of Traffic and Transport Technology MPPI
— Croatian Association of Railway Engineers
— Croatian Chamber of Chartered Geodetic Engineers
— Croatian Chamber of Civil Engineers
— HL7 Croatia
— Croatian Society for Medical Informatics
— Croatian Java User Association
— Croatian Oracle User Group
— Croatian Service Managers Association
— Croatian Association of Safety Managers
— Croatian Association of Purchasing
— Croatian Association for Health at Work
— Croatian Public Relations Association
— Association of Corporate Lawyers
— Croatian Competition Law and Policy Association
— and many other.

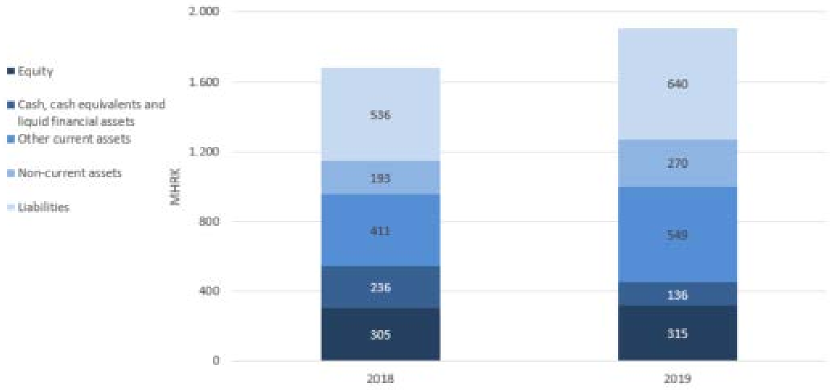
Initiatives

Ericsson Nikola Tesla participates in the following socially important initiatives and platforms:
— Innovation Council of Industry of the Republic of Croatia
— National Digital Economy Council
— HR PSOR Diversity Charter
— UNICEF's Think Tank on Children's rights and CSR
— The 30% Club – Croatia

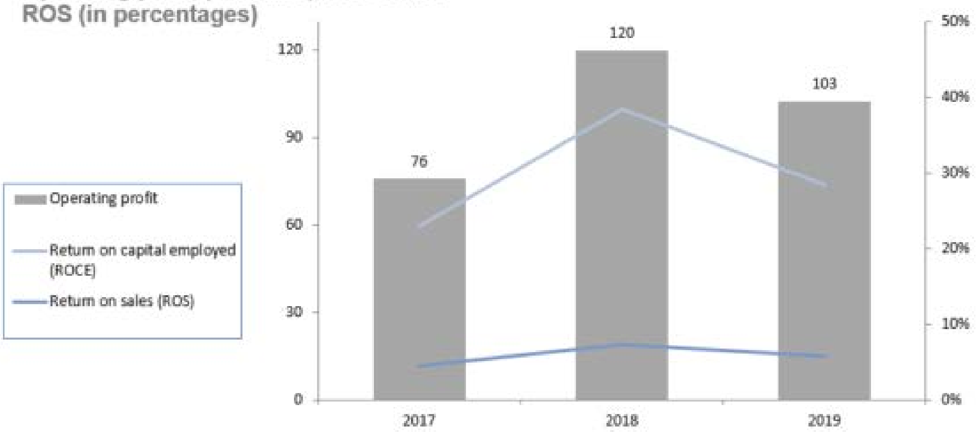
Financial highlights in 2019

	ETK Group			ETK		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Income statement and cash flow items (in HRK million)						
Sales revenue	1.779	1.558	1.482	1.545	1.374	1.465
Selling and Administration expenses	-82	-73	-80	-75	-66	-78
Operating profit	103	120	76	94	117	71
Profit for the year	103	114	68	96	112	64
Operating cash flow	69	75	108	40	81	103
Year-end position (in HRK million)						
Total assets	955	840	822	897	819	795
Cash, cash equivalents and liquid financial assets	136	236	244	121	231	230
Capital employed	395	326	266	352	305	244
Equity	315	305	236	294	291	223
Per share indicators						
Earnings per share (EPS) in HRK	77	85	51	72	84	48
Dividends per share		70,6	32,5		70,6	32,5
Number of shares outstanding, average (in millions)	1.331	1.332	1.330	1331	1.331	1.330
Other information (in HRK million)						
Additions to property, plant and equipment	68	40	26	65	39	26
Depreciation of property, plant and equipment	36	34	40	37	29	36
Alternative Performance Measures (APMs)						
Gross margin	9,2%	9,1%	10,2%	10%	10%	9,9%
Operating margin	5,8%	7,7%	5,1%	6,1%	9%	4,8%
EBITDA Margin	9,0%	9,9%	7,9%	8,7%	10,7%	7,3%
Cash conversion	35,9%	38,9%	68,2%	25%	44%	69,4%
Return on equity (ROE)	33,1%	42,0%	26,0%	32,7%	43,5%	25,5%
Return on capital employed (ROCE)	28,5%	38,4%	22,9%	29,1%	40,7%	23,4%
Return on sales (ROS)	5,8%	7,3%	4,6%	6,2%	8,1%	4,4%
Equity ratio	33,0%	36,3%	28,7%	32,8%	35,5%	28,1%
Capital turnover	4,9	5,3	5,0	4,7	5,0	5,4
Current ratio	1,2	1,3	1,1	1,2	1,2	1,1
P/E ratio	18,2	11,8	23,6	19,5	12,0	24,9

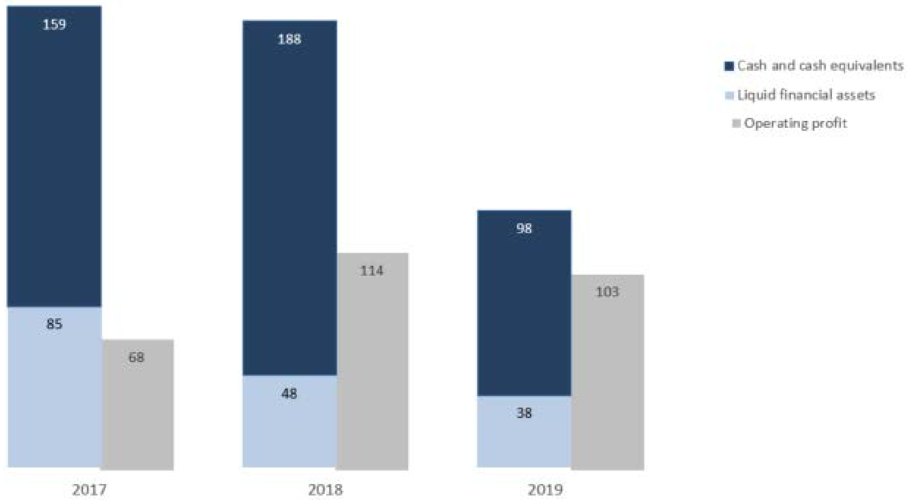
Balance sheet structure (in MHRK)



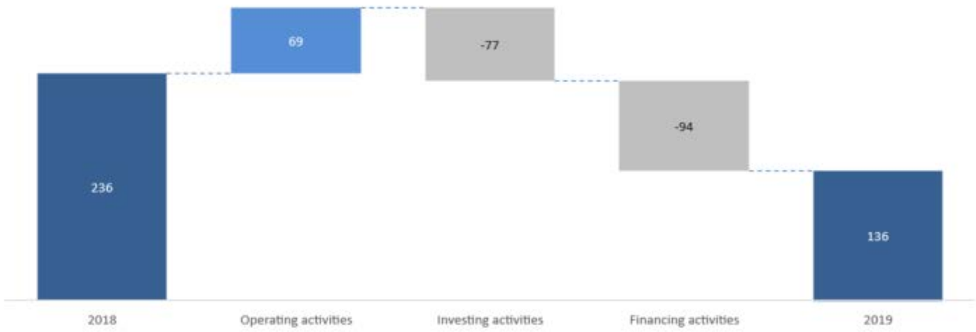
Operating profit (in MHRK), ROCE and ROS (in percentages)



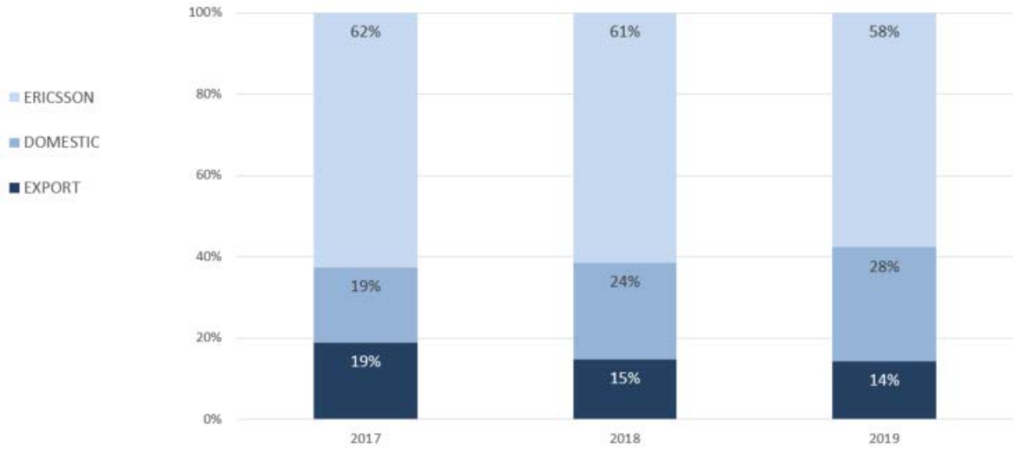
Development of liquid assets and operating profit (in MHRK)



Change in liquid assets (in MHRK)



Sales revenue by market (in percentages)



Finance Director report

Financial performance in 2019

Business results for 2019 are the result of the Company's focus on several key areas: network modernization for our customers in Croatia and abroad; research and development with a special focus on 5G technology, and activities in the Industry & Society segment. In 2019, we have justified the position of a recognizable brand in ICT area and a technology leader in Croatia and in our export markets. The start of 5G networks implementation by the leading European and global operators opens a new chapter in ICT industry worldwide, and Ericsson Nikola Tesla Group is a part of a success story of Ericsson as a global leader in 5G technology.

In 2019, the business in Ericsson market continued to grow and support the Group's overall financial stability. Such position in Ericsson market is a result of our strong focus on high quality, innovativeness and cost efficiency of our Research and Development Center, and Services and Solutions Expert Centers. The domestic and foreign customers carefully monitor industry trends. The result of such interest is an increasing number of requests for operators' networks modernization as the preparation for the introduction of 5G, and the development of new solutions in numerous ICT areas. Such market development led to a total increase of sales by 14% compared to 2018, and growth in all markets: Croatian, export, and Ericsson.

Once again, we concluded the year with a lean balance sheet which was at the same level as the previous year. In order to successfully balance an increased pressure on material assets and human resources, the Company continued to invest additional efforts in cost and operating efficiency, capital efficiency, and especially managing risks , with the ultimate goal to keep the balance sheet lean, the result positive, and all the stakeholders satisfied.

The level of effort and complexity of modernization projects is visible in the Group's balance sheet in the increased amounts of working capital engagement during 2019, and thus the focus remains on keeping high performance, quality and savings in the areas where this is optimal and necessary.

In line with the improvement of its own business performance, the Group started the Digital Transformation program with the aim to simplify the Company's key processes, especially targeting the sales process, monitoring production and services processes, and business reporting. In line with the above, we continue to invest in Group's assets, and the development of strategic knowledge and skills, required for quality work in all areas.

Despite long, complex, and financially demanding investments in projects, as well as increased investments in its own assets and resources, the Company managed to maintain a satisfying level of cash and cash equivalents for further business with minimum borrowing for the needs of the energy efficiency project of a part of the Company's plants and buildings.

Increasing the value of assets in the balance sheet is significantly impacted by the effects of adopting IFRS 16 - Accounting of operating leases used by the Group for a significant number of immovable assets and vehicles, and the application of which started on January 1, 2019.

Along with all the activities undertaken, the Company is ready for new and different challenges that 2020 brings, along with the announced new chapter in the development of ICT industry.

Information for shareholders

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

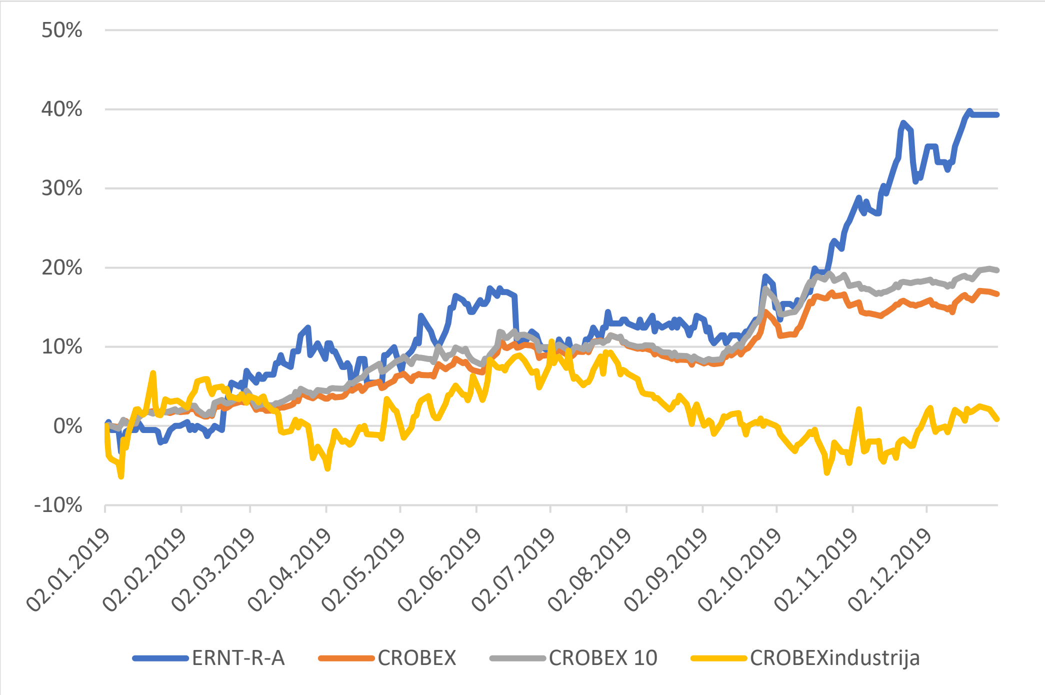
Share trading and price trend

In 2019, share price increased by 38.61%. At the end of 2019, Ericsson Nikola Tesla's market capitalization was MHRK 1,864.3 (end of 2018: MHRK 1,345.0). As regards the free float market capitalization, Ericsson Nikola Tesla is ranked ninth on the Zagreb Stock Exchange, with MHRK 949.1, representing 2.7 percent of the total free float market capitalization. At the end of 2019, Ericsson Nikola Tesla's share weight in CROBEX Index was 9.1 percent.

Share price and turnover	***2015***	***2016***	***2017***	***2018***	***2019***
Highest (HRK)	*1,390*	*1,177.99*	*1,444.00*	*1,240*	*1,415*
Lowest (HRK)	*930*	*940*	*1,066.51*	*976*	*972*
Last - end of year (HRK)	*1,045*	*1,164*	*1,203.99*	*1,010*	*1,400*
Turnover (in MHRK)	*79.4*	*53.2*	*55.1*	*39.3*	*58.0*
Trade volume	*68,888*	*49,628*	*43,312*	*36,116*	*49,652*
Dividend per share (HRK)					
- ***regular***	***20***	***20***			***0****
- ***extraordinary***	***80***	***70***	***32.5***	***70.6***	

** The decision proposed to Ericsson Nikola Tesla Annual General Meeting that the Company's net profit for 2019 is allocated into retained earnings*

<u>ERNT-R-A share price movement as compared to Zagreb Stock Exchange share indices in 2019</u>

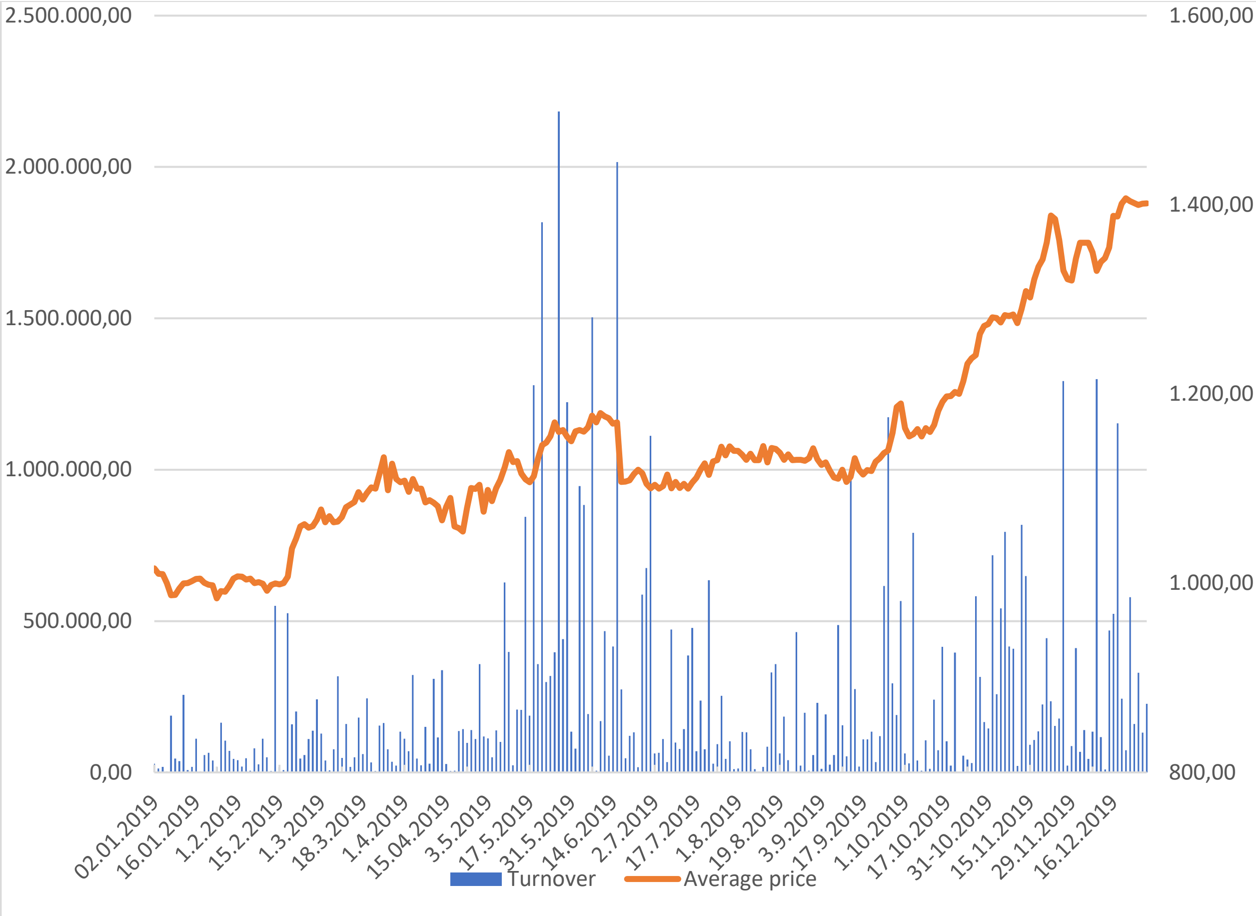


At the Zagreb Stock Exchange, 2019 was marked by mainly volatile trade statistics, with the second half of 2019 mostly showing a positive trend.

All trade indicators recorded positive movements: turnover within the orderbook was up by +9%, with share turnover increasing by 38%. To conclude - total turnover in 2019 was almost up by +5% compared to 2018.

Market value, measured in market capitalization, increased by 13% in total, while the share market capitalization increased by 11.5%. Some of the indices were corrected (CROBEXkonstrukt, CROBEXturist and CROBEXtransport), however other indicies grew at double-digits: the highest growth was recorded by CROBEXnutris (+38.18), followed by CROBEXtr (+19.42%), followed by CROBEX10 (+18%), CROBEXplus (+17%), CROBEXprime (+16.42%), and CROBEX (+15.36%). As well as in the previous years, liquidity was mostly concentrated in a smaller number of shares; approximately 75% of the total turnover is creditable to 10 shares with the biggest turnover.

ERNT-R-A share trading volume and average price trend in 2019 (in HRK)



Average ERNT-R-A share price trend 2015 – 2019 (in HRK)

Shareholders

Ericsson Nikola Tesla d.d. major shareholders as at 31 December 2019.

shareholders	Number of shares	% of share capital
Telefonaktiebolaget LM Ericsson	653,473	49.07
Addiko Bank d.d. / Raiffeisen mandatory pension fund, B category	123,514	9.28
OTP banka d.d. / Erste Plavi mandatory pension fund, B category	56,013	4.21
Addiko Bank d.d. / PBZ Croatia osiguranje mandatory pension fund, B category	16,810	1.26
PBZ d.d. / The Bank of New York as custodian	12,728	0.96
OTP banka d.d. /OTP Index fund - open-end alternative investment fund with public offering	9,827	0.74
PBZ d.d. / custodian client account	9,736	0.73
Zagrebačka banka d.d. / Harding Loevner Frontier Emerging markets portfolio	9,318	0.70
Zagrebačka banka d.d. / State Street and Trust Company, Boston	8,630	0.65
Addiko Bank d.d. / Raiffeisen voluntary pension fund	8,094	0.61
Other shareholders	423,507	31.80

Share capital

As at 31 December 2019, Ericsson Nikola Tesla joint-stock company had share capital amounting to HRK 133,165,000 distributed in 1,331,650 ordinary registered Class A shares. Each share carries one vote at the Annual General Meeting. The total number of treasury shares at the end of 2019 was 211, representing 0.016% of the share capital. The shares were owned by 6,639 shareholders.

Statement on the application of the Code of Corporate Governance

Ericsson Nikola Tesla d.d. was among the first companies in Croatia to adopt its own Code of Corporate Governance (in April 2005), based on the legislation of the Republic of Croatia and recommendations published in OECD Corporate Governance Working Papers. The mentioned documents accurately describe and define the rights and obligations of the Management Board, Supervisory Board and shareholders (https://www.ericsson.hr/en/corporate-governance).

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

Hanfa and Zagreb Stock Exchange adopted the new Code of Corporate Governance on 15 October 2019. The new Code replaced the previous edition of the Code, which was published in 2010, and those who published it started complying with it on 1 January 2020.

Derogations from the Zagreb Stock Exchange Code of Corporate Governance which was applied by the end of 2019 are as follows:

- **2.6. Use of modern communication technology**
  Shareholders and their proxies shall be allowed to vote at the Annual General Meeting using modern communication technologies. However, for the time being, it is not possible to remotely participate in the Annual General Meeting using modern communication technologies.
- **4.2. Composition of the Supervisory Board**
  The company's Supervisory Board is not composed primarily of independent members. Out of a total of five members, two members are elected on the largest shareholder's proposal, one member is the representative of employees, and the remaining two members are independent.
- **4.7. Remunerations/compensations to Supervisory Board members**
  Members of the Supervisory Board receive a monthly remuneration amounting to one half of the average monthly gross salary of the company's employees. Representatives of the largest shareholder Ericsson do not receive remuneration in accordance with the corporate policy.
  Information on compensations and other emoluments from the company or company-related persons to the members of the Supervisory Board is not published individually for every member, but in the Annual Report as the total amount.
- **4.12. Committees (Boards)**
  The Supervisory Board does not have an established appointment committee and remuneration committee.
  Other members of the Supervisory Board gave their consent to the Chairman of the Supervisory Board to determine the way of remuneration of the company's Management Board and to take care of appointing new members and monitoring the work of the company's Supervisory Board and Management Board.
- **6.3. Remuneration**
  Remuneration of the Management Board is regulated by an individual employment contract, which is concluded between the Management Board and the Supervisory Board. Remuneration for the work of

the Supervisory Board is determined by the decision of the Annual General Meeting. Statement on the remuneration policy for the Management and Supervisory Board was not published.

- **6.3.3. Publication**

  Information regarding emoluments and other ways of remuneration of the company's Executive Leadership is published in the Annual Report, in the total amount for all members.

Ericsson Nikola Tesla d.d.

Consolidated Financial Statements and Auditor’s report 31 December 2019

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 seventy years of continuous operations. It is a leading supplier and exporter of specialized telecommunications equipment, ICT solutions, software and services in Central and Eastern Europe.

The Parent Company was founded as a result of the privatization 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 and its five active subsidiaries (of which two are domiciled in Croatia, one in Bosnia and Herzegovina, one in Kosovo and one in Belarus).

Principal activities

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

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

Code of Corporate Governance

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

Supervisory Board, Audit Committee, Management Board and executive management

Supervisory Board

The Supervisory Board members during 2019 and up to the release of these consolidated statements were:

Franck Pierre Roland Bouétard	Chairman	Appointed on 20 June 2018
Dubravko Radošević	Member, Vice-Chairman	Reappointed on 20 June 2018, elected for Vice-Chairman of Supervisory board on 13 June 2019
Ignac Lovrek	Member; Vice-Chairman	Mandate expired on 2 June 2019
Vidar Mohammar	Member	Reappointed on 13 June 2019
Olgica Spevec	Member	Appointed on 13 June 2019
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018

Audit Committee

The Audit Committee members during 2019 and up to the release of these consolidated statements were:

Dubravko Radošević	Chairman	Appointed on 26 April 2019
Ignac Lovrek	Chairman	Chairman / member until 26 April 2019
Vidar Mohammar	Member	Reappointed on 13 June 2019
Vesna Vašiček	Member	Appointed on 21 February 2017

Ericsson Nikola Tesla Group

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

Management Board

The Management Board has one member:

Gordana Kovačević	President	Reappointed on 17 December 2019

Executive management

As at 31 December 2019, the executive management comprised:

Gordana Kovačević	President
Branka Vučemilo Elezović	Director, Legal
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Finance, Sourcing and Commercial Management
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, Media and Operations
Ivan Barać	Director, Sales and Marketing for Hrvatski Telekom and Crnogorski Telekom
Jagoda Barać	Director, Sales and Marketing for Export markets for Op. Seg.
Marijana Đuzel	Director, Human Resources
Milan Živković	Director, Strategy and Business Development & GIR
Miroslav Kantolić	Director, Sales and Marketing for A1 Croatia
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 45 to 98 were authorized by the Management Board on 28 April 2020 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 Auditors’ Report to the shareholders of Ericsson Nikola Tesla d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Ericsson Nikola Tesla d.d. (“the Company”) and its subsidiaries (together referred to as “the Group”), which comprise the consolidated statement of financial position of the Group as at 31 December 2019, and its consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the financial statements”).

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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 (“EU IFRS”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

REVENUE RECOGNITION

Sales revenue in 2019: HRK 1,779,306 thousand *(2018: HRK 1,558,155 thousand)*. As at 31 December 2019: trade receivables: HRK 215,437 thousand; contract assets: HRK 3,239 thousand; contract liabilities: HRK 149,375 thousand *(31 December 2018: trade receivables: HRK 160,724 thousand; contract assets: HRK 3,335 thousand; contract liabilities: HRK 171,645 thousand)*.

Please refer to the Note 1 *Revenue recognition* of Significant accounting policies, Note 4 c) *Revenue recognition* of Critical accounting estimates and judgements, Note 5 *Sales revenue* and Note 6 *Segment reporting* in the financial statements.

Key audit matter	How our audit addressed the matter
In the year ended 31 December 2019, the Group's principal revenue streams included sales of products and software, as well as provision of services, including installation and integration services, maintenance and support. Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors: — In the Group's Networks and Digital services segment, goods and services with different revenue recognition patterns may be sold as part of one contract or several contracts accounted for as one arrangement. The Group applies significant judgment, among other things, in identifying contracts which require to be combined and accounted for as one arrangement, and identifying performance obligations therein, including those, if any, resulting from warranties and non-returnable upfront fees; — Each performance obligation requires evaluation of whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised products or services is transferred to customers. Note 6 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams;	Our audit procedures in this area included, among others: — Obtaining understanding of and evaluating the Group's revenue recognition process, and testing related key internal controls in particular the controls associated with project feasibility and adequacy of approvals, segregation of duties, determination of revenue recognition pattern, fulfillment of contracts and procedures related to finalization of projects and acceptance by the customer; — Assessing the Group's revenue recognition policy for compliance with relevant provisions of the financial reporting standards; — Assisted by our own information technology (IT) specialists, evaluating selected automated controls within the IT systems; — For a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of project managers and relevant finance personnel in order to challenge the Group's: o Meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due; o Identification of the contracts which require to be accounted for on a combined basis and of performance obligations within contracts. The procedure included, among other things, assessing the nature of the warranties provided to customers for potential consideration as performance obligations;

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

REVENUE RECOGNITION *(CONTINUED)*

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
— Although contracts with customers are usually agreed with fixed transaction price, significant judgement is required in allocating the transaction price to the performance obligations. The transaction price, which is the consideration the Group expects to receive for the transfer of products and services to the customer, is allocated to the performance obligations based on its relative standalone selling price; In the wake of the above factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	o Determination of total contract consideration, by reference to contracts with customers and any subsequent modifications to the frame agreement, if any; o Allocation of the contract consideration to each of the identified performance obligations, based on their estimated stand-alone selling prices, also by reference to the sales department's data and the analysis of current transaction prices; o Determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to sales invoices, inventory and shipping documents, customer acceptance forms and other documents as appropriate. — For a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers, invoices, shipping documents and customer acceptance forms; — Examining whether the Group's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 30 April 2019.

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon.

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- 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 entity 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 the Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 controls.
- 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the 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 controls that we identify during our audit.

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

We were appointed by those charged with governance on 13 June 2019 to audit the consolidated financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is one year, covering the year ended 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 28 April 2020;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
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Ivana Lučića 2a, 10000 Zagreb
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28 April 2020

Domagoj Hrkać
Director, Croatian Certified Auditor

Ericsson Nikola Tesla Group

Consolidated statement of comprehensive income

as at 31 December 2019

	Notes	2019 HRK '000	2018 (restated) HRK '000
Sales revenue	5, 6	1,779,306	1,558,155
Cost of sales	7	(1,614,851)	(1,416,432)
Gross profit		164,455	141,723
Selling expenses	7	(47,107)	(40,209)
Administrative expenses	7	(34,721)	(32,672)
Other operating income	7	19,934	51,152
Operating profit		102,561	119,994
Finance income/(expense), net	9	5,668	638
Profit before tax		108,229	120,632
Income tax	10	(5,750)	(6,988)
Profit for the year		102,479	113,644
Other comprehensive income		-	-
Currency translation differences		90	(68)
Total comprehensive income for the year		**102,569**	**113,576**
Earnings per share (HRK)	11	76.97	85.34

Ericsson Nikola Tesla Group

Consolidated statement of financial position

as at 31 December 2019

Assets	Notes	2019 HRK '000	2018 HRK '000
Non-current assets			
Property, plant and equipment	12	143,776	114,654
Right of use assets	28	51,920	-
Intangible assets	13	4,412	5,070
Loans and receivables	14	53,772	51,657
Deferred tax assets	10	16,200	21,358
Total non-current assets		270,080	192,739
Current assets			
Inventories	15	173,311	110,695
Trade receivables	16	215,437	160,724
Contract assets	27	3,239	3,335
Receivables from related parties	29 (c)	112,861	109,900
Other receivables	17	18,123	14,170
Income tax receivables		14,323	472
Prepayments and accrued income		11,654	12,086
Financial assets at fair value through profit or loss	18	37,892	48,490
Cash and cash equivalents	19	97,906	187,888
Total current assets		684,746	647,760
Total assets		954,826	840,499

Ericsson Nikola Tesla Group

Consolidated statement of financial position (continued)

as at 31 December 2019

		2019	2018
Equity and liabilities	Notes	HRK '000	HRK '000
Equity			
Share capital	20 (a)	133,165	133,165
Treasury shares	20 (b)	(240)	(240)
Legal reserves	20 (c)	6,658	6,658
Reserve for treasury shares	20 (d)	14,873	14,873
Reserve of currency conversion		(176)	(86)
Retained earnings		160,473	150,609
Total equity		314,753	304,979
Non-current liabilities			
Borrowings	21	27,362	5,734
Lease liabilities	28	33,584	-
Other non-current liabilities	22	8,704	6,520
Employee benefits	23 (a)	10,314	8,662
Total non-current liabilities		79,964	20,916
Current liabilities			
Payables to related parties	29 (c)	90,579	33,306
Borrowings		34	36
Trade and other payables	24	188,460	178,908
Income tax payable		315	270
Provisions	25	16,376	16,971
Accrued charges and deferred revenue	26	95,913	113,468
Contract liabilities	27	149,375	171,645
Lease liabilities	28	19,057	-
Total current liabilities		560,109	514,604
Total liabilities		640,073	535,520
Total equity and liabilities		**954,826**	**840,499**

Ericsson Nikola Tesla Group

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital HRK '000	Treasury shares HRK '000	Legal reserves HRK '000	Reserve for treasury shares[1] HRK '000	Translation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
As at 1 January 2018	133,165	(280)	6,658	14,873	(18)	80,232	234,630
Changes in equity for 2018							
Total comprehensive income	-	-	-	-	(68)	113,644	113,576
Dividend distribution for 2017, Note 20 (e)	-	-	-	-	-	(43,272)	(43,272)
Share-based payments, Note 23 (b)	-	23	-	-	-	(23)	-
Sale of treasury shares, Note 23 (b)	-	17	-	-	-	28	45
Total contributions by and distributions to owners of the parent recognized directly in equity	-	40	-	-	-	(43,267)	(43,227)
As at 31 December 2018	**133,165**	**(240)**	**6,658**	**14,873**	**(86)**	**150,609**	**304,979**
As at 1 January 2019	133,165	(240)	6,658	14,873	(86)	150,609	304,979
Changes in equity for 2019							
Total comprehensive income	-	-	-	-	(90)	102,749	102, 659
Dividend distribution for 2018, Note 20 (e)	-	-	-	-	-	(94,000)	(94,000)
Equity-settled transactions, Note 23 (b)	-	-	-	-	-	1,114	1,114
Total contributions by and distributions to owners of the parent recognized directly in equity	-	-	-	-	-	(92.886)	(92.886)
As at 31 December 2019	**133,165**	**(240)**	**6,658**	**14,873**	**(176)**	**160,473**	**314,753**

[1] In comparison with prior year financial statements Company has disclosed separately Reserve for treasury shares in amount of HRK 14,873 thousand in order to improve presentation in financial statements.

Ericsson Nikola Tesla Group

Consolidated statement of cash flows

for the year ended 31 December 2019

	Notes	2019 HRK '000	2018 HRK '000
Cash flows from operating activities			
Profit before tax		108,320	120,632
Adjustments for:			
Depreciation and amortization	7, 12, 13	57,534	34,872
Impairment losses and reversals		4,052	9,408
Net increase in provisions	25	33,671	39,110
Gain on sale of property, plant and equipment		(2,323)	(58)
Net loss on remeasurement of financial assets		(497)	121
Interest income		(5,832)	(1,498)
Interest expense		1,565	19
Foreign exchange gain/losses, net		(2,702)	(6,876)
Equity-settled transactions	8	(846)	-
Other		(1,023)	(2,550)
		191,919	193,180
Changes in working capital:			
In receivables		(55,924)	85,358
In inventories		(62,638)	(91,823)
In payables		1,590	(109,898)
Cash generated from operations		74,946	76,817
Interest paid		(1,474)	(19)
Income taxes paid		(4,526)	(1,622)
Net cash from operating activities		68,946	75,176
Cash flows from investing activities			
Interest received		1,734	2,218
Dividends received		70	70
Disposal of subsidiaries		-	40
Proceeds from sale of property, plant and equipment		2,360	143
Purchases of property, plant and equipment, and intangible assets		(82,414)	(41,115)
Deposits given to financial institutions - net		1,354	-
Net change of financial assets at fair value through profit and loss		10,956	35,909
Net cash used in investing activities		(65,940)	(2,735)

Ericsson Nikola Tesla Group

Consolidated statement of cash flows (continued)

for the year ended 31 December 2019

	Notes	2019 HRK '000	2018 HRK '000
Cash flows from financing activities			
Dividends paid	20 (e)	(94,000)	(43,291)
Loans received		21,656	-
Lease liabilities paid		(21,203)	-
Net cash used in financing activities		(93,547)	(43,291)
Effects of exchange rate changes on cash and cash equivalents		560	(523)
Net increase/(decrease) in cash and cash equivalents		(89,982)	28,627
Cash and cash equivalents at the beginning of the year		187,888	159,261
Cash and cash equivalents at the end of the year	19	**97,906**	**187,888**

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 2019 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 (together "the Group"). A summary of the Group's principal accounting policies is set out below.

Statement of compliance

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

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, with the exception of financial instruments which are carried at fair value. These comprise derivative financial instruments and financial assets and liabilities at fair value through profit or loss. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 3 and 28). The principal accounting policies in respect of leases applied till 31 December 2018 are presented in Note 31.

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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgements made by executive management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates are discussed in Note 2.

Going concern

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

Functional and presentational currency

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

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

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15 “Revenue from Contracts with Customers” is a principle-based model of recognizing revenue from customer contracts. It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.
The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of Ericsson’s business is for the sale of standard products and services.

Standard solution

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time, from the delivery of the related products.
These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.
Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer’s perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset.
Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Software licenses may be provided to the customer at a point in time, activated or ready to be activated by the customer at a later stage, therefore revenue is recognized when customer obtains control of the software. Contractual terms may vary; therefore judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement.
Costs incurred relating to performance obligations not yet fully delivered are recognized as inventories.
Transaction prices under these contracts are usually fixed, and mostly billed upon delivery of the hardware or software and completion of installation services. Customer finance agreements may be agreed separately with some customers where payment terms exceed 179 days.
Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Costs incurred in delivering recurring services are recognized as cost of sales as they are incurred. Transaction prices under these contracts are billed over time, often on a quarterly basis.
Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears. Contract for standard products and services applies to business in all segments.

Customized solution

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

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

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution (continued)

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

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

Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days. Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

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

Customer contract related balances

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

Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 30(d) for further information on credit risk management of trade receivables and customer finance credits.

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

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

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

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

1 Significant accounting policies (continued)

Property, plant and equipment

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

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

Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to allocate their cost over the estimated economic useful life of the assets. The estimated useful lives are as follows:

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

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

Intangible assets

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

Amortization is provided on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets include acquired computer software and are amortized on a straight-line basis over their useful life of 2–4 years. Cost associated with maintaining computer software is recognized as an expense as incurred.

Impairment of non-financial assets

Assets that have an indefinite useful life (such as goodwill) are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization 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 recognized 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.

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

1 Significant accounting policies (continued)

Financial assets at amortized cost

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

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

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

Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit and loss.

Impairment of cash, trade receivables and contract assets

Financial assets affected by the new model are cash and cash equivalents, deposits, trade receivables and contract assets.
Two unified models were developed for relatable financial assets. Cash equivalents and deposits are assessed for impairment under one unified model and trade receivables and contract assets are assessed for impairment under another unified model. Cash equivalents and deposits are assessed based on probability of default as well as Group exposure to certain financial institution at the time of default. To determine probability of default, country credit rating of financial institution is used, as well as the rating of future outlook is used.
Expected loss on cash, cash equivalents and deposits for each financial institution gives the total expected credit loss. There were no significant changes to the model during the year. The Group has determined that credit risk largely depends on both the payment pattern of the customer as well as the risk in the country where the customer resides (e.g. ability to make cross-border payments).

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

1 Significant accounting policies (continued)

Impairment of cash, trade receivables and contract assets (continued)

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

Trade and other payables

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

Financial liabilities

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable 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, labor 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 realizable value.

Share capital

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

Income tax

The tax expense for the period is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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.

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

1 Significant accounting policies (continued)

Income tax (continued)

Deferred income tax is recognized 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 recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized 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.

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 the Group's 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 recognized 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.

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 recognized 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 recognizes 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 recognizes 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 recognized 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 recognized 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 recognized as interest expense.

Interest income

Interest income is recognized 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 recognized 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.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Government grants

Grants from the government are recognized within "Other operating income" at their fair value where there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.
Government grants relating to costs are deferred and recognized over the period necessary to match them with the costs that they are intended to compensate.
Grants relating to property, plant and equipment are recognized in profit or loss over the periods and in the proportions in which depreciation on those assets is recognized. In statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognized in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

Dividend distribution

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

Consolidation and goodwill

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

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

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

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

2 Changes in accounting policies

Adoption of IFRS 16, Leases

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 28.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

As a lessee

As a lessee, the Group leases property and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 28). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: the Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets; and
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

2 Changes in accounting policies (continued)

Adoption of IFRS 16, Leases (continued)

As a lessor

The Company leases out its own property and The Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Company sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are presented in investment property and measured at fair value at that date. The Company assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are operating leases under IFRS 16.

The Company has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

On transition to IFRS 16, the Company recognized additional right-of-use assets, including investment property, and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

	IFRS 16 adjustment HRK '000
Right-of-use asset	63,135
Lease liabilities, current	19,559
Lease liabilities, non-current	43,576

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 2.5%.

Difference between minimum lease payments for operating lease contracts at 31 December 2018 and initial recognition of right of use asset as at 1 January 2019 is shown below:

	1 January 2019 HRK '000
Operating lease commitments as at 31 December 2018	9,598
Recognition exemption for leases of low-value assets	(3,630)
Extension options reasonably certain to be exercised	61,103
Adjustments for discounting at initial recognition date	(3,936)
Lease liabilities recognized as at 1 January 2019	**63,135**

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

3 New accounting standards and interpretations

New standards and amendments to existing not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4 Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and receivables

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

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

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

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

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

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

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

4 Critical accounting estimates and judgements (continued)

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

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 22. 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, the management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 21).

Following derecognition, the residual difference between interest receivable from the customer and interest payable to the bank represents separate liability recognized at fair value and is disclosed in Note 21.

(c) Revenue recognition

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

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

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

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

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

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

Judgment may be applied in determining whether risk and rewards have been transferred to the customer and whether the customer has accepted the products. In a sale of software license, judgment may also be applied to determine when the software is made available to the customer by considering when they can direct the use of, and obtain substantially all the benefits of, the license. Often all indicators of transfer of control are assessed together and an overall judgment formed as to when transfer of control has occurred in a customer contract.

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

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

5 Sales revenue

Analysis of revenue by category:

	2019			2018		
	HRK '000	HRK '000 At a point in time	HRK '000 Over time	HRK '000	HRK '000 At a point in time	HRK '000 Over time
Sales revenue from products	459,315	409,552	49,763	388,989	315,027	73,962
Sales revenue from services	1,319,991	1,195,517	124,474	1,169,166	1,020,671	148,495
	1,779,306	1,605,069	174,237	1,558,155	1,335,698	222,457

6 Segment reporting

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

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

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

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

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

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

6 Segment reporting (continued)

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

	2019			2018		
	HRK '000	HRK '000 At a point in time	HRK '000 Over time	HRK '000	HRK '000 At a point in time	HRK '000 Over time
Sales revenue in domestic market	497,706	389,304	108,402	372,523	247,640	124,883
Sales revenue in Russia, Belarus, Kazakhstan, Georgia, Moldova, Ukraine and Armenia	92,977	68,527	24,450	92,629	52,299	40,330
Sales revenue to Ericsson	1,027,055	1,027,055	-	955,802	955,802	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	136,757	98,336	38,421	21,803	68,191	53,612
Other export sales revenue	24,811	21,847	2,964	15,398	11,766	3,632
	1,779,306	1,605,069	174,237	1,558,155	1,335,698	222,457

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	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	1,011,967	939,831	570,812	439,809	189,327	177,087	7,200	1,428	-	-	1,779,306	1,558,155
Timing of revenue recognition:												
At a point in time	905,945	820,256	502,597	337,540	189,327	177,087	7,200	815	-	-	1,605,069	1,335,698
Over time	106,022	119,575	68,215	102,269	-	-	-	613	-	-	174,237	222,457
Operating profit	86,305	108,025	41,937	38,705	5,639	5,090	158	247	(31,479)	(32,072)	102,561	119,994
Finance income/ (expense), net											5,668	638
Profit before tax											108,229	120,632
Income tax											(5,750)	(6,988)
Profit for the year											102,479	113,644

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

7 Expenses by nature

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

	2019	2018 (restated)
	HRK '000	HRK '000
Changes in contract work in progress (Note 15)	(62,616)	(91,824)
Material and external services [1]	804,063	733,810
Personnel expenses (Note 8)	895,451	802,996
Depreciation and amortization (Notes 12, 13, 28)	57,534	34,872
Value adjustments	2,247	9,459
	1,696,679	1,489,313

In accordance with the new classification, the Company has restated the comparative information for 2018 in comparison with the prior year financial statements. The cost of sales increased by HRK 19,703 thousand, selling expenses increased by HRK 2,707 thousand, administrative expenses increased by HRK 2,198 thousand compared to prior year financial statements. Other operating expenses were reduced by HRK 534 thousand, other operating income increased by HRK 25,777 thousand while net finance result decreased by HRK 1,703 thousand.

Aforementioned restatements did not have impact on the result for 2018.

Other operating income consists of rent income in total amount of HRK 13,963 thousand (2018: HRK 15,843 thousand), government grants total amount HRK nil (2018: HRK 24,184 thousand) and other in total amount of HRK 5,971 thousand (2018: HRK 11,125 thousand).

[1] Including fees to auditors of HRK 636 thousand (2018: HRK 659 thousand). Fees to auditors mainly relate to statutory audit services.

8 Personnel expenses

	2019	2018
	HRK '000	HRK '000
Net salaries	489,644	444,805
Taxes and contributions	333,988	313,347
Other payroll-related costs	70,705	44,844
Equity-settled transactions (Note 23 (b))	1,114	-
	895,451	802,996

Personnel expenses include HRK 139,851 thousand (2018: HRK 126,919 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 4,696 thousand (2018: HRK 7,762 thousand), and to transportation expenses and vacation accrual cost.

As at 31 December 2019, the total number of employees was 3,224 (2018: 3,173)

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

9 Finance income and expense, net

	2019	2018
	HRK '000	HRK '000
Interest income	4,637	810
Net foreign exchange rate result	1,152	(1,652)
Interest expense	(1.507)	(58)
Net change in fair value of financial assets at fair value through profit and loss	471	36
Other	915	1,502
	5,668	638

10 Income tax expense

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

	2019	2018
	HRK '000	HRK '000
Current income tax expense	(592)	(13,445)
Total deferred tax income/(expense)	(5,158)	6,457
Total income tax expense	(5,570)	(6,988)

Deferred tax from tax losses

The Group did not recognize deferred income tax assets of HRK 721 thousand (2018: HRK 570 thousand) in respect of cumulative tax losses amounting to HRK 7,208 thousand (2018: HRK 5,698 thousand) that can be carried forward against future taxable income.

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

10 Income tax expense (continued)

Deferred tax from tax losses (continued)

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:

	2019	2018
Tax loss for 2016 – expires 31 December 2021	1,577	1,577
Tax loss for 2017 – expires 31 December 2022	1,543	1,543
Tax loss for 2018 – expires 31 December 2023	2,578	2,578
Tax loss for 2019 – expires 31 December 2024	1,510	-
	7,208	5,698

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:

	2019	2018
	HRK ‘000	HRK ‘000
Profit before tax	108,229	120,632
Tax calculated at domestic tax rates applicable to profits in the respective countries	19,143	22,073
Tax effects of:		
Permanent non-deductible expenses	433	347
Effects of temporary differences	(309)	113
Tax incentives	(13,517)	(15,523)
Utilization of tax losses	-	(22)
Tax charge	5,750	6,988
Effective tax rate	5.3%	5.8%

Tax incentives totaling HRK 13,517 thousand (2018: HRK 15,523 thousand) include tax allowances for certain expenditure, as employment and education and training, as defined by Croatian tax legislation. The underlying expenditure is included in cost of sales.

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

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

10 Income tax expense (continued)

Deferred tax from other temporary differences

The Group recognized deferred tax assets in the amount of HRK 16,200 thousand (2018: HRK 21,358 thousand) relating to temporary differences arising from:

- Accrued interest expenses
- Impairment of receivables
- Accrued expenses from contracts
- Warranty provisions
- Provisions for jubilee awards and retirement
- Right of use asset and lease liabilities.

	Impairments, provisions and accrued expenses HRK '000
As at 1 January 2018	**14,901**
Tax credited to the Income statement	10,087
Tax charged to the Income statement	(3,630)
As at 31 December 2018	**21,358**
As at 1 January 2019	**21,358**
Tax credited to the Income statement	10,776
Tax charged to the Income statement	(15,934)
As at 31 December 2019	**16,200**

11 Earnings per share

	2019	2018
Profit for the year (HRK '000)	102,479	113,644
Weighted Average Number of Shares Outstanding at the year-end	1,331,439	1,331,640
Earnings per share (HRK)	76.97	85.34

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)

12 Property, plant and equipment

	Land anc buildings HRK '000	Plant and equipment HRK '000	Asset under construction HRK '000	Other HRK '000	Total HRK '000
As at 1 January 2018					
Cost or valuation	167,664	386,541	1,734	328	556,267
Accumulated depreciation	(121,987)	(325,315)	-	(253)	(447,555)
Net book amount	45,677	61,226	1,734	75	108,712
Year ended 31 December 2018					
Opening net book amount	45,677	61,226	1,.734	75	108,712
Transfer of asset under construction	-	1,734	(1,734)	-	-
Additions	3,754	35,232	832	-	39,818
Disposals	-	(65)	-	-	(65)
Depreciation charge	(3,296)	(30,508)	-	(7)	(33,811)
Closing net book amount	46,135	67,619	832	68	114,654
As at 31 December 2018					
Cost or valuation	171,418	392,420	832	327	564,997
Accumulated depreciation	(125,283)	(324,801)	-	(259)	(450,343)
Net book amount	46,135	67,619	832	68	114,654
Year ended 31 December 2019					
Opening net book amount	46,135	67,619	832	68	114,654
Transfer of asset under construction	-	832	(832)	-	-
Additions	6,742	32,256	28,853	-	67,851
Disposals	-	(2,348)	-	-	(2,348)
Depreciation charge	(3,619)	(32,755)	-	(7)	(36,381)
Closing net book amount	49,258	65,604	28,853	61	143,776
As at 31 December 2019					
Cost or valuation	175,163	387,879	28,853	328	592,223
Accumulated depreciation	(125,905)	(322,275)	-	(267)	448,447
Net book amount	49,258	65,604	28,853	61	143,776

As at 31 December 2019, the Group had contracts totaling HRK 1,417 thousand (2018: HRK 5,622 thousand) related to future equipment purchases. Asset under construction mostly relates to building energy reconstruction in Krapinska 45, Zagreb.

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

12 Property, plant and equipment (continued)

The Group acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 7,434 thousand (2018: HRK 9,942 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.

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

13 Intangible assets

The movement on intangible assets in the year ended 31 December 2019 may be analyzed as follows:

	Application software	Goodwill (i)	Total
	HRK '000	HRK '000	HRK '000
As at 1 January 2018			
Cost or valuation	7,776	4,173	11,949
Accumulated amortization	(5,789)	-	(5,789)
Net book amount	1,987	4,173	6,160
Year ended 31 December 2018			
Opening net book amount	1,987	4,173	6,160
Additions	6	-	6
Amortization charge	(1,096)	-	(1,096)
Closing net book amount	897	4,173	5,070
As at 31 December 2018			
Cost or valuation	5,388	4,173	9,561
Accumulated amortization	(4,491)	-	(4,491)
Net book amount	897	4,173	5,070
Year ended 31 December 2019			
Opening net book amount	897	4,173	5,070
Amortization charge	(658)	-	(658)
Closing net book amount	239	4,173	4,412
As at 31 December 2019			
Cost or valuation	5,047	4,173	9,220
Accumulated amortization	(4,808)	-	(4,808)
Net book amount	239	4,173	4,412

(i) In September 2014, the 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, organizational structure, activities and operational processes. The business comprises acquired assets and assumed liabilities to employees.

Goodwill is tested annually for impairment as stated in Note 1.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a five-year period. The present value of future cash flows is calculated using a discount rate of 12.17%, based on the Group's weighted average cost of capital.

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

14 Loans and receivables

	2019	2018
	HRK '000	HRK '000
Deposits with financial institutions, denominated in foreign currency	13,826	15,804
Deposits with financial institutions, denominated in HRK	18,160	12,360
Non-current receivables from foreign customers, denominated in foreign currency	14,381	19,682
Loans given, Note 4 (b)	9,119	6,833
Receivables for sold apartments	478	512
Total loans and receivables	55,964	55,191
Impairment allowance on loans and receivables	(2,192)	(3,534)
	53,772	51,657

Deposits with financial institutions in the amount of HRK 30,210 thousand (2018: 24,082) are used as a collateral for Supplier credit arrangement disclosed in Note 4 (b), with interest rate from 0.75% to 2% and maturing in year 2022.

The rest of the deposits with financial institutions of HRK 1,777 thousand (2018: HRK 4,081 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.
Receivables for sold apartments 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.

Non-current portion of foreign and domestic loans and receivables from customers

	2019	2018
Due	HRK '000	HRK '000
2020	-	12,562
2021	14,851	10,082
2022	8,650	3,871
	23,501	26,515

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

15 Inventories

	2019	2018
	HRK '000	HRK '000
Raw materials	-	10
Contract work in progress	173,333	110,694
Total inventories	173,333	110,704
Impairment allowance	(22)	(9)
	173,311	110,695

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

16 Trade receivables

	2019	2018
	HRK '000	HRK '000
Foreign trade receivables	59,366	55,862
Current portion of non-current foreign receivables	12,678	10,954
Total current foreign receivables	72,044	66,816
Domestic trade receivables	143,976	109,518
Total current domestic receivables	143,976	109,518
Impairment allowance on receivables	(583)	(15,610)
	215,437	160,724

Impairment allowance on receivables in 2018 relate to one off impairments recognized in prior years.

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

16 Trade receivables (continued)

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

	2019	2018
	HRK '000	HRK '000
As at 1 January	20,006	13,582
Impact of discounting non-current receivables	(1.389)	(1,089)
Receivables written off during the year as uncollectible	(16.338)	(2,949)
Impairment on receivables	2,188	10,462
As at 31 December (1)	4.467	20,006

1) Including impairment provision for receivables from related parties of HRK 1,686 thousand (2018: HRK 862 thousand).

17 Other receivables

	2019	2018
	HRK '000	HRK '000
Advances given	9,535	6,107
Net VAT receivables	1,020	7,332
Other receivables	7,568	731
	18,123	14,170

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

18 Financial assets at fair value through profit or loss

	2019	2018
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,612	1,316
- Investment in open-ended investment funds	36,280	47,174
	37,892	48,490

19 Cash and cash equivalents

	2019	2018
	HRK '000	HRK '000
Cash and demand deposits	98,333	188,724
Impairment loss (Note 30(d))	(427)	(836)
	97,906	187,888

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

20 Equity

(a) Share capital

As at 31 December 2019, the share capital is represented by 1,331,650 (2018: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2018: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2018: HRK 100). 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
		2019		2018
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Other shareholders	677,966	50.91	677,966	50.91
Treasury shares	211	0.02	211	0.02
	1,331,650	100.00	1,331,650	100.00

(b) Treasury shares

These shares are initially held as “treasury shares” and are regularly granted to key management and other employees as a part of the share-based program established in 2004, as described in Note 23 (b). During 2019, the Parent Company did not purchase its own shares.

Movements in treasury shares are as follows:

	Number of shares	Number of shares
	2019	2018
As at 1 January (Note 20 (a))	211	246
Purchased during the year	-	
Distributed during the year	-	(35)
As at 31 December (Note 20 (a))	211	211

(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.

(d) Reserve for own shares

Reserve for own shares are separated by decision of General Assembly of the Group.

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

20 Equity (continued)

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 13 June 2019, the General Assembly approved a regular dividend in respect of 2018 of HRK 20.00 per share, and an additional extraordinary dividend of HRK 50.60 per share, totaling HRK 94,000 thousand.

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

	2019	2018
	HRK '000	HRK '000
HRK 32.50 per share for 2017	-	43,272
HRK 70.60 per share for 2018	94,000	-
Prior year dividend payout	-	19
	94,000	43,291

21 Borrowings

	2019	2018
	HRK '000	HRK '000
Loans	21,694	66
Borrowings, Note 4 (b)	5,668	5,668
Total liabilities for borrowings	27.362	5.734

Changes in liabilities from financing activities

Year ended 31 December 2018	HRK '000
Opening net book amount	8,378
Foreign exchange differences	294
Release of obligations (Note 4(b))	(3,004)
Closing net book amount	5,668
Year ended 31 December 2019	
Opening net book amount	5,668
Foreign exchange differences	171
Release of obligations (Note 4(b))	(171)
Closing net book amount	5,668

Loan is taken due to the Energy Efficiency project for premises in Zagreb (Krapinska 45). Loan is taken with fixed interest rate

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

22 Other non-current liabilities

	2019	2018
	HRK ‘000	HRK ‘000
Accounts payable	-	171
NPV discount	-	(93)
Total accounts payable	-	78
Deferred revenue	3,025	3,614
Liabilities for issued guarantee, Note 4 (b)	903	692
Contract liabilities – Long-term	-	52
Other non-current liabilities, Note 4 (b)	4,776	2,084
	8,704	6,520

23 Employee benefits

(a) Long-term service benefits

The Group does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or management. In respect of all of the personnel, such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian Pension Insurance Institute to the Croatian employees upon their retirement. Additionally, in 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 2019 were a 2.76% discount rate (2018: 6%) and a 6.26% (2018: 4.89%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
			2019			2018
	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000
As at 1 January	7,461	1,201	8,662	7,273	1,303	8,576
Obligation created during the year	2,650	9,946	12,596	1,038	172	1,210
Obligation fulfilled during the year	(848)	(9,911)	(10,759)	(817)	(24)	(841)
Obligation reversed during the year	-	(185)	(185)	(32)	(251)	(283)
As at 31 December	9,263	1,051	10,314	7,462	1,200	8,662

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

23 Employee benefits (continued)

(b) Share-based payments

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

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

Part of the share-based program 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 program, the Parent Company didn't sold to its employees shares (2018: 15 shares) and accordingly didn't receive compensation (2018: HRK 45 thousand). In 2018 the difference between the purchase price of the shares and selling price received from the employee in the amount of 28 thousand has been recognized within retained earnings.

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

	2019	2018
	Number of shares	Number of shares
As at 1 January	-	35
Granted	7,915	-
Exercised	-	(35)
As at 31 December	7,915	-

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.

During 2019, the Group had HRK 1,114 thousand expenses (2018: HRK zero) in respect of share-based payments, which are included in personnel expenses as disclosed in Note 8.

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

24 Trade and other payables

	2019	2018
	HRK '000	HRK '000
Trade payables	54,360	63,380
Liabilities to employees	108,583	92,120
VAT liabilities	1,323	-
Other current liabilities	24,194	23,408
	188,460	178,908

25 Provisions

Movements in provisions were as follows:

	Warranty reserve HRK '000	Termination benefits HRK '000	Other reserve HRK '000	Total HRK '000
As at 1 January 2018	8,775	2,340	16,452	27,567
Additional provisions	1,373	11,195	30,661	43,229
Unused provisions reversed	(4,119)	-	-	(4,119)
Provisions used during the year	(2,516)	(12,286)	(34,904)	(49,706)
As at 31 December 2018	3,513	1,249	12,209	16,971
As at 1 January 2019	3,513	1,249	12,209	16,971
Additional provisions	1,661	23,567	8,626	33,854
Unused provisions reversed	(182)	-	-	(182)
Provisions used during the year	(2,441)	(13,514)	(18,312)	(34,267)
As at 31 December 2019	2,551	11,302	2,523	16,376

The warranty reserve is established to cover the expected warranty claims on products sold during the year. Reversal of warranty reserves relates to expired warranties.

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 8,626 thousand (2018: HRK 11,261 thousand) was made to a complex project on domestic market.

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

26 Accrued charges and deferred revenue

	2019	2018
	HRK ‘000	HRK ‘000
Deferred revenue	8,330	4,725
Accrued charges for unused holidays	25,593	24,885
Accrued charges in respect of service contracts	32,106	33,353
Other accrued charges	29,884	50,505
	95,913	113,468

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)

27 Contract assets and liabilities

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

	31 December 2019	31 December 2018
	HRK '000	HRK '000
Contract assets from contracts with customers	3,239	3,335
Loss allowance	-	-
Total current contract assets	3,239	3,335
Contract liabilities – advances from customers	6,611	2,088
Contract liabilities – deferred revenue	142,764	169,557
Total current contract liabilities	149,375	171,645

As at 31 December 2019 the Group recognized HRK 3,239 thousand of contract assets net of impairment loss provisions (refer to Note 29) in respect of managed services contracts that relate to future service performance (as at 31 December 2018: HRK 3,335 thousand) and will be realized when contract conditions are met.

As at 31 December 2019 the Group recognized HRK 149,375 thousand of contract liabilities in respect of the following contracts related to modernization of mobile and fixed network, project-related services and support activities, e-Health Information Systems and other (as at 31 December 2018: HRK 171,645 thousand).

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

	31 December 2019	31 December 2018
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied as at 1 January and 31 December	22,639	4,972
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied as at 1 January and 31 December	81,647	72,442
	104,286	77,414

The Group expects to recognize approximately 58% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2020, 38% as revenue in financial year 2021 and 4% as revenues in financial year 2022.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

28 Leases

a) Leases as lessee

The Group leases warehouse, office premises and parking lots. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The warehouse, office premises and parking lots were entered many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

The Group leases vehicles under a number of leases, which were classified as operating leases under IAS 17. The leases typically run for a period of 3 to 5 years.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment

	Property, plant and equipment HRK '000
Balance as at 1 January 2019	63,135
Depreciation charge for the year	(20,495)
Increase of right-of-use assets	9,280
Balance as at 31 December 2019	51,920

Amounts recognized in Statement of comprehensive income

	Property, plant and equipment HRK '000
2019 – Leases under IFRS 16	
Interest on lease liabilities	1,447
Income from sub-leasing right-of-use assets presented in 'other revenue'	-
Expenses relating to short-term leases	3,630
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
2018 – Operating leases under IAS 17	
Lease expense	16,545

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

28 Leases (continued)

a) Leases as lessee (continued)

Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

b) Leases as lessor

The Group leases out its property consisting of its owned commercial properties. All leases are classified as operating leases from a lessor perspective.

Operating lease

The Company leases out its owned commercial properties. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognized by the Group during 2019 was HRK 13,925 thousand (2018: HRK 15,858 thousand).

The following table sets out a maturity analysis of lease payments to be received after the reporting date.

	Property plant and equipment HRK '000
2019 – Operating leases under IFRS 16	
Less than one year	10,051
Between one and three years	4,939
Between three and five years	4,354
More than five years	8,537
Total	**27,881**

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

29 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% (2018: 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 summarized as follows:

	Telefonaktiebolaget LM Ericsson		Other Ericsson Group consolidated companies		Total	
	2019	2018	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Sales of goods and services						
Sales revenue	-	-	1,027,055	955,802	1,027,055	955,802
Other income	-	-	7,964	17,897	7,964	17,897
	-	-	1,035,019	973,699	1,035,019	973,699
Purchases of goods and services						
Licenses	3,688	2,945	19,401	20,688	23,089	23,633
Cost of sales	-	-	436,860	390,081	436,860	390,081
	3,688	2,945	456,261	410,769	459,949	413,714

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) license fees on sales of services and wireline products, (ii) corporate trademark licenses, (iii) support services, (iv) R&D tools and (v) IS/IT fee. The license 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)

29 Balances and transactions with related parties (continued)

(b) Key management compensation

The key management include the executive management listed on page 37, comprising the Management Board member and directors of main organizational units.

	2019	2018
	HRK '000	HRK '000
Salaries and other short-term employee benefits	22,173	19,364
Other long-term benefits	1,114	-
	23,287	19,364

The members of the executive management and the Supervisory Board held 5,090 ordinary shares at the year-end (2018: 4,971 shares).
In addition, the Group paid remuneration totaling HRK 349 thousand (2018: HRK 331 thousand) to the Supervisory Board and Audit Committee members during 2019.

(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 summarized as follows:

	Receivable		Payable	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	728	643
Other Ericsson Group companies	112,861	109,900	89,851	32,663
	112,861	109,900	90,579	33,306

The Group recorded a non-current receivable (Note 14) of HRK nil thousand (2018: HRK 0 thousand) and a non-current portion of deferred revenue (Note 22) of HRK 3,025 thousand (2018: HRK 3,614 thousand) and current portion of deferred revenue
of HRK 1,833 thousand (2018: HRK 3,487 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)

30 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 summarized 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 2019, if the euro and US dollar had weakened/strengthened by 1% (2018: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 297 thousand higher/lower (2018: HRK 1,649 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.

Other currencies to which the Group is exposed are: SEK, BAM, PLN, GBP.

The Group continues to focus on securing natural hedges and active currency management and to minimize 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)

30 Financial risk management (continued)

(a) Currency risk (continued)

The tables below present the currency analysis and the resulting gap.

2019	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	16,426	31,633	-	48,059	5,713	53,772
Trade and other receivables	147,375	12,398	8,097	167,870	196,113	363,983
Financial assets at fair value through profit or loss	-	-	-	-	37,892	37,892
Cash and cash equivalents	22,211	4,220	11,757	38,188	59,718	97,906
	186,012	48,251	19,854	254,117	299,436	553,553
Borrowings	(14,002)	(3,450)	-	(17,452)	(62,585)	(80,037)
Trade and other payables	(86,807)	(13,025)	(32)	(99,864)	(188,194)	(288,058)
	(100.809)	(16,475)	(32)	(117,316)	(250,779)	(368,095)
Currency gap	85,203	31,776	19,822	136,801	48,657	185,458

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

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

30 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 2019:

– if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 15 thousand higher/lower (2018: HRK 33 thousand);

– if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 297 thousand higher/lower (2018: HRK nil thousand);

– if the effective USD interest rate on USD deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 99 thousand higher/lower (2018: HRK nil thousand).

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

	Average interest rates	Average interest rates
	2019	2018
	%	%
Loans and receivables	0.84	0.82
Cash and cash equivalents	0.03	0.08

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

30 Financial risk management (continued)

(b) Interest rate risk (continued)

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

2019	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	21,785	-	-	-	30,210	1,777	53,772	30,210
Trade and other receivables	363,983	-	-	-	-	-	363,983	-
Financial assets at fair value through profit or loss	37,892	-	-	-	-	-	37,892	-
Cash and cash equivalents	-	97,906	-	-	-	-	97,906	-
	423,660	97,906	-	-	30,210	1,777	553,553	30,210
Borrowings	(80,037)	-	-	-	-	-	(80,037)	-
Trade and other payables	(288,058)	-	-	-	-	-	(288,058)	-
	(368,095)	-	-	-	-	-	(368,095)	-
Interest rate gap	55,565	97,906	-	-	30,210	1,777	185,458	30,210

2018	Non-interest-bearing	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total	Fixed interest
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	23,495	-	-	-	24,082	4,081	51,658	24,082
Trade and other receivables	288,601	-	-	-	-	-	288,601	-
Financial assets at fair value through profit or loss	48,490	-	-	-	-	-	48,490	-
Cash and cash equivalents	187,888	-	-	-	-	-	187,888	-
	548,474	-	-	-	24,082	4,081	576,637	24,082
Borrowings	(5,770)	-	-	-	-	-	(5,770)	-
Trade and other payables	(216,227)	-	-	-	(2,777)	-	(219,004)	-
	(221,997)	-	-	-	(2,777)	-	(224,774)	-
Interest rate gap	326,477	-	-	-	21,305	4,081	351,863	24,082

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

30 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 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 2019, the five largest customers represent 66% of total net trade receivables (2018: 51%). The Group considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 14 and 16) and other receivables (Note 17), not impaired as doubtful. Ageing analysis of these receivables is within the maturity analysis table shown further in this note.

Letters of credit are used as a method for securing payments from customers operating in certain markets, in particular in markets with unstable political and/or economic environments. By having banks confirming the letters of credit, the political and commercial credit risk exposures are mitigated.

Prior to the approval of new facilities reported as customer finance, an internal credit risk assessment is conducted in order to assess the credit rating (for political and commercial risk) of each transaction. A reassessment of the credit rating for each customer finance facility is made on a regular basis.

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

Impairment of receivables and contract assets

Cash equivalents amounted to HRK 97,906 thousand as at 31 December 2019 (31 December 2018: HRK 187.888 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 427 thousand as at 31 December 2019 (31 December 2018: HRK 835 thousand). The Group’s write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 331,537 thousand as at 31 December 2019 (31 December 2018: HRK 273,959 thousand). Provisions for expected credit losses on trade receivables, receivables from related party and contract assets amounted to HRK 2,269 thousand as at 31 December 2019 (31 December 2018: HRK 1,707 thousand). The Group’s write-offs have historically been low.

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

30 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 2019.

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
2019						
Foreign receivables	200	31,780	39,929	23,543	93	95,545
Domestic receivables	2,681	139,002	2,293	-	-	143,976
Receivables from related parties *	7,033	83,301	24,213	-	-	114,547
Contract assets	-	3.239	-	-	-	3,239
	9,914	257,322	66,435	23,543	93	357,307
* excluding impairment allowance in the amount of HRK 1,686 thousand						
2018						
Foreign receivables	17,267	41,338	8,210	25,009	1,589	93,413
Domestic receivables	3,210	104,467	1,840	-	-	109,517
Receivables from related parties *	8,545	95,381	6,837	-	-	110,763
Contract assets	-	3,335	-	-	-	3,335
	29,022	244,521	16,887	25,009	1,589	317,028

* include non-current portion of domestic receivables in the amount of HRK 862 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
2019					
Foreign receivables	200	-	-	-	200
Domestic receivables	2,442	144	95	-	2,681
Receivables from related parties	6,240	49	607	137	7,033
	8,882	193	702	137	9,914
2018					
Foreign receivables	5,635	11,632	-	-	17,267
Domestic receivables	2,576	592	42	-	3,210
Receivables from related parties	7,005	1,295	192	53	8,545
	15,216	13,519	234	53	29,022

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

30 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
2019					
Foreign receivables	200	1,042	-	-	1,242
Domestic receivables	2,681	75,377	2,293	-	80,351
Receivables from related parties	7,033	87,034	-	-	94,067
	9,914	163,453	2,293	-	175,660
2018					
Foreign receivables	17,267	7,439	74	-	24,780
Domestic receivables	3,210	48,717	1,831	-	53,758
Receivables from related parties	8,545	87,034	-	-	95,579
	29,022	143,190	1,905	-	174,117

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
2019					
Foreign receivables	200	-	-	-	200
Domestic receivables	856	90	-	-	946
Receivables from related parties	5,873	391	1,276	96	7,636
	6,929	481	1,276	96	8,782
2018					
Foreign receivables	2,935	260	-	-	3,195
Domestic receivables	2,539	539	-	-	3,078
Receivables from related parties	6,955	226	-	-	7,181
	12,429	1,025	-	-	13,454

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

30 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 the resulting gap.

The Group has a revolving credit facility with our core banks should an extraordinary liquidity need arise. As at 31 December 2019, the facility remained untapped.

2019	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	916	1,668	10,287	38,647	2,254	53,772
Trade and other receivables	255,859	105,235	2,705	184	-	363,983
Current financial assets	37,892	-	-	-	-	37,892
Cash and cash equivalents	97,906	-	-	-	-	97,906
	392,573	106,903	12,992	38,831	2,254	553,553
Borrowings	(34)	-	-	(27,328)	-	(27,362)
Lease liabilities	-	-	(19,057)	(33,584)	-	(52,641)
Trade and other payables	(279,354)	-	-	(8,704)	-	(288,058)
	(279,388)	-	(19,057)	(69,616)	-	(368,061)
Maturity gap	113,185	106,903	(6,065)	(30,785)	2,254	185,492

2018	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	387	2,250	8,184	36,756	4,080	51,657
Trade and other receivables	218,728	60,199	9,540	134	-	288,601
Current financial assets	48,490	-	-	-	-	48,490
Cash and cash equivalents	187,641	-	-	247	-	187,888
	455,246	62,449	17,724	37,137	4,080	576,636
Borrowings	-	-	-	(5,770)	-	(5,770)
Trade and other payables	(65,577)	(146,461)	(444)	(6,522)	-	(219,004)
	(65,577)	(146,461)	(444)	(12,292)	-	(224,774)
Maturity gap	389,669	(84,012)	17,280	24,845	4,080	351,862

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

30 Financial risk management (continued)

(f) Fair value estimation

Financial assets at fair value through profit and loss are carried at fair value at the balance sheet date. The fair value is estimated by reference to their quoted active market price at the balance sheet date which represents Level 1 input (Note 18).
A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. There are no financial assets derived from level 2 inputs which represent different valuation techniques based on observable market data or from level 3 inputs which represent different valuation techniques based on no observable market data.
The Group's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, non-current loans and receivables, trade and other payables and borrowings. The fair values of financial instruments together with carrying amounts as shown in the balance sheet are as follows:

	:arrying amount	Fair value	recognized gain/(loss)	:arrying amount	Fair value	recognized gain/(loss)
			2019			2018
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	53,772	53,364	(408)	51,657	51,804	146
Trade and other receivables	363,983	363,753	(230)	288,601	288,702	101
Financial assets at fair value through profit or loss	37,892	37,892	-	48,490	48,490	-
Cash and cash equivalents	97,906	97,906	-	187,888	187,888	-
Borrowings	(80,037)	(80,037)	-	(5,770)	(5,770)	-
Trade and other payables	(288,056)	(288,056)	-	(219,004)	(219,004)	-
	185,460	184,822	(638)	351,862	352,110	247

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)

30 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 amortized 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:

	2019	2018
Loans and receivables	0.59%	1.70%

(g) Capital management

The Group's objectives when managing capital are:

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

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

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

31 Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16.

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 statement of comprehensive income on a straight-line basis over the term of the lease.

32 Subsequent events

Ericsson Nikola Tesla Group is a large local exporter and the largest Croatian exporter of knowledge with more than 3,200 employees. Our business is partly related to activities in countries around the globe that are significantly hit by the pandemics of the novel Coronavirus COVID – 19. The closing of borders of some countries and travel bans, disturbances in delivery of equipment and raw materials at the global level, deferred investment projects in Croatia and abroad and, consequently, reduced demand for some of our activities, could have certain negative effects on some segments of our business.
Due to global presence, the Group has already felt disturbances in the flow of people and goods that, provided they persist, will have an effect on the scale of some areas of our business and on current projects that engage our experts in the country and abroad. The Group estimates that, for the moment, the largest impact on business could be due to reduced mobility related to travel and field work of our employees, including those posted abroad for longer periods, in risk countries.
If the situation with the pandemics of the novel Coronavirus persists, the execution/realization of several export deals that have been contracted recently could be obstructed precisely due to geographical and healthcare limitations to our activities. The Group holds that it has sufficient means and opportunities in the financial market that, combined with the appropriate measures taken by the government to relieve business in these circumstances, it can adequately address all challenges and continue its business.
Due to the fact that we have no means of predicting further developments regarding the novel Coronavirus COVID – 19, at present, we cannot provide you with more detailed information on its concrete financial impacts on our business.
The Management and the Executive Board continue to monitor the situation and will implement required measures related to health of people and sustainable business continuity of the Group, in line with guidelines and recommendations by the relevant government authorities and bodies.

Ericsson Nikola Tesla d.d.

Financial Statements and Auditor’s report 31 December 2019

Ericsson Nikola Tesla d.d.

Company profile

History and incorporation

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

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

According to the ownership structure as at 31 December 2019, Telefonaktiebolaget LM Ericsson (Ericsson) holds 49.07% of the Company's shares. Other shareholders own the remaining 50.91% of the Company's shares and 0.02% is held as treasury shares.

Principal activities

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

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

Code of Corporate Governance

The Company 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 2019 and up to the release of these statements were:

Franck Pierre Roland Bouétard	Chairman	Appointed on 20 June 2018
Dubravko Radošević	Member, Vice-Chairman	Reappointed on 20 June 2018, elected for Vice-Chairman of Supervisory board on 13 June 2019
Ignac Lovrek	Member; Vice-Chairman	Mandate expired on 2 June 2019
Vidar Mohammar	Member	Reappointed on 13 June 2019
Olgica Spevec	Member	Appointed on 13 June 2019
Vladimir Filipović	Member and employees' representative	Appointed on 29 November 2018

Audit Committee

The Audit Committee members during 2019 and up to the release of these statements were:

Dubravko Radošević	Chairman	Appointed on 26 April 2019
Ignac Lovrek	Chairman	Chairman / member until 26 April 2019
Vidar Mohammar	Member	Reappointed on 13 June 2019
Vesna Vašiček	Member	Appointed on 21 February 2017

Ericsson Nikola Tesla d.d.

Company profile (continued)

Management Board

The Management Board has one member:

Gordana Kovačević	President	Reappointed on 17 December 2019

Executive management

As at 31 December 2019, the Company's executive management comprised:

Gordana Kovačević	Company President
Branka Vučemilo Elezović	Director, Legal
Branko Dronjić	Director, IT&Test Environment Operations
Damir Bušić	Director, Finance, Sourcing and Commercial Management
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, Media and Operations
Ivan Barać	Director, Sales and Marketing for Hrvatski Telekom and Crnogorski Telekom
Jagoda Barać	Director, Sales and Marketing for Export markets for Op.Seg.
Marijana Đuzel	Director, Human Resources
Milan Živković	Director, Strategy and Business Development & GIR
Miroslav Kantolić	Director, Sales and Marketing for A1 Croatia
Patrick Gerard Martin	Director, R&D Center
Snježana Bahtijari	Director, Marketing, Communications & Corporate Social Responsibility

Ericsson Nikola Tesla d.d.

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

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

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

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

The financial statements set out on pages 109 to 162 were authorized by the Management Board on 28 April 2020 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 Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Ericsson Nikola Tesla d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2019, and its separate statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

REVENUE RECOGNITION

Sales revenue in 2019: HRK 1,545,299 thousand *(2018: HRK 1,373,684 thousand)*. As at 31 December 2019: trade receivables: HRK 207,009 thousand; contract assets: HRK 3,239 thousand; contract liabilities: HRK 149,375 thousand *(31 December 2018: trade receivables: HRK 158,224 thousand; contract assets: HRK 3,335 thousand; contract liabilities: HRK 171,645 thousand)*.

Please refer to the Note 1 *Revenue recognition* of Significant accounting policies, Note 4 c) *Revenue recognition* of Critical accounting estimates and judgements, Note 5 *Sales revenue* and Note 6 *Segment reporting* in the financial statements.

Key audit matter

In the year ended 31 December 2019, the Company's principal revenue streams included sales of products and software, as well as provision of services, including installation and integration services, maintenance and support.

Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors:

- In the Company's Networks and Digital services segment, goods and services with different revenue recognition patterns may be sold as part of one contract or several contracts accounted for as one arrangement. The Company applies significant judgment, among other things, in identifying contracts which require to be combined and accounted for as one arrangement, and identifying performance obligations therein, including those, if any, resulting from warranties and non-returnable upfront fees;
- Each performance obligation requires evaluation of whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the promised products or services is transferred to customers. Note 6 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams;

How our audit addressed the matter

Our audit procedures in this area included, among others:

- Obtaining understanding of and evaluating the Company's revenue recognition process, and testing related key internal controls in particular the controls associated with project feasibility and adequacy of approvals, segregation of duties, determination of revenue recognition pattern, fulfillment of contracts and procedures related to finalization of projects and acceptance by the customer;
- Assessing the Company's revenue recognition policy for compliance with relevant provisions of the financial reporting standards;
- Assisted by our own information technology (IT) specialists, evaluating selected automated controls within the IT systems;
- For a sample of contracts with customers concluded during the audited year, inspecting contractual provisions and making inquiries of project managers and relevant finance personnel in order to challenge the Company's:
  - Meeting of the contract existence criteria, including, among other things, those relating to the parties' commitment to their obligations and probability of collecting the consideration due;
  - Identification of the contracts which require to be accounted for on a combined basis and of performance obligations within contracts. The procedure included, among other things, assessing the nature of the warranties provided to customers for potential consideration as performance obligations;

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

REVENUE RECOGNITION *(CONTINUED)*

Key audit matter *(continued)*	How our audit addressed the matter *(continued)*
— Although contracts with customers are usually agreed with fixed transaction price, significant judgement is required in allocating the transaction price to the performance obligations. The transaction price, which is the consideration the Company expects to receive for the transfer of products and services to the customer, is allocated to the performance obligations based on its relative standalone selling price; In the wake of the above factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	o Determination of total contract consideration, by reference to contracts with customers and any subsequent modifications to the frame agreement, if any; o Allocation of the contract consideration to each of the identified performance obligations, based on their estimated stand-alone selling prices, also by reference to the sales department's data and the analysis of current transaction prices; o Determination of the timing of the transfer of control, the resulting pattern of revenue recognition and revenue amounts, by reference to sales invoices, inventory and shipping documents, customer acceptance forms and other documents as appropriate. — For a sample of customers, obtaining confirmations of the amounts receivable outstanding as at the reporting date, and challenging any significant differences between confirmations received and the Company's records by inspecting the underlying documentation such as contracts with customers, invoices, shipping documents and customer acceptance forms; — Examining whether the Company's revenue recognition-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 30 April 2019.

Other Information

Management is responsible for the other information. The other information comprises the Management Report and the Corporate Governance Statement included in the Annual Report of the Company, but does not include the financial statements and our auditor's report thereon.

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Other Information (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report and the Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act;
- 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 entity 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 the Corporate Governance Statement. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditors’ Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 International Standards on Auditing 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 financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 controls.
- 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 Company’s internal controls.
- 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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the 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 auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 controls that we identify during our audit.

Independent Auditors' Report to the shareholders of Ericsson Nikola Tesla d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

We were appointed by those charged with governance on 13 June 2019 to audit the separate financial statements of Ericsson Nikola Tesla d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is one year, covering the year ended 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 28 April 2020;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Domagoj Hrkać.

KPMG Croatia d.o.o.

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

KPMG Croatia
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Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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28 April 2020

Domagoj Hrkać
Director, Croatian Certified Auditor

Ericsson Nikola Tesla d.d.

Statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 HRK '000	2018 (restated) HRK '000
Sales revenue	5, 6	1,545,299	1,373,684
Cost of sales	7	(1,392,796)	(1,237,342)
Gross profit		152,503	136,342
Selling expenses	7	(43,663)	(36,459)
Administrative expenses	7	(31,589)	(29,659)
Other operating income	7	16,326	47,251
Operating profit		93,577	117,475
Finance income/(expense), net	9	6,796	466
Profit before tax		100,373	117,941
Income tax	10	(4,821)	(6,093)
Profit for the year		95,552	111,848
Other comprehensive income		-	-
Total comprehensive income for the year		**95,552**	**111,848**
Basic and diluted earnings per share (HRK)	11	71.77	83.99

Ericsson Nikola Tesla d.d.

Statement of financial position

as at 31 December 2019

		2019	2018
Assets	Notes	HRK '000	HRK '000
Non-current assets			
Property, plant and equipment	12	138,436	107,516
Right of use assets	29	27,572	-
Intangible assets	13	226	690
Loans and receivables	14	53,772	51,659
Investments in subsidiaries	15	1,053	1,053
Deferred tax assets	10	15,449	20,743
Total non-current assets		236,508	181,661
Current assets			
Inventories	16	170,522	108,720
Trade receivables	17	207,009	158,224
Receivables from related parties	30(c)	121,316	111,057
Contract assets	28	3,239	3,335
Other receivables	18	12,472	13,763
Income tax receivable		13,870	52
Financial assets at fair value through profit or loss	19	38,899	48,490
Prepayments and accrued income		11,057	11,382
Cash and cash equivalents	20	81,833	182,443
Total current assets		660,217	637,466
Total assets		**896,725**	**819,127**

Ericsson Nikola Tesla d.d.

Statement of financial position (continued)

as at 31 December 2019

Equity and liabilities	Notes	2019 HRK '000	2018 HRK '000
Equity			
Share capital	21(a)	133,165	133,165
Treasury shares	21(b)	(240)	(240)
Legal reserves	21(c)	6,658	6,658
Reserve for treasury shares	21(d)	14,873	14,873
Retained earnings		139,344	136,678
Total equity		293,800	291,134
Non-current liabilities			
Borrowings	22	27,324	5,668
Employee benefits	24 (a)	7,080	5,580
Lease liabilities	29	17,830	-
Other non-current liabilities	23	5,679	2,907
Total non-current liabilities		57,913	14,155
Current liabilities			
Payables to related parties	30(c)	104,505	62,311
Trade and other payables	25	162,425	154,996
Provisions	26	13,104	16,874
Accrued expense and deferred revenue	27	105,552	108,012
Contract liabilities	28	149,375	171,645
Lease liabilities	29	10,051	-
Total current liabilities		545,012	513,838
Total liabilities		602,925	527,993
Total equity and liabilities		**896,725**	**819,127**

Ericsson Nikola Tesla d.d.

Statement of changes in equity

for the year ended 31 December 2019

	Share capital	Treasury shares	Legal reserves	Reserve for treasury shares[1]	Retained earnings	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2018	133,165	(280)	6,658	14,873	68,096	222,512
Changes in equity for 2018						
Profit for the year	-	-	-	-	111,848	111,848
Dividend distribution for 2017, Note 21 (e)	-	-	-	-	(43,272)	(43,272)
Share-based payments, Note 24 (b)	-	23	-	-	(23)	-
Sale of treasury shares, Note 24 (b)	-	17	-	-	29	46
Total contributions by and distributions to owners recognized directly in equity	-	40	-	-	(43,266)	(43,226)
As at 31 December 2018	**133,165**	**(240)**	**6,658**	**14,873**	**136,678**	**291,134**
As at 1 January 2019	133,165	(240)	6,658	14,873	136,678	291,134
Changes in equity for 2019						
Profit for the year	-	-	-	-	95,552	95,552
Dividend distribution for 2018, Note 21 (e)	-	-	-	-	(94,000)	(94,000)
Equity settled transactions, Note 24 (b)	-	-	-	-	1,114	1,114
Total contributions by and distributions to owners of the parent recognized directly in equity	-	-	-	-	(92,886)	(92,886)
As at 31 December 2019	133,165	(240)	6,658	14,873	139,344	293,800

[1] In comparison with prior year financial statements Company has disclosed separately Reserve for treasury shares in amount of HRK 14,873 thousand in order to improve presentation in financial statements.

Ericsson Nikola Tesla d.d.

Statement of cash flows

for the year ended 31 December 2019

	Notes	2019 HRK '000	2018 HRK '000
Cash flows from operating activities			
Profit before tax		100,372	117,941
Adjustments for:			
Depreciation and amortization	7,12,13,29	41,590	29,708
Impairment losses and reversals		4,050	9,408
Net increase in provisions	26	30,494	39,111
Gain on sale of property, plant and equipment		(2,322)	(58)
Net loss on remeasurement of financial assets		(497)	121
Interest income		(5,831)	(1,487)
Interest expense		669	53
Foreign exchange gain/losses		(5,597)	(6,800)
Equity-settled transactions	8	846	-
Other		(1,019)	(2,550)
		162,755	185,447
Changes in working capital:			
In receivables		(53,090)	90,680
In inventories		(61,824)	(91,372)
In payables		(3,245)	(101,960)
Cash generated from operations		44,596	82,795
Interest paid		(656)	(53)
Income taxes paid		(3,968)	(1,333)
Net cash from operating activities		39,972	81,409
Cash flows from investing activities			
Interest received		1,734	2,207
Dividends received		70	70
Investments in subsidiaries	15	-	40
Proceeds from sale of property, plant and equipment		2,360	134
Purchases of property, plant and equipment, and intangible assets		(78,142)	(38,598)
Deposits given to financial institutions - net		1,354	-
Net change of financial assets at fair value through profit and loss		10,955	35,909
Net cash used in investing activities		(71,669)	(238)

Ericsson Nikola Tesla d.d.

Statement of cash flows (continued)

for the year ended 31 December 2019

	Notes	2019 HRK '000	2018 HRK '000
Cash flows from financing activities			
Dividends paid	21 (e)	(94,000)	(43,291)
Loans received		23,716	-
Lease liabilities paid		(9,190)	-
Net cash used in financing activities		(79,474)	(43,291)
Effects of exchange rate changes on cash and cash equivalents		560	(523)
Net increase (decrease) in cash and cash equivalents		(100,610)	37,357
Cash and cash equivalents at the beginning of the year		182,443	145,086
Cash and cash equivalents at the end of the year	20	**81,833**	**182,443**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d.

1 Significant accounting policies

Reporting entity

Ericsson Nikola Tesla d.d. (the Company) is a joint-stock company incorporated and domiciled in Croatia. The address of its registered office is Krapinska 45, 10000 Zagreb, the Republic of Croatia. The Company's shares are listed on the Public Joint-Stock Company listing on the Zagreb Stock Exchange. A summary of the Company's principal accounting policies is set out below.

Statement of compliance

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

Basis of preparation

The financial statements are prepared on the historical cost basis, with the exception of financial instruments which are carried at fair value. These comprise derivative financial instruments and financial assets and liabilities at fair value through profit or loss. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Notes 3 and 29). The principal accounting policy in respect of leases applied until 31 December 2018 are presented in Note 32.
The preparation of 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 recognized 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 the executive management in the application of IFRSs that have significant effect on the financial statements and estimates are discussed in Note 4.
The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2019 and for the year then ended in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 28 April 2020. In the consolidated financial statements, subsidiary undertakings (listed in Note 15) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2019 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Going concern

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

Functional and presentational currency

The Company's financial statements have been prepared in Croatian kuna (HRK), which is the currency of the primary economic environment in which the entity operates (the functional currency) and the presentation currency and have been rounded to the nearest thousand. The closing exchange rate as at 31 December 2019 was HRK 6.649911 per USD 1 (2018: HRK 6.469192) and HRK 7.442580 per EUR 1 (2018: HRK 7.417575)

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Revenue recognition

IFRS 15 “Revenue from Contracts with Customers” is a principle-based model of recognizing revenue from customer contracts. It has a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer.
The following paragraphs describes the types of contracts, when performance obligations are satisfied, and the timing of revenue recognition. They also describe the normal payment terms associated with such contracts and the resulting impact on the balance sheet over the duration of the contracts. The vast majority of Ericsson’s business is for the sale of standard products and services.

Standard solution

Products and services are classified as standard solutions if they do not require significant installation and integration services to be delivered. Installation and integration services are generally completed within a short period of time, from the delivery of the related products.
These products and services are viewed as separate distinct performance obligations. This type of customer contract is usually signed as a frame agreement and the customer issues individual purchase orders to commit to purchases of products and services over the duration of the agreement.
Revenue for standard products shall be recognized when control over the equipment is transferred to the customer at a point in time. This assessment shall be viewed from a customer’s perspective considering indicators such as transfer of titles and risks, customer acceptance, physical possession, and billing rights. Control of an asset therefore refers to the ability to direct use of and obtain substantially all of the remaining benefits from the asset.
Furthermore, control includes the ability to prevent other entities from using and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly. For hardware sales, transfer of control is usually deemed to occur when the equipment arrives at the customer site and for software sales, when the licenses are made available to the customer. Software licenses may be provided to the customer at a point in time, activated or ready to be activated by the customer at a later stage, therefore revenue is recognized when customer obtains control of the software.
Contractual terms may vary; therefore, judgment will be applied when assessing the indicators of transfer of control. Revenue for installation and integration services is recognized upon completion of the service. Costs incurred in delivering standard products and services are recognized as costs of sales when the related revenue is recognized in the Income Statement.
Costs incurred relating to performance obligations not yet fully delivered are recognized as inventories.
Transaction prices under these contracts are usually fixed, and mostly billed upon delivery of the hardware or software and completion of installation services. Customer finance agreements may be agreed separately with some customers where payment terms exceed 179 days.
Revenue for recurring services such as customer support and managed services is recognized as the services are delivered, generally pro-rata over time. Costs incurred in delivering recurring services are recognized as cost of sales as they are incurred.
Transaction prices under these contracts are billed over time, often on a quarterly basis.
Contract liabilities or receivables may arise depending on whether the quarterly billing is in advance or in arrears. Contract for standard products and services applies to business in all segments.

Customized solution

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Revenue recognition (continued)

Customized solution (continued)

Revenue for the combined performance obligation shall be recognized over time if progress of completion can be reliably measured and enforceable right to payment exists over the duration of the contract. The progress of completion is estimated by reference to the output delivered such as achievement of contract milestones and customer acceptance. This method determines revenue milestones over the duration of the contract, and it is considered appropriate as it reflects the nature of the customized solution and how integration service is delivered in these projects. If the criteria above are not met, then all revenue shall be recognized upon the completion of the customized solution, when final acceptance is provided by the customer. Costs incurred in delivering customized solutions are recognized as costs of sales when the related revenue milestone is recognized in the Income Statement. Costs incurred relating to future revenue milestones are recognized as Inventories and assessed for recoverability on a regular basis.
Transaction price under these contracts is usually a fixed fee, split into a number of progress payments or billing milestones as defined in the contract. In most cases, revenue recognized is limited to the progress payments or unconditional billing milestones over the duration of the contract, therefore no contract asset or contract liability arises on these contracts.
Customer finance agreements may be agreed separately with some customers where payment terms exceed 365 days. Contract for customized solution applies to the Industry and Society business, Business Support Systems (BSS) business, within the segment Digital Services, and the Media Solutions business within the segment Emerging Business and Other.

Right to use (RTU)

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

Customer contract related balances

Trade receivables include amounts that have been billed in accordance with customer contract terms and amounts that the Company has an unconditional right to, with only passage of time before the amounts can be billed in accordance with the customer contract terms.
Customer finance credits arise from credit terms exceeding 179 days in the customer contract or a separate financing agreement signed with the customer. Customer finance is a class of financial assets that is managed separately from receivables. See note 31 (d) for further information on credit risk management of trade receivables and customer finance credits.
In accordance with IFRS 15, where significant financing is provided to the customer, revenue is adjusted to reflect the impact of the financing transaction. These transactions could arise from the customer finance credits above if the contracted interest rate is below the market rate or through implied financing transactions due to payment terms of more than one year from the date of transfer of control. The Company has elected to use the practical expedient not to adjust revenue for transactions with payment terms, measured from the date of transfer of control, of one year or less.
Contract asset is unbilled sales amount relating to performance obligation that has been satisfied under customer contract but is conditional on terms other than only the passage of time before payment of the consideration is due. Under previous standards these unbilled sales balances have been included within trade receivables.
Contract liability relates to amounts that are paid by or due from customers for which performance obligations are unsatisfied or partially satisfied. Under previous standards these balances have been disclosed as deferred revenue within other current liabilities, and the Company concluded that the balances meet the definition of contract liability under IFRS 15. Advances from customers are also included in the contract liability balance.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Property, plant and equipment

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

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

Land 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 statement of comprehensive income.

Intangible assets

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

Amortization is provided on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets include acquired computer software and are amortized on a straight-line basis over their useful life of 2-4 years. Cost associated with maintaining computer software is recognized as an expense as incurred.

Impairment of non-financial assets

Assets that have an indefinite useful life (such as goodwill) are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization 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 recognized 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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

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Financial assets at amortized cost

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

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

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

Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest, and (ii) they are not designated at fair value through profit and loss.

Impairment of cash, trade receivables and contract assets

Financial assets affected by the new model are cash and cash equivalents, deposits, trade receivables and contract assets.
Two unified models were developed for relatable financial assets. Cash equivalents and deposits are assessed for impairment under one unified model and trade receivables and contract assets are assessed for impairment under another unified model.
Cash equivalents and deposits are assessed based on probability of default as well as the Company's exposure to certain financial institution at the time of default. To determine probability of default, country credit rating of financial institution is used, as well as the rating of future outlook.
Expected loss on cash, cash equivalents and deposits for each financial institution gives the total expected credit loss. There were no significant changes to the model during the year. The Company has determined that credit risk largely depends on both the payment pattern of the customer as well as the risk in the country where the customer resides (e.g. ability to make cross-border payments).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Impairment of cash, trade receivables and contract assets (continued)

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

Trade and other payables

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

Financial liabilities

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable 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, labor 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 realizable 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 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 Company's 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 Company's 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 recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 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.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Income tax (Continued)

Deferred income tax is recognized 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 recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company reassesses unrecognized 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.

Foreign currencies

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

1 Significant accounting policies (continued)

Employee benefits

a) Long-term service benefits

The Company provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using 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 Company operates an equity-settled, share-based compensation plan allowing the Company's employees to receive shares. The fair value of the employee services received in exchange for the grant of the Company's shares is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Company revises its estimates of the number of shares that are expected to become granted. It recognizes the impact of the revision of original estimates, if any, in the 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 Company recognizes 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 recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The most significant provisions in the financial statements are provisions for warranty claims, penalty claims and litigation. If the effect is material and if the obligation is expected to be settled in a period of over 12 months, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for warranties is recognized 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 recognized as interest expense.

Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the company 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 recognized using the original effective interest rate.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Government grants

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

Government grants relating to costs are deferred and recognized over the period necessary to match them with the costs that they are intended to compensate.
Grants relating to property, plant and equipment are recognized in profit or loss over the periods and in the proportions in which depreciation on those assets is recognized. In statement of financial position, government grant is deducted in arriving at the carrying amount of the underlying asset and is recognized in the profit or loss over the useful life of depreciable asset by way of a reduced depreciation charge.

Dividend distribution

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

Investments in subsidiaries

Investments in subsidiaries in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

Dividend income is recognized when the right to receive payment is established.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

2 Changes in accounting policies

Adoption of IFRS 16, Leases

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards have also been effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 29.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

As a lessee

As a lessee, the Company leases property and vehicles. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see Note 29). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application: the Company applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets; and
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

2 Changes in accounting policies (continued)

Adoption of IFRS 16, Leases (continued)

As a lessor

The Company leases out its own property and the Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Company sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are presented in investment property and measured at fair value at that date. The Company assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are operating leases under IFRS 16.

The Company has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

On transition to IFRS 16, the Company recognized additional right-of-use assets, and additional lease liabilities. The impact on transition is summarized below.

	IFRS 16 adjustment HRK '000
Right-of-use asset	27,909
Lease liabilities, current	8,686
Lease liabilities, non-current	19,223

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is 2.5%.

Difference between minimum lease payments for operating lease contracts as at 31 December 2018 and initial recognition of right of use asset as at 1 January 2019 is shown below:

	1 January 2019 HRK '000
Operating lease commitments as at 31 December 2018:	4,685
Recognition exemption for leases of low-value assets	(687)
Extension options reasonably certain to be exercised	26,123
Adjustments for discounting at initial recognition date	(2,212)
Lease liabilities recognized as at 1 January 2019	**27,909**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

3 New accounting standards and interpretations

New standards and amendments to existing not yet adopted.
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4 Critical accounting estimates and judgements

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment losses on loans and receivables*

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

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

In 2016, the Company entered into several new customer contracts in the foreign market. The contracts include delivery of equipment and sale of services with 15% up-front payment while remaining 85% have deferred payment terms up to 54 months.
The Company financed the sale of equipment through a Supplier credit arrangement. The arrangement includes:

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

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

4 Critical accounting estimates and judgements (continued)

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

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 Company issued guarantees to the financing bank for risk of non-performance by the insurance company which is disclosed in Note 23. The issued guarantee for non-performance of the insurance company is recognized initially at fair value and subsequently at the higher of the unamortized balance of the initial fair value and the best estimate of expenditure required to settle the obligation under the guarantee.

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

Having transferred the right to cash flows and substantially all the risk and rewards relating to 90% of receivables, management concluded that it was appropriate to derecognize 90% of the related receivables from the balance sheet. The remaining 10% of the receivables remain on the balance sheet as long-term receivables from the customer (Note 14) and a 10% of the related financing liability to the bank is recorded as borrowings (Note 22).

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

c) Revenue recognition

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

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

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

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

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

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

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

5 Sales revenue

Analysis of revenue by category:

	2019			2018		
	HRK ‘000	HRK ‘000 At a point in time	HRK ‘000 Over time	HRK ‘000	HRK ‘000 At a point in time	HRK ‘000 Over time
Sales revenue from products	420,776	373,230	47,546	382,767	313,839	68,928
Sales revenue from services	1,124,523	999,688	124,835	990,917	845,697	145,220
	1,545,299	1,372,918	172,381	1,373,684	1,159,536	214,148

6 Segment reporting

The Company 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 Company has looked at which market and to what type of customers the Company’s products are aimed, and through what distribution channels they are sold, as well as to commonality regarding technology, research and development.

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.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

6 Segment reporting (continued)

Revenues determined based on the geographic location of customers are disclosed in this note. All the Company's assets are located in Croatia.

			2019			2018
	HRK '000	HRK '000 At a point in time	HRK '000 Over time	HRK '000	HRK '000 At a point in time	HRK '000 Over time
Sales revenue in domestic market	496,993	388,591	108,402	372,456	247,573	124,883
Sales revenue in Russia, Belarus, Kazakhstan, Georgia, Moldova, Ukraine and Armenia	92,977	68,527	24,450	92,629	52,299	40,330
Sales revenue to Ericsson	841,480	841,480	-	780,345	780,345	-
Sales revenue in Bosnia and Herzegovina, Montenegro and Kosovo	89,038	52,472	36,566	112,856	67,553	45,303
Other export sales revenue	24,811	21,848	2,963	15,398	11,766	3,632
	1,545,299	1,372,918	172,381	1,373,684	1,159,536	214,148

	Networks		Digital services		Managed services		Other		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	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	971,110	935,825	563,321	434,037	3,668	2,394	7,200	1,428	-	-	1,545,299	1,373,684
Timing of revenue recognition												
At a point in time	866,195	819,525	495,855	336,802	3,668	2,394	7,200	815	-	-	1,372,918	1,159,536
Over time	104,915	116,300	67,466	97,235	-	-	-	613	-	-	172,381	214,148
Operating profit	**82,569**	**107,917**	**38,692**	**37,914**	**2,612**	**2,657**	**158**	**247**	**(30,454)**	**(31,261)**	**93,577**	**117,475**
Finance income/ (expense), net											6,796	466
Profit before tax											100,373	117,941
Income tax											(4,821)	(6,093)
Profit for the year											**95,552**	**111,848**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

7 Expenses by nature

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

	2019	2018 (restated)
	HRK '000	HRK '000
Changes in contract work in progress (Note 16)	(61,802)	(91,372)
Material and external services [1]	743,631	698,305
Personnel expenses (Note 8)	742,382	657,360
Depreciation and amortization (Notes 12, 13, 29)	41,590	29,708
Value adjustments	2,247	9,459
	1,468,048	1,303,460

In accordance with the new classification, the Company has restated the comparative information for 2018 in comparison with the prior year financial statements. The cost of sales increased by HRK 20,411 thousand compared to prior year financial statements. Other operating expenses were reduced by HRK 534 thousand, other operating income increased by HRK 21,649 thousand while net finance result decreased by HRK 1,772 thousand.

Aforementioned restatements did not have impact on the result for 2018.

Other operational income consists of rent income in total amount of HRK 15,348 thousand (2018: HRK 17,269 thousand), government grants in total amount of HRK nil (2018: HRK 24,184 thousand) and other in total amount of HRK 978 thousand (2018: HRK 5,798 thousand).

[1] Including fees to auditors of HRK 543 thousand (2018: HRK 531 thousand). Fees to auditors mainly relate to statutory audit services.

8 Personnel expenses

	2019	2018
	HRK '000	HRK '000
Net salaries	407,320	361,094
Taxes and contributions	285,469	262,350
Other payroll-related costs	48,479	33,916
Equity-settled transactions (Note 24 (b))	1,114	-
	742,382	657,360

Personnel expenses include HRK 117,914 thousand (2018: HRK 104,436 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 relate to transportation expenses, vacation accrual cost and other personnel provisions as well as to termination benefits that amount HRK 3,633 thousand (2018: HRK 7,051 thousand).

As at 31 December 2019, total number of employees was 2,515 (2018: 2,402).

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

9 Finance income and expense, net

	2019	2018
	HRK '000	HRK '000
Interest income	4,663	799
Net foreign exchange result	1,419	(1,741)
Interest expense	(670)	-
Net change in fair value of financial assets at fair value through profit and loss	471	36
Other	913	1,372
	6,796	466

10 Income tax expense

Income tax has been calculated on the taxable income at statutory tax rate of 18% (2018: 18%). Income tax expense recognized in the consolidated statement of comprehensive income comprises:

	2019	2018
	HRK '000	HRK '000
Current income tax expense	473	(12,500)
Total deferred tax income/(expense)	(5,294)	6,407
Total income tax expense	(4,821)	(6,093)

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

10 Income tax expense (continued)

Effective tax rate reconciliation

The reconciliation between tax expense and accounting profit is shown as follows:

	2019	2018
	HRK '000	HRK '000
Profit before tax	100,373	117,941
Income tax at 18% (2018: 18%)	18,067	21,229
Tax effects of:		
Permanent non-deductible expenses	273	246
Effects of temporary differences	(14)	112
Tax incentives	(13,505)	(15,494)
Utilization of tax losses	-	-
Tax charge	4,821	6,093
Effective tax rate	4,8%	5.2%

Tax incentives totaling HRK 13,505 thousand (2018: HRK 15,494 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 Financial Statements of Ericsson Nikola Tesla d.d. (continued)

10 Income tax expense (continued)

Deferred tax from other temporary differences

The Company recognized deferred tax assets in the amount of HRK 15,448 thousand (2018: HRK 20,743 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
- Right of use asset and lease liabilities.

	Impairments, provisions and accrued expenses HRK '000
As at 1 January 2018	14,336
Tax credited to the Income statement	(4,148)
Tax charged to the Income statement	10,555
As at 31 December 2018	20,743
As at 1 January 2019	20,743
Tax credited to the Income statement	10,566
Tax charged to the Income statement	(15,860)
As at 31 December 2019	15,449

11 Earnings per share

	2019	2018
Profit for the year (HRK '000)	95,552	111,848
Weighted Average Number of Shares Outstanding at the year-end	1,331,439	1,331,640
Earnings per share (HRK)	71,77	83,99

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

12 Property, plant and equipment

	Land and buildings HRK '000	Plant and equipment HRK '000	Asset under construction HRK '000	Other HRK '000	Total HRK '000
As at 1 January 2018					
Cost or valuation	167,664	363,970	1,722	328	533,684
Accumulated depreciation	(121,987)	(313,433)	-	(253)	(435,673)
Net book amount	45,677	50,537	1,722	75	98,011
Year ended 31 December 2018					
Opening net book amount	**45,677**	**50,537**	**1,722**	**75**	**98,011**
Transfer of asset under construction	-	1,722	(1,722)	-	-
Additions	3,730	34,949	2	-	38,681
Disposals	-	(65)	-	-	(65)
Depreciation charge	(3,272)	(25,832)	-	(7)	(29,111)
Closing net book amount	**46,135**	**61,311**	**2**	**68**	**107,516**
As at 31 December 2018					
Cost or valuation	171,394	369,848	2	327	541,571
Accumulated depreciation	(125,259)	(308,537)	-	(259)	(434,055)
Net book amount	**46,135**	**61,311**	**2**	**68**	**107,516**
Year ended 31 December 2019					
Opening net book amount	**46,135**	**61,311**	**2**	**68**	**107,516**
Transfer of asset under construction	-	2	(2)	-	-
Additions	6,742	30,008	28,292	-	65,042
Disposals	-	(2,345)	-	-	(2,345)
Depreciation charge	(3,619)	(28,150)	-	(8)	(31,777)
Closing net book amount	**49,258**	**60,826**	**28,292**	**60**	**138,436**
As at 31 December 2019					
Cost or valuation	175,140	364,869	28,292	327	568,628
Accumulated depreciation	(125,882)	(304,043)	-	(267)	(430,192)
Net book amount	**49,258**	**60,826**	**28,292**	**60**	**138,436**

As at 31 December 2019, the Company had contracts totaling HRK 1,417 thousand (2018: HRK 5,600 thousand) related to future equipment purchases. Asset under construction relates to building energy reconstruction in Krapinska 45, Zagreb.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

12 Property, plant and equipment (continued)

The Group acts as a lessor under operating leases, mainly in respect of land and buildings. Property leased to others with a carrying value of HRK 7,434 thousand (2018: HRK 9,942 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.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

13 Intangible assets

The movement on intangible assets in the year ended 31 December 2019 may be analyzed as follows:

	Application software HRK '000
As at 1 January 2018	
Cost or valuation	5,726
Accumulated amortization	(4,439)
Net book amount	**1,287**
Year ended 31 December 2018	
Opening net book amount	1,287
Amortization charge	(597)
Closing net book amount	**690**
As at 31 December 2018	
Cost or valuation	3,332
Accumulated amortization	(2,642)
Net book amount	**690**
Year ended 31 December 2019	
Opening net book amount	690
Amortization charge	(464)
Closing net book amount	**226**
As at 31 December 2019	
Cost or valuation	2,991
Accumulated amortization	(2,765)
Net book amount	**226**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

14 Loans and receivables

	2019	2018
	HRK ‘000	HRK ‘000
Deposits with financial institutions, denominated in foreign currency	13,826	15,804
Deposits with financial institutions, denominated in HRK	18,160	12,360
Non-current receivables from foreign customers, denominated in foreign currency	14,381	19,682
Loans given, Note 4 (b)	9,119	6,833
Receivables for sold apartments	477	512
Total loans and receivables	55,963	55,191
Impairment allowance on loans and receivables	(2,191)	(3,532)
	53,772	51,659

Deposits with financial institutions in the amount of HRK 30,209 thousand (2018: 24,083 thousand) are used as a collateral for Supplier credit arrangement disclosed in Note 4 (b), with interest rate from 0.75% to 2% and maturing in year 2022.

The remainder of the deposits with financial institutions in the amount of HRK 1,777 thousand (2018: HRK 4,081 thousand) are placed as guarantee deposits for housing loans provided to the employees, and with a remaining maturity of over three years.

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

Receivables for sold apartments 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.

Non-current portion of foreign and domestic loans and receivables from customers

	2019	2018
Due	HRK ‘000	HRK ‘000
2020	-	12,562
2021	14,850	10,082
2022	8,650	3,871
	23,500	26,515

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

15 Investments in subsidiaries

	Ownership	2019 HRK '000	2018 HRK '000
Ericsson Nikola Tesla BY d.o.o.	100%	1,020	1,020
Ericsson Nikola Tesla Servisi d.o.o.	100%	20	20
Libratel d.o.o	100%	5	5
Ericsson Nikola Tesla BH d.o.o	100%	7	7
Ericsson Nikola Tesla d.d. – Branch office of Kosovo	100%	1	1
		1,053	1,053

16 Inventories

	2019 HRK '000	2018 HRK '000
Raw materials	-	8
Contract work in progress	170,544	108,720
Total inventories	170,544	108,728
Impairment allowance	(22)	(8)
	170,522	108,720

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

17 Trade receivables

	2019	2018
	HRK ‘000	HRK ‘000
Foreign trade receivables	59,366	55,862
Current portion of non-current foreign receivables	12,678	10,954
Total current foreign receivables	72,044	66,816
Domestic trade receivables	135,548	107,018
Impairment allowance on receivables	(583)	(15,610)
	207,009	158,224

Impairment allowance on receivables in 2018 relate to one-off impairments recognized in prior years.

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

	2019	2018
	HRK ‘000	HRK ‘000
As at 1 January	20,006	13,582
Impact of discounting non-current receivables	(1,389)	(1,089)
Receivables written off during the year as uncollectible	(16,338)	(2,949)
Impairment on receivables	2,188	10,462
As at 31 December [1]	4,467	20,006

[1] Including impairment provision for receivables from related parties of HRK 1,686 thousand (2018: HRK 862 thousand)

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

18 Other receivables

	2019	2018
	HRK '000	HRK '000
Receivables from employees	69	157
Net VAT receivables	2,497	7,194
Accrued interest receivable	451	469
Advances given	9,455	5,943
	12,472	13,763

19 Financial assets at fair value through profit or loss

	2019	2018
	HRK '000	HRK '000
Financial assets at fair value through profit or loss		
- Equity securities	1,612	1,316
- Investment in open-ended investment funds	36,280	47,174
- Other financial asset	1,007	-
	38,899	48,490

20 Cash and cash equivalents

	2019	2018
	HRK '000	HRK '000
Cash and demand deposits	82,260	183,278
Impairment loss (Note 31 (d))	(427)	(835)
	81,833	182,443

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

21 Equity

(a) Share capital

As at 31 December 2019, the share capital of the Company is represented by 1,331,650 (2018: 1,331,650) of authorized, issued and fully paid ordinary shares, with a total registered value of HRK 133,165 thousand (2018: HRK 133,165 thousand). The nominal value of one share is HRK 100 (2018: HRK 100). The holders of the ordinary shares are entitled to receive dividends as declared at the General Assembly and are entitled to one vote per share at the General Assembly.

The Company's shareholders as at 31 December are:

	Number of shares	% held	Number of shares	% held
		2019		2018
Telefonaktiebolaget LM Ericsson	653,473	49.07	653,473	49.07
Other shareholders	677,966	50.91	677,966	50.91
Treasury shares	211	0.02	211	0.02
	1,331,650	100.00	1,331,650	100.00

(b) Treasury shares

These shares are held initially 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 24 (b). During 2019, the Company did not purchase its own shares.

Movements in treasury shares are as follows:

	Number of shares	Number of shares
	2019	2018
As at 1 January (Note 21 (a))	211	246
Distributed during the year	-	(35)
As at 31 December (Note 21 (a))	211	211

(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 Company 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.

(d) Reserve for own shares

Reserve for own shares are separated by decision of General Assembly of the Company.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

21 Equity (continued)

(e) Dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of shareholders. On 13 June 2019, the General Assembly approved a regular dividend in respect of 2018 of HRK 20.00 per share, and an additional extraordinary dividend of HRK 50.60 per share in amount of HRK 94,000 thousand.

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

	2019	2018
	HRK '000	HRK '000
HRK 32.50 per share for 2017	-	43,272
HRK 70.60 per share for 2018	94,000	-
Prior year dividend payout	-	19
	94,000	43,291

22 Borrowings

	2019	2018
	HRK '000	HRK '000
Loans	21,656	-
Borrowings, Note 4 (b)	5,668	5,668
Total liabilities for borrowings	27.324	5,668

Changes in liabilities from financing activities

Year ended 31 December 2018	HRK '000
Opening net book amount	8,378
Foreign exchange differences	294
Release of obligations (Note 4(b))	(3,004)
Closing net book amount	5,668
Year ended 31 December 2019	
Opening net book amount	5,668
Foreign exchange differences	171
Release of obligations (Note 4(b))	(171)
Closing net book amount	5,668

Loan is taken due to the Energy Efficiency project for premises in Zagreb (Krapinska 45). Loan has fixed interest rate.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

23 Other non-current liabilities

	2019	2018
	HRK '000	HRK '000
Accounts payable	-	173
NPV discount	-	(94)
Total accounts payable	-	79
Liabilities for issued guarantee, Note 4 (b)	902	692
Other non-current liabilities, Note 4 (b)	4,777	2,136
	5,679	2,907

24 Employee benefits

(a) Long-term service benefits

The Company does not operate any pension schemes or other retirement benefit schemes for the benefit of any of its employees or management. In respect of all of the Company's personnel, such social payments as required by the authorities are paid. These contributions form the basis of social benefits payable out of the Croatian Pension Insurance Institute to the Croatian employees upon their retirement. Additionally, in 2001 the Company signed an Annex to the Union Agreement based on which employees are entitled to a benefit upon early retirement.

However, the Company pays a one-time benefit amounting to HRK 8,000 for each employee who retires. Additionally, the Company pays jubilee awards in respect of each 5 years of service, of an employee, starting from the 10th year and ending in the 40th year. The principal actuarial assumptions used to determine retirement and jubilee obligations as at 31 December 2019 were a 2.76% discount rate (2018: 6%) and a 6.26% (2018: 5.13%) rate of average employment turnover.

Movements in long-term service benefits were as follows:

	Jubilee awards	Retirement	Total	Jubilee awards	Retirement	Total
			2019			2018
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January	4,758	822	5,580	4,537	742	5,279
Obligation created during the year	2,048	43	2.091	654	172	826
Obligation fulfilled during the year	(479)	(8)	(487)	(433)	(24)	(457)
Obligation reversed during the year	-	(104)	(104)	-	(68)	(68)
As at 31 December	6,327	753	7,080	4,758	822	5,580

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

24 Employee benefits (continued)

(b) Share based payments

In 2004, the Company established its Loyalty program, a share-based scheme under which key employees are entitled to receive the Company's shares conditional on the employee completing certain years of service (the vesting period) from the grant date.
The treasury shares are distributed to eligible employees upon ratification at the General Assembly.

Part of the share-based program 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 program, the Company did not sell to its employees shares in 2019 (2018: 15 shares) and accordingly did not receive compensation (2018: HRK 46 thousand). In 2018, the difference between the purchase price of the shares and selling price received from the employee in the amount of HRK 28 thousand has been recognized within retained earnings.

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

	2019	2018
	Number of shares	Number of shares
As at 1 January	-	35
Granted	7,915	-
Exercised	-	(35)
As at 31 December	7,915	-

Vesting conditions for shares granted under Loyalty program are one to four 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.

During 2019, the Company had HRK 1,114 thousand expenses (2018: HRK zero) in respect of share-based payments, which would be included in personnel expenses as disclosed in Note 8.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

25 Trade and other payables

	2019	2018
	HRK '000	HRK '000
Trade payables	47,258	56,428
Liabilities to employees	94,323	78,801
Other current liabilities	20,844	19,767
	162,425	154,996

26 Provisions

Movements in provisions were as follows:

	Warranty reserve	Termination benefits	Other reserve	Total
	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2018	8,775	2,340	16,355	27.470
Additional provisions	1,373	11,195	30,661	43,229
Unused provisions reversed	(4,119)	-	-	(4,119)
Provisions used during the year	(2,516)	(12,286)	(34,904)	(49,706)
As at 31 December 2018	3,513	1,249	12,112	16,874
As at 1 January 2019	3,513	1,249	12,112	16,874
Additional provisions	1,544	10,298	8,626	20,468
Unused provisions reversed	(183)	-	-	(183)
Provisions used during the year	(2,441)	(3,306)	(18,308)	(24,055)
As at 31 December 2019	2,433	8,241	2,430	13,104

The warranty reserve is established to cover the expected warranty claims on products sold during the year. Reversal of warranty reserves relates to expired warranties.

Followed by the prudence principle and based on the circumstances and other factors, including expectations of future events, provision in the amount of HRK 8,626 thousand (2018: HRK 11,261 thousand) was made to a complex project on domestic market.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

27 Accrued charges and deferred revenue

	2019	2018
	HRK '000	HRK '000
Deferred revenue	8,330	4,725
Accrued charges for unused holidays	21,428	20,484
Accrued charges in respect of service contracts	52,276	39,892
Other accrued charges	23,518	42,911
	105,552	108,012

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 reporting date.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

28 Contract assets and contract liabilities

The Company has recognized the following assets and liabilities arising from contracts with customers:

	31 December 2019	31 December 2018
	HRK '000	HRK '000
Contract assets from contracts with customers	3,239	3,335
Loss allowance	-	-
Total current contract assets	3,239	3,335
Contract liabilities – advances from customers	6,611	2,088
Contract liabilities – deferred revenue	142,764	169,557
Total current contract liabilities	149,375	171,645

As at 31 December 2019, the Company recognized HRK 3,239 thousand of contract asset net of impairment loss provisions (refer to Note 30) in respect of managed services contracts that relates to future service performance (as at 31 December 2018: HRK 3,335 thousand) and will be realized when contract conditions are met.

As at 31 December 2019 the Company recognized HRK 149,375 thousand of contract liabilities in respect of the following contracts related to modernization of mobile and fixed network, project-related services and support activities, e-Health Information Systems and other (as at 31 December 2018: HRK 171,645 thousand).

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

	31 December 2019	31 December 2018
	HRK '000	HRK '000
Aggregate amount of the transaction price allocated to long-term contracts that are fully unsatisfied as at 1 January and 31 December	22,248	4,688
Aggregate amount of the transaction price allocated to long-term contracts that are partially unsatisfied as at 1 January and 31 December	75,766	70,662
	98,014	**75,350**

The Company expects to recognize approximately 30% of the transaction price allocated to the remaining performance obligations as revenue in financial year 2020, 18% as revenues in the financial year 2021, and 2% as revenues in the financial year 2022.

All other contracts are for periods of one year or less or are billed based on time incurred.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

29 Leases

a) Leases as lessee

The Company leases warehouse, office premises and parking lots. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

The warehouse, office premises and parking lots were entered many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

The Company leases vehicles under a number of lease contracts, which were classified as operating leases under IAS 17. The leases typically run for a period of 3 to 5 years.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

	Property, plant and equipment HRK '000
Balance as at 1 January 2019	**27,909**
Depreciation charge for the year	(9,349)
Increase of right-of-use assets	9,012
Balance as at 31 December 2019	**27,572**

Amounts recognized in Statement of comprehensive income

	Property, plant and equipment HRK '000
2019 – Leases under IFRS 16	
Interest on lease liabilities	656
Income from sub-leasing right-of-use assets presented in 'other revenue'	-
Expenses relating to short-term leases	687
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
2018 – Operating leases under IAS 17	
Lease expense	9,422

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

29 Leases (continued)

a) Leases as lessee (continued)

Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility.

The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

b) Leases as lessor

The Company leases out its property consisting of its owned commercial properties. All leases are classified as operating leases from a lessor perspective.

Operating lease

The Company leases out its owned commercial properties. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognized by the Company during 2019 was HRK 15,348 thousand (2018: HRK 17,269 thousand).

The following table sets out a maturity analysis of lease payments to be received after the reporting date.

	Property, plant and equipment HRK '000
2019 – Operating leases under IFRS 16	
Less than one year	10,051
Between one and three years	4,939
Between three and five years	4,354
More than five years	8,537
Total	**27,881**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

30 Balances and transactions with related parties

For the purposes of these 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 Company is a related party to the Ericsson Group via the 49.07% (2018: 49.07%) shareholding by Telefonaktiebolaget LM Ericsson, which is also the ultimate parent of the Ericsson Group.

The Company 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 summarized as follows:

	Telefonaktiebolaget LM Ericsson		Other Ericsson Group consolidated companies		Subsidiaries		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000	HRK ‘000
Sales of goods and services								
Sales revenue	-	-	841,480	780,345	17,304	1,149	858,784	781,494
Other income	-	-	5,586	27,961	243	237	5,829	28,198
	-	-	847,066	808,306	17,547	1,386	864,613	809,692
Purchases of goods and services								
Licenses	3,454	2,912	19,255	20,688	-	-	22,709	23,600
Cost of sales	-	-	607,902	399,554	24,061	196,360	631,963	595,914
Other expenses	-	-	-	-	26	(291)	26	(291)
	3,454	2,912	627,157	420,242	24,087	196,069	654,698	619,223

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

30 Balances and transactions with related parties (continued)

(b) Key management compensation

The Company's key management include the executive management listed on page 101, comprising the Management Board member and directors of the main organizational units.

	2019	2018
	HRK '000	HRK '000
Salaries and other short-term employee benefits	19,054	19,365
Other long-term benefits	1,114	-
	20,168	19,365

The members of the executive management and the Supervisory Board held 5,090 ordinary shares at the year-end (2018: 4,971 shares).

In addition, the Company paid remuneration totaling HRK 349 thousand (2018: HRK 331 thousand) to the Supervisory Board and Audit Committee members during 2019.

(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 summarized as follows:

	Trade receivable		Trade payable	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Telefonaktiebolaget LM Ericsson (LME), largest individual shareholder	-	-	728	660
Other Ericsson Group companies	112,862	109,901	89,431	32,551
Subsidiaries:				
Ericsson Nikola Tesla BH d.o.o	682	65	345	105
Ericsson Nikola Tesla Servisi d.o.o.	7,696	1,020	13,620	27,953
Ericsson Nikola Tesla d.d. – Branch office of Kosovo	76	71	-	-
Libratel d.o.o.	-	-	-	676
Ericsson Nikola Tesla BY	-	-	381	366
	121,316	111,057	104,505	62,311

The Company recorded a non-current receivable (Note 14) and deferred revenue (within other non-current liabilities) of HRK nil thousand (2018: HRK 79 thousand) from Ericsson Services d.o.o. (ESK) relating to the five-year managed services contract with Hrvatski Telekom.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management

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

As at 31 December 2019, if the euro and US dollar had weakened/strengthened by 1% (2018: 1%) against the Croatian kuna, with all other variables held constant, the net result after tax for the reporting period would have been HRK 284 thousand higher/lower for the Company (2018: HRK 1,391 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.

Other currencies to which The Group is exposed are: SEK, BAM, PLN, GBP.

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

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(a) Currency risk (continued)

The tables below present the currency analysis and the resulting gap.

2019	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	16,426	31,633	-	48,059	5,713	53,772
Trade and other receivables	139,336	12,529	14,036	165,901	192,005	357,906
Financial assets at fair value through profit or loss	1,008	-	-	1,008	37,891	38,899
Cash and cash equivalents	16,821	4,220	7,209	28,250	53,583	81.833
	173,591	**48,382**	**21,245**	**243,218**	**289,192**	**532,410**
Borrowings	(15,414)	(3,450)	-	(18,864)	(36,341)	(55,205)
Trade and other payables	(89,249)	(56,094)	(57)	(145,400)	(127,209)	(272,609)
	(104,663)	**(59,544)**	**(57)**	**(164,264)**	**(163,550)**	**(327,814)**
Currency gap	**68,928**	**(11,162)**	**21,188**	**78,954**	**125,642**	**204,596**

2018	EUR	USD	Other currency	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	7,850	43,809	-	51,659	-	51,659
Trade and other receivables	115,274	28,306	9,759	153,339	133,091	286,430
Financial assets at fair value through profit or loss	-	-	-	-	48,490	48,490
Cash and cash equivalents	55,739	6,547	8,229	70,515	111,928	182,443
	178,863	78,662	17,988	275,513	293,509	569,022
Borrowings	-	(5,668)	-	(5,668)	-	(5,668)
Trade and other payables	(49,773)	(6,288)	(418)	(56,479)	(163,735)	(220,214)
	(49,773)	(11,956)	(418)	(62,147)	(163,735)	(225,882)
Currency gap	**129,090**	**66,706**	**17,570**	**213,366**	**129,774**	**343,140**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 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 Company 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 Company also has deposits in financial institutions at a variable interest rate.

As at 31 December 2019:

- if the effective EUR interest rate on EUR deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in EUR deposits after tax for the reporting period would have been HRK 15 thousand higher/lower (2018: HRK 33 thousand).
- if the effective HRK interest rate on HRK deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in HRK deposits after tax for the reporting period would have been HRK 297 thousand higher/lower (2018: HRK nil thousand).
- if the effective USD interest rate on USD deposits had increased/decreased by 1% (2018: 1%) on an annual level, the net result due to changes in USD deposits after tax for the reporting period would have been HRK 99 thousand higher/lower (2018: USD nil thousand).

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

	Average interest rates	Average interest rates
	2019	2018
	%	%
Loans and receivables	0.84	0.82
Cash and cash equivalents	0,03	0.08

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(b) Interest rate risk (continued)

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

2019	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	21,786	-	-	-	30,209	1,777	53,772	30,209
Trade and other receivables	357,906	-	-	-	-	-	357,906	-
Financial assets at fair value through profit or loss	38,999	-	-	-	-	-	38,899	-
Cash and cash equivalents	-	81,833	-	-	-	-	81,833	-
	418,691	81,833	-	-	30,209	1,777	532,510	30,209
Borrowings	(55,205)	-	-	-			(55,205)	
Trade and other payables	(266,930)	-	-	-	(5,679)	-	(272,609)	-
	(322,135)	-	-	-	(5,679)	-	(327,814)	-
Interest rate gap	96,556	81,833	-	-	24,530	1,777	204,696	30,209

2018	Non-interest-bearing	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total	Fixed interest
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	23,495	-	-	-	24,083	4,081	51,659	24,083
Trade and other receivables	286,430	-	-	-	-	-	286,430	-
Financial assets at fair value through profit or loss	48,490	-	-	-	-	-	48,490	-
Cash and cash equivalents	182,443	-	-	-	-	-	182,443	-
	540,858	-	-	-	24,083	4,081	569,022	24,083
Borrowings	(5,668)	-	-	-	-	-	(5,668)	-
Trade and other payables	(217,437)	-	-	-	(2,777)	-	(220,214)	-
	(223,105)	-	-	-	(2,777)	-	(225,882)	-
Interest rate gap	317,754	-	-	-	21,306	4,081	343,140	24,083

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 Financial risk management (continued)

(c) Price risk

The Company 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 (investmentsfunds).

(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 a 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 Treasury has been established to further assist the Company 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 receivables. Additionally, there is credit concentration risk as the Company has a significant portion of receivables outstanding from a small number of customers. As at 31 December 2019, the five largest customers represent 66% of total net trade receivables (2018: 51%). The Company considers that its maximum exposure to credit risk is reflected in the amount of trade receivables (Notes 14 and 17) and other receivables (Note 18), not impaired as doubtful receivables. 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 Company defines customer financing as any credit period longer than 179 days. The Company 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.

Impairment of receivables and contract assets

Cash equivalents amounted to HRK 81,833 thousand as at 31 December 2019 (31 December 2018: HRK 182,443 thousand). Provisions for expected credit losses on cash and deposits amounted to HRK 427 thousand as at 31 December 2019 (31 December 2018: HRK 835 thousand). The Company's write-offs have historically been low.

Trade receivables, receivables from related party and contract assets together amounted to HRK 331,564 thousand as at 31 December 2019 (HRK 272,616 as at 31 December 2018). Provisions for expected credit losses on trade receivables, receivables from related party and contract assets amounted to HRK 2,269 thousand as at 31 December 2019 (HRK 1,707 as at 31 December 2018). The Company's write-offs have historically been low.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 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 2019.

Table 1 Payment due date for total customer loans and receivables

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
2019						
Foreign receivables	200	31,780	39,929	23,543	93	95,545
Domestic receivables	1,109	132,146	2,293	-	-	135,548
Receivables from related parties*	7,637	91,151	24,213	-	-	123,001
Contract asset	-	3,239	-	-	-	3,239
	8,946	**258,316**	**66,435**	**23,543**	**93**	**357,333**

*excluding impairment allowance in the amount of HRK 1.686 thousand

	Due balance	Up to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
2018						
Foreign receivables	17,267	41,338	8,210	25,009	1,589	93,413
Domestic receivables	3,210	101,968	1,840	-	-	107,018
Receivables from related parties*	8,664	96,418	6,837	-	-	111,919
Contract asset	-	3,335	-	-	-	3,335
	29,141	**243,089**	**16,887**	**25,009**	**1,589**	**315,685**

* excluding impairment allowance in the amount of HRK 862 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
2019					
Foreign receivables	200	-	-	-	200
Domestic receivables	870	144	95	-	1,109
Receivables from related parties	5,873	391	1,277	96	7,637
	6,943	**535**	**1,372**	**96**	**8,946**
2018					
Foreign receivables	5,635	11,632	-	-	17,267
Domestic receivables	2,576	592	42	-	3,210
Receivables from related parties	7,124	1,295	192	53	8,664
	15,335	**13,519**	**234**	**53**	**29,141**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 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	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2019						
Foreign receivables	200	1,042	-	-	-	1,242
Domestic receivables	1,109	75,377	2,293	-	-	78,779
Receivables from related parties	7,637	73,922	6,982	-	-	88,541
	8,946	**150,341**	**9,275**	**-**	**-**	**168,562**
2018						
Foreign receivables	17,267	7,439	74	-	-	24,780
Domestic receivables	3,210	48,717	1,831	-	-	53,758
Receivables from related parties	8,664	86,133	-	-	-	94,797
	29,141	**142,289**	**1,905**	**-**	**-**	**173,335**

Table 4 **Past due but not impaired customer loans and receivables**

	Up to 3 months	3 months to 1 year	1 to 3years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2019					
Foreign receivables	200	-	-	-	200
Domestic receivables	856	90	-	-	946
Receivables from related parties	5,873	391	1,276	96	7,636
	6,929	**481**	**1,276**	**96**	**8,782**
2018					
Foreign receivables	2,935	260	-	-	3,195
Domestic receivables	2,539	539	-	-	3,078
Receivables from related parties	6,955	226	-	-	7,181
	12,429	**1,025**	**-**	**-**	**13,454**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

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

The Company has a revolving credit facility with our core banks should an extraordinary liquidity need arise. As at 31 December 2019, the facility remained untapped.

2019	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	914	1,668	10,287	39,126	1,777	53,772
Trade and other receivables	242,776	111,522	3,424	184	-	357,906
Current financial assets	38,899	-	-	-	-	38,899
Cash and cash equivalents	81,833	-	-	-	-	81,833
	364,422	**113,190**	**13,711**	**39,310**	**1,777**	**532,410**
Borrowings	-	-	-	(27,324)	-	(27,324)
Lease liabilities	-	-	(10.051)	(17,830)	-	(27,881)
Trade and other payables	(138,944)	(124,098)	(3,888)	(5,679)	-	(272,609)
	(138,944)	**(124,098)**	**(13,939)**	**(50,833)**	**-**	**(327,814)**
Maturity gap	**225,478**	**(10,908)**	**228**	**(11,523)**	**1,777**	**204,596**

2018	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	388	2,250	8,184	36,756	4,081	51,659
Trade and other receivables	221,530	54,069	10,697	134	-	286,430
Current financial assets	48,490	-	-	-	-	48,490
Cash and cash equivalents	182,197	-	246	-	-	182,443
	452,605	**56,319**	**19,127**	**36,890**	**4,081**	**569,022**
Borrowings	-	-	-	(5,668)	-	(5,668)
Trade and other payables	(61,294)	(146,303)	(9,710)	(2,907)	-	(220,214)
	(61,294)	**(146,303)**	**(9,710)**	**(8,575)**	**-**	**(225,882)**
Maturity gap	**391,311**	**(89,984)**	**9,417**	**28,315**	**4,081**	**343,140**

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 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 19).

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 Company 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 Company's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other receivables, non-current loans and receivables, trade and other payables and borrowings. The fair values of financial instruments together with carrying as amounts shown in the balance sheet are as follows:

	Carrying amount	Fair value	Unrecognized loss/(gain)	Carrying amount	Fair value	Unrecognized gain/(loss)
			2019			2018
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Loans and receivables	53,772	53,364	(408)	51,659	51,805	146
Trade and other receivables	357,906	357,676	(230)	286,430	286,531	101
Financial assets at fair value through profit or loss	38,899	38,899	-	48,490	48,490	-
Cash and cash equivalents	81,833	81,833	-	182,443	182,443	-
Borrowings	(55,205)	(55,205)	-	(5,668)	(5,668)	-
Trade and other payables	(272,609)	(272,609)		(220,214)	(220,214)	-
	204,596	**203,958**	**(638)**	**343,140**	**343,387**	**247**

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 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 Financial Statements of Ericsson Nikola Tesla d.d. (continued)

31 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 amortized 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:

	2019	2018
Loans and receivables	0,59%	1.70%

(g) Capital management

The Company's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide adequate requirements for capital resources, as far as possible, by the retention of profit;
- 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 Company is generating sufficient cash from operations to fund liabilities as they become due, finance customers when required and budgeted investments, and pay dividends.

The Company monitors capital using the statutory minimum capital requirement. Shareholders' equity is disclosed in Note 21 to the financial statements.

Notes to the Financial Statements of Ericsson Nikola Tesla d.d. (continued)

32 Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16 are as follows.

Leases

Leases on terms in which the Company 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 statement of comprehensive income on a straight-line basis over the term of the lease.

33 Subsequent events

Ericsson Nikola Tesla company is a large local exporter and the largest Croatian exporter of knowledge with more than 2,500 employees. Our business is partly related to activities in countries around the globe that are significantly hit by the pandemics of the novel Coronavirus COVID–19. The closing of borders of some countries and travel bans, disturbances in delivery of equipment and raw materials at the global level, deferred investment projects in Croatia and abroad and, consequently, reduced demand for some of our activities, could have certain negative effects on some segments of our business.
Due to global presence, the Company has already felt disturbances in the flow of people and goods that, provided they persist, will have an effect on the scale of some areas of our business and on current projects that engage our experts in the country and abroad. The Company estimates that, for the moment, the largest impact on business could be due to reduced mobility related to travel and field work of our employees, including those posted abroad for longer periods, in risk countries.
If the situation with the pandemics of the novel Coronavirus persists, the execution/realization of several export deals that have been contracted recently could be obstructed precisely due to geographical and healthcare limitations to our activities. The Company holds that it has sufficient means and opportunities in the financial market that, combined with the appropriate measures taken by the government to relieve business in these circumstances, it can adequately address all challenges and continue its business.
Due to the fact that we have no means of predicting further developments regarding the novel Coronavirus COVID–19, at present, we cannot provide you with more detailed information on its concrete financial impacts on our business.
The Management and the executive management continue to monitor the situation and will implement required measures related to health of people and sustainable business continuity of the Company, in line with guidelines and recommendations by the relevant government authorities and bodies.

ERICSSON

The Report of Ericsson Nikola Tesla d.d. Supervisory Board on the supervision performed on the Company's operations in 2019

April 29, 2020

Pursuant to provisions of the Croatian Companies Act and Ericsson Nikola Tesla d.d. Articles of Association, the Supervisory Board of Ericsson Nikola Tesla d.d. monitored the Company's business operations, taking respective decisions and conclusions at four regular and two extraordinary Supervisory Board meetings during 2019.

In 2019, the members of the Supervisory Board were:
Franck Pierre Roland Bouétard (Chairman)
Dubravko Radošević (appointed Deputy Chairman on June 14, 2019)
Ignac Lovrek (Member and Deputy Chairman until June 2, 2019)
Vidar Mohammar (Member)
Olgica Spevec (Member since June 13, 2019)
Vladimir Filipović (Member and Employees' Representative)

The Company's Management regularly informed the Supervisory Board on all important business activities, assets and liabilities positions, revenues and the course of the Company's business performance.

At the meetings, the Supervisory Board discussed financial results, business situation in the domestic and export markets and ICT industry trends. Further topics of discussion encompassed business risks, strategic projects, investments, innovation management, compliance issues, and issues regarding human resources and shareholders. Moreover, the Supervisory Board continuously monitored business development and responsibilities of Research & Development Center, Digital Services & Customer Operations, Networks, ICT for Industry and Society, IT & Engineering Services Unit and a daughter company Ericsson Nikola Tesla Servisi d.o.o..

The Supervisory Board reviewed and approved Ericsson Nikola Tesla Group's Business Strategy 2019 – 2023, as well as financial plans, including sales ambition and strategic priorities for each business segment. The Supervisory Board also supported the Digital Transformation program at Ericsson Nikola Tesla Group level, with the aim to additionally simplify the Company's key processes and automation.

Moreover, the Supervisory Board strongly supports further activities on strengthening ethics and compliance business practice to ensure that the Company lives up to the highest standards.

At extraordinary Board meetings, the members discussed 2018 annual financial reports, 2018 dividend proposal, defining 2019 targets, Group's business strategy and the proposition for taking over the full responsibility for Managed Services for Hrvatski Telekom.

Last year Ericsson Nikola Tesla celebrated 70 years of successful business. The Company's success is based on continuous development and implementation of the cutting-edge technology, strong leadership, competent and motivated employees, as well as long-term partnership with Ericsson.

Analyzing the Managing Director's report and key financial indicators, the Supervisory Board concluded that Ericsson Nikola Tesla Group had a successful business performance in 2019 and achieved good financial results, along with a solid balance sheet and adequate cash position. The year 2019 was marked by networks modernization projects in the domestic market as the preparation for the introduction of 5G technology, gaining additional responsibilities in research and development with a special focus on 5G, as well as activities in the Industry&Society segment. Due to a challenging market environment and demanding projects, Ericsson Nikola Group remains focused on strategic risk management and cost and operating efficiency, with the aim to achieve its business and financial targets as well as building an even stronger company long-term.

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At the meeting held on December 17, 2019, the Supervisory Board re-appointed the Managing Director, Gordana Kovačević for a new term in office, effective January 1, 2020. In the course of the year the Board composition changed as follows. At the Company's Annual General Meeting, held on June 13, 2019, Olgica Spevec was elected as a new member of the Supervisory Board, succeeding Ignac Lovrek, who was a member and a Deputy Chairman.

The Audit Committee, a subcommittee of Ericsson Nikola Tesla's Supervisory Board, held four meetings in 2019. At the meetings, the Committee discussed financial performance during the year, annual financial statements, 2019 audit plan, audit findings, quality control and risk management system, as well as security and compliance issues. The Audit Committee monitored the Ericsson Nikola Tesla Group compliance calibration activities and participated in monitoring the process and taking decisions on the reported compliance concerns. The Audit Committee regularly presented its findings and recommendations to the Supervisory Board.

Based on the recommendation of the Audit Committee, the Supervisory Board proposed to the shareholders at the AGM the appointment of KPMG Croatia as the auditor of Ericsson Nikola Tesla d.d. for the year 2020.

In 2019, the members of the Audit Committee were: Dubravko Radošević (Member and Chairman since April 26, 2019), Ignac Lovrek (member and Chairman until April 26, 2019), Vidar Mohammar (Member) and Vesna Vašiček (Member).

Based on the review of financial and other relevant business documents, the Managing Director's report, and the auditors' report, the Supervisory Board concluded the following:

- To the best of our knowledge, Ericsson Nikola Tesla d.d. in all material aspects operates in compliance with the laws and Company's enactments and in accordance with the decisions made by the Annual General Meeting;
- The annual financial reports have been prepared in accordance with the business records of Ericsson Nikola Tesla d.d. and its subsidiaries, and in all material aspects reflect the correct financial and business situation of Ericsson Nikola Tesla d.d. and its subsidiaries;
- The Managing Director's proposal relating to net profit allocation is supported and approved;
- There are no objections regarding the Managing Director's report and consequently the report is approved;
- There are no objections regarding the Auditors' report and consequently the report is approved;
- Pursuant to the above stated, the submitted annual financial statements are approved.

Pursuant to the Companies Act, art. 300d, the following documents are enclosed to this report:

1. Managing Director's Decision on the established consolidated and non-consolidated annual financial statements and proposal of Decision on allocating net profit from year 2019
2. Decision by the Supervisory Board on the established consolidated and non-consolidated annual financial statements and proposal of Decision on allocating net profit from year 2019

For the Supervisory Board

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Krapinska 45
HR-10 000 Zagreb
CROATIA
01

Franck Pierre Roland Bouétard, Chairman

Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45

OIB: 84214771175

Zagreb, 28. travnja 2020

Predmet: **Odluka Uprave Društva o utvrđenju godišnjih financijskih izvješća i prijedlog odluke o upotrebi neto dobiti iz 2019.g.**

Temeljem članka 300.d Zakona o trgovačkim društvima, a nakon primitka suglasnosti Nadzornog odbora dioničkog društva Ericsson Nikola Tesla d.d. Zagreb donosim slijedeću ODLUKU:

- Utvrđuju se godišnja financijska izvješća Društva za 2019.g.
- Utvrđuju se godišnja konsolidirana financijska izvješća Društva i njegovih podružnica („Grupa") za 2019.g.

Predlaže se Glavnoj skupštini dioničkog društva Ericsson Nikola Tesla d.d. donošenje sljedeće Odluke:

„Neto dobit Društva iz 2019. godine raspoređuje u zadržanu dobit."

Ericsson Nikola Tesla d.d. Zagreb
Uprava

Gordana Kovačević

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

Zagreb, April 28, 2020

Subject: **Managing Director Decision on Approving Annual Financial Reports and proposal of Decision on allocating net profit from year 2019**

In accordance with the Company Act, Article 300.d and subsequent to the approval of the Supervisory Board of the Joint Stock Company Ericsson Nikola Tesla d.d. Zagreb, I herewith forward the following DECISION:

- The Annual Financial Reports of the Company for 2019 have been submitted and approved.
- The Annual Consolidated Financial Statements of the Company and its subsidiaries (the "Group") for 2019 have been submitted and approved.

The proposal to the General Assembly of the Joint Stock Company Ericsson Nikola Tesla d.d. is to make the following decision:

"The Company's net profit for 2019 is allocated into retained earnings."

Ericsson Nikola Tesla d.d. Zagreb
Managing Director

Gordana Kovačević

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Ericsson Nikola Tesla d.d. Zagreb
Krapinska 45
OIB: 84214771175

Zagreb, 29. travnja 2020.

Predmet: **Odluka Nadzornog odbora Društva o utvrđenju godišnjih financijskih izvješća i prijedlog odluke o upotrebi neto dobiti iz 2019.g.**

Temeljem članka 300.d Zakona o trgovačkim društvima, Nadzorni odbor dioničkog društva Ericsson Nikola Tesla d.d. Zagreb donosi slijedeće:

- Utvrđuju se godišnja financijska izvješća Društva za 2019.g.
- Utvrđuju se godišnja konsolidirana financijska izvješća Društva i njegovih podružnica („Grupa") za 2019. godinu.

Predlaže se Glavnoj skupštini dioničkog društva Ericsson Nikola Tesla d.d. donošenje sljedeće Odluke:

„Neto dobit Društva iz 2019. godine raspoređuje u zadržanu dobit."

Ericsson Nikola Tesla d.d. Zagreb
Za Nadzorni odbor

Franck Pierre Roland Bouétard
Predsjednik

Zagreb, April 29, 2020

Subject: **Supervisory Board Decision on Approving Annual Financial Reports and proposal of Decision on allocating net profit from year 2019**

Pursuant to the Company Act, Article 300.d the Supervisory Board of the Joint Stock Company Ericsson Nikola Tesla d.d. Zagreb, hereby confirms that:

- The Annual Financial Reports of the Company for 2019 have been submitted and approved.
- The Annual Consolidated Financial Statements of the Company and its subsidiaries (the "Group") for 2019 have been approved.

The proposal to the General Assembly of the Joint Stock Company Ericsson Nikola Tesla d.d. is to make the following decision:

"The Company's net profit for 2019 is allocated into retained earnings."

Ericsson Nikola Tesla d.d. Zagreb
For Supervisory Board

Franck Pierre Roland Bouétard
Chairman

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