

Institute „Mihajlo Pupin“ Ltd, Belgrade

**Notes to consolidated financial statements
for the year ended December 31st 2020**

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

1. Corporate Information

Institute "Mihajlo Pupin" Ltd, Belgrade (hereinafter referred to as: the "Company") was founded on January 29th 1959.

The Company operates in accordance with the Law on research and development activities ("RS Official Gazette", no. 110/05 and 50/06 - correction, 18/2010 and 112/2015). The Company's activities are directed at research and development and production activities in the field of high technologies (telecommunications, electronics, production of computer equipment, integral parts and electronic devices, machine equipment, automatics, hydraulics and pneumatics).

The Company's core activity is based on realization of long-term contracts (projects) on joint ventures, where it takes part as the Parent Company together with certain subsidiaries. Projects are intended for known clients, by entering into appropriate contracts. Project realization is executed in phases and usually comprises a longer period (over a year).

The parent company has majority ownership and control of the subsidiaries listed in Note 2. 1. which are included in the consolidation (together hereinafter referred to as "Group").

The group is headquartered in Belgrade, Volgina street number 15.

On day December 31st 2020 the Group had 502 zaposlena (Decembar 31st 2019: 482 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of consolidation

The accompanying consolidated financial statements include the financial statements of the parent and the following subsidiaries as at and for the year ended December 31st 2017. (Hereinafter referred to as "Consolidated subsidiaries"):

| 1. <u>Name of company</u> | <u>% participation</u> |
|---|-------------------------------|
| 1. IMP "Automatika" Ltd, Belgrade | 100% |
| 2. IMP "Računarski sistemi" Ltd, Belgrade | 100% |
| 3. IMP "Telekomunikacije" Ltd, Belgrade | 100% |
| 4. IMP "Piezotehnologija" Ltd, Belgrade | 100% |
| 5. IMP "Poslovne usluge" Ltd, Belgrade | 100% |
| 6. Idvorski laboratorije" Ltd, Belgrade | 75% |

The company IMP – Naučnotehnoški park Ltd, Belgrade – in liquidation, TAX ID 104802558, registration number 20232005, was deleted from the Serbian Business Registers Agency (decision BD 74902/2020 of October 19, 2020).

All amounts of transactions arising from mutual business relations between the parent company and the aforementioned subsidiaries are eliminated on consolidation of financial statements.

The reporting period of the parent enterprise and subsidiaries Consolidated subsidiaries are the same.

The consolidated financial statements of the Group have been prepared using the uniform accounting policies for similar transactions and events, and these are consistently applied.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1. Basis of consolidation (Continued)

IMP "Automatika" Ltd Belgrade, was established in Decision of July 14th 1997 under the number 14423/97 Fi as a legal entity wholly owned by the parent company. The main activity of the company is research and experimental development in technical and technological sciences.

IMP "Telekomunikacije" Ltd Belgrade, was established in Decision of July 14th 1997 under the number 14426/97 Fi as a legal entity wholly owned by the parent company. The main activity of the company is research and development in technical sciences.

IMP "Piezotehnologija" Ltd Belgrade, was established in Decision of July 14th 1997 under the number 14429/97 Fi as a legal entity wholly owned by the parent company. The main activity of the company is the production of electronic components.

IMP "Poslovne usluge" Ltd Belgrade, was established in Decision of July 14th 1997 under the number 14430/97 Fi as a legal entity wholly owned by the parent company. The main activity of the company accounting, control, etc..

IMP "Računarski sistemi" Ltd Belgrade, was established in Decision of July 14th 1997 under the number 14424/97 Fi as a legal entity wholly owned by the parent company. The main activity of the company is research and development in technical sciences.

IMP "Naučnotehnološki park" Ltd Belgrade, was established in Decision No. BD 193877/06 20. December 2006. as a legal entity wholly owned by the parent company. The main activity of the company is research and experimental development in technical and technological sciences. The company has actually started its activity in 2007. year.

"Idvorski laboratorije" Ltd Belgrade, was established in Decision No. BD 69209/2013 June 24th 2013 as a legal entity with 75% ownership of the parent company, 20% owned by "IKT Mreže", identification number 28019734, Kralja Milana 4/4, Belgrade and 5% ownership of Electrotechnical faculty, University of Belgrade, identification number 07032498, Bulevar Kralja Aleksandra 73, Belgrade. The main activity of the company is the technical testing and analysis.

The Management Board of the parent company, as a founder, on March 21st 2003 passed the Decision on the termination of operations of the subsidiary IMP "Mehatronika" Ltd Belgrade liquidation of summary procedure. The Commercial Court in Belgrade issued a decision on opening the liquidation procedure September 2nd 2003. A judgment of the same court No. XIII-ST-889/04 of April 2nd 2004 over the years of IMP "Mehatronika" Ltd Belgrade suspended the liquidation proceedings opened in 2003 and bankruptcy proceedings.

Assembly of the parent company, as a founder, July 15th 2009 adopted Decision 1401 / 1-09 on the cessation of operations of the subsidiary IMP "Senzori i merenja" Ltd Belgrade liquidation of summary procedure. Business Registers Agency (APR) adopted Decision No. BD 129540/2009 of July 29th 2009 the opening of the liquidation proceedings.

Decision to initiate the process of status change of merger by IMP "Računarstvo" in IMP "Računarski sistemi" is the decision of the Assembly "Mihajlo Pupin" No. 2299 / 1-11 of September 26th 2011 was signed between the IMP "Računarstvo" i IMP "Računarski sistemi".

The company IMP – Naučnotehnološki park Ltd, Belgrade – in liquidation, TAX ID 104802558, registration number 20232005, was deleted from the Serbian Business Registers Agency (decision BD 74902/2020 of October 19, 2020).

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1. Basis of consolidation (continued)

The parent company has significantly participation in the following associates: "Servis inženjering" IMP Ltd (participation 20%), IMP "Projekt inženjering" Ltd (participation 20%), "Elektronske transakcije" IMP Ltd (participation 25%) and "IMP-BEEL" Ltd (participation 20%).

In 2013 the carrying amount of the equity of the associated companies "Jugea" Ltd Belgrade (participation 35%). The above mentioned company has not been translated into the Serbian Business Registers Agency. SERBIAN SOFTWARE CLUSTER ceased to exist with the establishment of the ICT NETWORK, CLUSTER Embedded.rs (12.5%) ceased to exist with the establishment of the ICT NETWORK, LOGISTIKA-IMP Ltd, Belgrade – in liquidation (20%), because on April 30, 2012, date of deletion from the Serbian Business Registers Agency and IMP - ZERO WASTE Ltd, Belgrade (20%), by Decision of the Serbian Business Registers Agency BD 859/2020 from January 13, 2020 the business name INSTITUTE MIHAJLO PUPIN Ltd, Belgrade (Zvezdara) is deleted.

In 2020, the listed associated companies were deleted from the business books of the INSTITUTE MIHAJLO PUPIN LTD BELGRADE.

Join entities not included in the accompanying consolidated financial statements for 2020 and 2019 year equity method, since mutual relations are immaterial compared to the amounts and transactions between the mother company and combining fresh surface of consolidated subsidiaries.

2.2. Basis of preparation and presentation of consolidated financial statements

The consolidated financial statement have been prepared in accordance with:

- Law on Accounting (Official Gazette of the Republic of Serbia No. 73/2019 – other law),
- Decision on determining the translation of Conceptual Framework for Financial Reporting and the basic texts of International Accounting Standards, ie International Financial Reporting Standards (Official Gazette of the Republic of Serbia No. 92/2019),
- Rulebook on Chart of Accounts and Contents of accounts in the Chart of Accounts for Companies, Cooperatives and Enetrpreneurs (Official Gazette of the Republic of Serbia No. 95/2014),
- Rulebook on Forms of Financial Statements for Companies, Cooperatives and Entrepreneurs (Official Gazette of the Republic of Serbia No. 95/2014 and No. 114/14),
- Rulebook on the content of positions in the form Statistical Report for Companies, Cooperatives and Entrepreneurs (Official Gazette of the Republic of Serbia No. 144/14)

Excepr as ser oout below, the Group is conolidated financial statement have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Group has prepared these consolidated financial statements in accordance with the Law on Accounting of the Republic of Serbia (hereinafter "the Law") published in the Official Gazette of the Republic of Serbia no. 61/2013, 30/2018 and 73/2019, which requires consolidated financial statements to be prepared in accordance with all translated IFRSs by 21 November 2019. The special requirements of the Law deviate from IFRS due to the fact that the translated standards have been adopted and these consolidated financial statements do not contain the effects of IFRS published as of November 21, 2019, since it is mandatory for consolidated financial statements prepared as of December 31, 2020 years. In addition to the above, the Law requires certain disclosures and certain treatment of accounts and balances, which results in additional deviations from IFRS as follows:

1. The Group has prepared these consolidated financial statements in the format prescribed by the Ministry of Finance of the Republic of Serbia, which is not in accordance with the requirements of IAS 1 (revised) - "Presentation of Financial Statements" and IAS 7 - "Statement of Cash Flows".

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2. Basis of preparation and presentation of consolidated financial statements (Continued)

2. Decision of the Ministry of Finance of the Republic of Serbia no. 401-00-4980 / 2019-16 of 21 November 2019 (Official Gazette of the Republic of Serbia No. 92/2019) establishes that official standards are official translations of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB), as well as interpretations of standards issued by the International Financial Reporting Interpretations Committee (IFRIC) by 31 July 2013. IFRS will be applied from the financial statements prepared as of December 31, 2020. The IFRS referred to in this item may also be applied when preparing the consolidated financial statements as at 31 December 2019 (with the disclosure of the relevant information in the Notes to the consolidated financial statements). Standard: IFRS 15 - Revenue from Contracts with Customers; IFRS 9R - Financial Instruments have not been applied to these financial statements

2.3. Basis for evaluation

The consolidated financial statements are prepared under the historical cost, except for financial assets available for sale, which are valued at fair value.

2.4. Impact and implementation of new and revised IAS / IFRS

Significant accounting policies and estimates used in the preparation of these consolidated financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual consolidated financial statements of the Group for 2020, except for the newly translated standards and interpretations whose application did not have a material effect on the accompanying consolidated financial statements of the Group, nor has resulted in adjustments of comparable data.

(a) *New standards, interpretations and amendments to existing standards effective in the current period have not yet been officially translated and adopted in the Republic of Serbia*

Until the date of preparation of these consolidated financial statements, the following IAS, IFRS and interpretations that are an integral part of the standards and amendments there to, issued by the IASB and the Committee on International Financial Reporting Interpretations, entered into force on January 1st 2015 and earlier and as such are applicable to the consolidated financial statements for 2015, but not yet officially translated and published by the Ministry of Finance of the Republic of Serbia, and therefore are not applied by the Group:

- Modification IAS 32 "Financial Instruments: presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014);
- Modification IFRS 10 "Consolidated Financial reports", IFRS 12 and IAS 27 - "Investment entities" (effective for annual periods beginning on or after January 1st 2014);
- Modification IAS 36 "Impairment of Assets" - Disclosure of the recoverable amount of non-financial assets (effective per year for periods beginning on or after January 1st 2014);
- Modification IAS 39 "Financial Instruments: Recognition and Measurement" - innovation products and continuation of hedge accounting (effective for annual periods beginning on or after January 1st 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1st 2014).
- Between the different standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), which are the result of the project annual advancing standards and the cycle 2010-2012, published by the IASB September 2013, primarily view to removing inconsistencies and clarifying wording (effective for annual periods Poa begin on or after July 1st 2014);

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4. Impact and implementation of new and revised IAS / IFRS (Continued)

(a) New standards, interpretations and amendments to existing standards effective in the current period have not yet been officially translated and adopted in the Republic of Serbia (Continued)

- Between the different standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40), which are the result of the project annual improvement of standards and in the cycle 2011-2013, published by the IASB September 2013, primarily view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1st 2014);
- Modification IAS 19 "Employee benefits" - Defined contribution plans (effective for annual periods beginning on or after July 1st 2014).

The Group's management believes that most of the above standards, amendments to standards and interpretations of standards is not relevant to the Group and has no significant impact on the consolidated financial statements.

(b) New standards, interpretations and amendments to existing standards that are not yet effective

Until the date of preparation of these consolidated financial statements, the following IAS, IFRS and interpretations that are an integral part of the standards and amendments there to, are issued by the International Accounting Standards Board or the Committee on International Financial Reporting Interpretations but have not yet entered into force either been translated and published by the Ministry, and in application for the preparation of consolidated financial statement for 2020, and therefore didn't previously applied by the Group:

- Modification various standards (IFRS 5, IFRS 7, IAS 19 and IAS 34) resulting from the annual improvement project standards and the cycle 2012-2014, published by the IASB in September 2014, primarily view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1st 2016);
- Modification IFRS 11 "In common arrangements" - accounting for the acquisition of interests in joint arrangements (effective for annual periods beginning on or after January 1st 2016);
- IFRS 14 "Regulatory accounts demarcation" (effective for annual periods beginning on or after January 2016. years);
- Modification IAS 1 "Presentation of financial statements" - initiative related disclosures (effective for annual periods beginning on or after January 1st 2016);
- Modification IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" amounted. Clarification of acceptable methods of depreciation (effective for annual periods beginning at or after the January 1st 2016);
- Modification IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Plant a such basic biological assets (effective for annual periods beginning on or after January 1st 2016);
- Modification IAS 27 "Individual financial statements" - Method share in the individual financial statements (effective for annual periods beginning at or after the January 1st 2016);
- Modification IAS 28 Investments in Associates and Joint Ventures IFRS 10 Consolidated financial statements - For sale or listing of assets between the investor and its associate or joint venture (effective for annual periods beginning on or after January 1st 2016).
- Modification IAS 28 "Investments in Associates and common ventures", IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of interests in other entities" - Application of exemption from consolidation (effective for annual periods beginning on or after January 1st 2016);

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.4. Impact and implementation of new and revised IAS / IFRS (Continued)

(b) New standards, interpretations and amendments to existing standards that are not yet effective (Continued)

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1st 2018.) and
- IFRS 15 "Contract revenue from customers" (effective for annual periods beginning at or after the January 1st 2018).

2.5. Deviation of accounting regulations of the Republic of Serbia from IFRS

The accounting regulations of the Republic of Serbia depart from IFRS in the following::

- The participation of employees in profits is recorded through retained earnings, in accordance with the Rules on the Chart of Accounts, but not at the expense of the results of the period, as required by IAS 19 "Employee Benefits".
- Off-balance sheet assets and liabilities are shown in the balance sheet. These items accordance with IFRS do not represent either assets or liabilities.

In view of the above a consolidated financial statements are not fully comply with all requirements IFRS and can not be considered to be consolidated financial statements prepared and presented in accordance with the IFRS.

2.6. Foreign currency

All assets and liabilities in foreign currencies at the reporting day are translated into RSD at the official exchange rate of the National Bank of Serbia prevailing at that date (Note 43). Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation at which the item again measured.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end are recognized in the income statement as financial income or financial expenses.

2.7. Comparative data

The comparative figures and opening balances constitute the data contained in the consolidated financial statements for 2019, prepared in accordance with accounting regulations applicable in the Republic of Serbia, which were audited.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Intangible Assets

Intangible assets are initially recognized at cost. After the initial recognition, intangible assets are stated at cost less accumulated amortization and cumulative impairment losses, if any.

Intangible assets with definite useful lives are amortized over the useful lives of such assets and tested for impairment if there is any indication that such assets may be impaired. Amortization of intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful life.

Gains/losses from the disposal or sale of intangible assets are recognized to the Income statement in the period the asset was disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

3.2. Property, Plant and Equipment

Items of property, plant and equipment which fulfill the requirements to be recognized as assets are initially recognized at cost.

Cost includes expenditure that is directly attributable to the acquisition of the items, comprising the purchase price (import duties and VAT), all directly attributable costs of bringing the assets to the location and condition necessary to function in accordance with the management's expectations, the estimated cost of dismantling and removing the asset and restoring the site, as well as capitalized borrowing costs.

Subsequent to initial recognition as an asset, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying value of the replaced asset is derecognized.

All other repairs and maintenance cost are charged to the income statement during the period in which they are incurred.

Gains/losses from the disposal of property and equipment are recognized to the income statement of the period the asset was disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

| | |
|------------------------------------|----------|
| - Buildings | 2,5-5% |
| - Machinery and equipment | 6,67-20% |
| - Motor vehicles | 20% |
| - Furniture, fitting and equipment | 10-12,5% |
| - Computer equipment | 25% |

The estimated useful life of assets is reviewed periodically, and adjusted if necessary at each balance sheet date.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Property, Plant and Equipment (Continued)

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014 - other law and 142/2014, 91/2015 - authentic interpretation and 112/2015) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010). Different depreciation methods used for the financial reporting purposes and the tax purposes give rise to deferred taxes (Note 19).

3.3. Investment Property

Investment properties are initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on investment property is calculated using the straight-line method to allocate their cost over their estimated useful life.

If indications of impairment of the investment property exist, the Company estimates recoverable amount as the higher of the value in use and fair value less cost to sell. Carrying value of the investment property is written-down to its recoverable amount and the loss is recognized in the current income statement.

Subsequent expenditures are capitalized only when it is probable that future economic benefits associated with them will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

3.4. Impairment of Non-financial Assets

Assets that have an indefinite useful life are not subject to amortization are tested annually for impairment. Assets that are subject to amortization 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.5. Investments in Subsidiaries

Equity investments in subsidiaries are reported at the original acquisition cost less accumulated impairment losses.

3.6. Financial Instruments

Financial Assets

Financial assets are recognized in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments and when the Company transferred all the risks and rewards arising from ownership of the instrument.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Financial Assets (Continued)

All financial instruments are initially recognized at fair value including any directly attributable transaction costs (except for financial assets and financial liabilities at fair value through profit and loss, when transaction costs are treated as the expenses of the period). Regular way purchases or sales of financial assets are recognized on the trade date - on the date when the Company commits to purchase or sell the assets.

Financial assets include cash, short-term deposits, held-for-trading securities, trade and other receivables and loans granted by the Company.

Financial assets cease to be recognized when the contractual provisions expire or there is transfer of rights to cash income from that asset, and when Company transfers all risks and benefits from Financial Asset ownership.

(a) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Exceptionally to the general rule of initial recognition of financial assets, short-term interest-free receivables, where the discounting effect is not material, are initially recognized at the original invoice value.

In the Company's balance sheet, this category of financial assets comprises trade and other receivables, short-term loans granted to related parties recorded in short-term financial investments and housing loans granted to employees, recorded in long-term financial investments.

Trade receivables are recorded and measured at invoiced value net of allowance for impairment. The assessment of the amount of uncollectible receivables is based on the ageing structure analysis and historical experience, and when the collection of the total amount or a portion of the receivable is no longer probable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. Income from the reversal of allowance for impairment from the recovered amounts and estimated recoverability of receivables is recognized in the income statement (Note 25).

Other long-term financial investments include long-term loans in the country and abroad granted to related parties, as well as interest-free and interest-bearing receivables from employees arising from housing loans provided.

Housing loans extended to employees are measured at amortized cost using the interest rate at which the Company could obtain long-term borrowings, which corresponds to the effective interest rate. Allowance for impairment of receivables from employees is established if there is objective evidence that the Company will not be able to recover all amounts due based on the original terms.

(b) *Available-for-sale Financial Assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets available for sale are subsequently measured at fair value, while all unrealized gains and losses are recognized in other comprehensive income.

In the Company's balance sheet this category of financial assets includes equity investments in banks and legal entities recorded within long-term financial investments.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Financial Liabilities

Financial liabilities are recognized in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

Financial liabilities are initially recognized at fair value, increased by the directly attributable transaction costs. Exceptionally to the general rule of initial recognition of financial liabilities, short-term interest-free liabilities, whose discount is not material, are initially recognized at the original invoiced value.

Financial liabilities cease to be recognized when the Company fulfills the obligation, or when the contractual repayment obligation has either been cancelled or has expired. In case the existing financial liability is replaced by another liability toward the same creditor, but under significantly different terms, or if the conditions of the existing liabilities change, such replacement or a change of conditions is treated as the cancellation of the initial liability with a concurrent recognition of a new liability, while the difference between the initial and new value of liability is recognized in the income statement.

The Company's financial liabilities include accounts payable and other payables, as well as borrowings from banks.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the Company's financial liabilities are classified as borrowings and loans. Management determines the classification of its financial liabilities at initial recognition.

(a) *Borrowings from Banks and Suppliers*

Borrowings are initially recognized at the amount of the consideration received (nominal value). Borrowings are subsequently measured at the amortized cost that is computed based on the contractual interest rate. The effects of the application of the contractual interest rate instead of the effective interest rate, as required under IAS 39 "Financial Instruments: Recognition and Measurement" are deemed by the management not to have a material effect to the financial statements. Borrowings are approved with variable interest rates, and prepaid loan origination fees are deferred proportionately over the life of the loan.

A liability is classified as current if it is expected to be settled in ordinary course of the business cycle of the Company, that is if it matures within the period of 12 months after the balance sheet date. All other liabilities are classified as non-current.

Accounts payable and other current payables are subsequently measured at nominal (invoice) value.

(b) *Accounts Payable*

Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Fair Values of Financial Instruments

The fair value of financial instruments traded in active markets (held-for- trading securities and securities available for sale) as of the balance sheet date is based on their quoted market prices. The quoted market price used for financial assets of the Company represents the current bid price.

For all other financial instruments not listed in an active market, the fair value is determined using the appropriate valuation techniques.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Inventories

Cost of materials and goods comprises the purchase price increased by transport and other costs attributable to acquisition.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Inventory outflow is recorded using the weighted average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.8. Cash and cash Equivalents

Cash and cash equivalents include sight deposits in Dinars and foreign currency in banks, cash on hand, as well as highly liquid assets with the original maturities up to three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.9. Off-balance Sheet Items

Off-balance sheet assets/liabilities include: leased assets, excluding assets acquired on finance lease, goods on consignment, material received for processing and finishing and other assets not owned by the Company, as well as receivables/payables arising from collaterals, such as guarantees and other warranties.

3.10. Profit Distribution

Distribution of profit to the Company's shareholders is recognized as a liability in the period in which the shareholders approved the above mentioned distribution of profits.

3.11. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are recognized in the amounts representing the best estimate of the expenditure required to settle the present obligation on the balance sheet date (Note 31). The provision charge is recognized in the expenses of the period.

When the effect of the time value of money is significant, the amount of provision is the present value of the outflows required to settle the liabilities, arrived at using the pre-tax discount rate which reflects the current market estimate of the time value of money and risks related to the liability. When discounting is used, the carrying value of a provision is increased in each period, in order to reflect the time flow. This increase is stated as the borrowing cost.

Provisions are reviewed as of each balance sheet date and adjusted in order to reflect the best possible present estimate.

If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed and the gain is recognized to the income statement of the current period. Provisions cannot be used for covering the losses of the future periods.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Leases

Company as a Lessee

Finance Lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Finance leases are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in interest expense. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Operating Lease

A lease is classified as an operating lease if it does not transfer to the Company substantially all the risks and rewards incidental to ownership. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

Company as a Lessor

Finance Lease

When assets are leased under finance lease agreements, net investment into lease is recognized as a receivable. The difference between the future and present value of the receivable is recognized as unearned finance income.

Income from lease is recognized over the lease term using the net investment method, which approximates the constant periodical yield rate.

Operating Lease

When an asset is leased under operating lease agreement, it is stated in the income statement depending on the type of asset.

Income from operating lease is recognized on a straight-line basis over the period of the lease.

3.13. Employee Benefits

(a) *Contributions for Social Security*

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer, in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate state funds. The Company has no legal obligation to pay further benefits due to its employees by the state pension fund upon their retirement.

Tax and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Employee Benefits (Continued)

(b) Retirement Benefits

The Company provides retirement benefits when retiring. The right to these benefits is usually conditional upon staying an employed person in service up to the age limit for retirement and achieving minimum length of service. Expected costs for these benefits are accumulated during the period of employment.

Retirement benefits on retirement are assessed annually by independent, qualified, actuaries, using the method of a projected credit unit. Costs of previously performed services are recognized in the income statement when they occur, while actuarial gains and losses are recognized in the statement of the remaining result and within equity.

3.14. Foreign Currency Translation

(a) Functional and reporting currency

The items included in the Group's consolidated financial statements are measured and presented in dinars ("RSD"), which is the currency of the primary economic environment in which the Group operates (functional currency).

(b) Transactions and balances

All assets and liabilities in foreign currencies are translated into their dinar equivalent on the reporting date using the official exchange rate of the National Bank of Serbia valid on that date (Note 42).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at which the items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement as part of financial income (Note 13) and financial expenses (Note 14).

3.15. Revenue Recognition

The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is recognized net of value-added tax, returns, rebates and discounts.

Furthermore, the following specific recognition criteria have to be fulfilled before revenue is recognized.

(a) Sales of Products and Goods

Income from sale of products and goods is recognized at the moment when the significant risks and rewards of ownership of the goods have passed to the buyer, which usually occurs upon delivery of products and goods.

(b) Rendering of Services

The Company renders services based on the development of the system for toll collection, installations and their maintenance. These services are provided on a time and material basis or as a fixed-price contract, with contract terms with the usual contracted conditions.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Revenue Recognition (Continued)

(b) *Rendering of Services (Continued)*

Revenue arising from the time and material consumed contracts is recognized at the amount of the contracted fee considering that working hours have been consumed and direct expenses have been incurred. For material contracts, the stage of completion is measured on the basis of direct expenses incurred as a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts is also recognized under the percentage-of- completion method. In accordance with this method, revenue is generally recognized based on the services performed to date as a percentage of the total services to be performed.

(c) *Interest Income*

Interest income originates from interests accrued on deposits with banks and penalty interest accrued on default payments by the customers, in accordance with the contractual provisions. Interest income is recognized on an accrual basis.

(d) *Rental Income*

Rental income originates from the lease of properties and is accrued on a straight-line basis over the lease period.

(e) *Dividend Income*

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

3.16. Recognition of expenses

Operating expenses include all costs incurred in connection with the realized operating income and relate to: costs of materials, energy and fuel, costs of salaries and compensation of salaries, depreciation, rental costs, other production services and other operating expenses.

Operating expenses also include general expenses such as marketing, representation, insurance, payment, taxes and other expenses incurred in the current accounting period.

Operating expenses are recorded in the income statement according to the principle of causality of income and expenses, in the amount actually incurred, in the accounting period to which they relate.

The costs of current maintenance and repairs of property, plant and equipment are recognized as an expense in the accounting period in which they are incurred in the amount actually incurred.

Lease costs are recognized in the income statement as incurred and in accordance with the relevant lease agreements.

Interest expenses are recorded in the income statement according to the principle of causality of income and expenses in the accounting period to which they relate.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Current and Deferred Income Taxes

The income tax for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014 - other law and 142/2014, 91/2015 - authentic interpretation and 112/2015) and relevant by-laws.

Income tax is calculated at the rate of 15% (2017: 15%) on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits.

Pursuant to the Law on Amendments and Supplements to the Corporate Income Tax Law ("RS Official Gazette", no. 108/2013), starting from determining the income tax for 2014, the tax payers will no longer be able to use the tax incentive in the form of a tax credit for investment in fixed assets.

A taxpayer that had qualified for the right to a tax incentive by 31 December 2013 may use that right until the expiration of the time limit prescribed by law (not more than ten years).

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than five ensuing years

Deferred Income Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forwards of unused tax credits and unused tax losses can be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to a different extent to a variety of financial risks: market risk, foreign exchange risk, credit risk and liquidity risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is performed by the financial department of the Company pursuant to accounting policies adopted by the General Meeting. There were no changes in the risk management policies during the year ended December 31st 2018.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

4.1. Financial Risk Factors

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument shall be variable due to changes in market prices. Market risk includes three kinds of risks, as follows:

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR. Foreign exchange risk arises from future commercial transactions, and recognized assets and liabilities in foreign currencies.

Management has set up a policy to manage its foreign exchange risk against its functional currency. The Company has receivables and liabilities denominated in foreign currencies, therefore timely matching of inflows and outflows in the same currency as a protection from currency risk has been maximized.

The Group has receivables and liabilities in foreign currencies and the Group's management takes measures to maximize the matching of inflows and outflows in the same foreign currency to protect against changes in foreign exchange rates. On the other hand, the Group does not yet use hedging transactions, given the existing regulations and the underdeveloped financial market.

Price Risk

The Company is not significantly exposed to equity securities price risk because it does not have investments classified on the balance sheet either as available-for-sale or at fair value through profit or loss.

Interest Rate Risk

The risk of the fair value of the interest rate is very low and can possibly result from the finance lease.

The Company analyses its interest rate exposure on a dynamic basis, taking into consideration alternative resources of financing and refinancing, primarily for long-term borrowings as they represent the most sensitive interest-bearing position.

(b) Credit Risk

Credit risk is the risk that the credit beneficiaries will not be able to discharge their contractual obligations to the Company. Credit risk primarily arises with respect to trade receivables.

The Company's credit risk exposure arising from trade receivables mostly depends on individual characteristics of each individual customer. The Company does not have significant concentrations of credit risk because the majority of the Company's customers are state-owned companies.

In accordance with the adopted credit policy, the Company analyzes the credit worthiness of each individual customer before offering it the standard sales conditions.

Furthermore, for each customer, the credit limit is established, representing the maximum amount of a receivable before the approval of the General Manager is requested. For the customers whose credit rating does not meet the required conditions, sales is performed solely on the basis of advance payments.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

4.1. Financial Risk Factors (Continued)

(c) Liquidity Risk (Continued)

Liquidity risk relates to the risk that the Company will face difficulties in settling its liabilities. The Company manages its assets and liabilities in such a way that it can fulfill its due obligations at all times, without the unacceptable losses and harming its reputation.

Cash flow planning is performed at the level of the Company's business activities and collectively for the Company as a whole.

The Company's Finance Department supervises the liquidity planning with respect to the Company's requirements, in order to secure that the Company always has sufficient amounts of cash to settle its operating needs, as well as to have free space in its undrawn credit arrangements.

The Company has appropriate amount of highly liquid assets (cash and cash equivalents), as well as continuous inflows from the goods sold and services rendered, which are used to settle the liabilities as they come due. The company does not use financial derivatives.

The possible excess of cash from business activities, over the balance of the required amount of current assets, is invested in interest-bearing current accounts, deposits or securities held-for-trading, choosing instruments with the appropriate maturities or with sufficient liquidity which secures enough space, as determined by the above mentioned plan.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and 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 relating to the future. The resulting accounting estimates shall rarely be equal to realized results, as a rule. 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 addressed below.

Useful Lives of Intangible Assets and Property, Plant and Equipment

Intangible assets and property, plant, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness and adequate changes are made, if required. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods.

Impairment of Non-financial Assets

At each reporting date the Company's management reviews the carrying amounts of the Company's Intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires management to make subjective judgments concerning the cash flows, growth rates and discount rates of the cash generating units under review.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Retirement Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e., retirement in accordance with the legal requirements, are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and staff fluctuation rate. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 32 to the financial statements.

Provisions for Litigation

The Company is subject to number of claims incidentals to the normal conduct of its business, relating to and including commercial and employment matters, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonable estimated losses. Required provision may change in the future due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Deferred Tax Assets

Deferred tax assets are recognized for all tax losses to the extent to which taxable profit will be available against which the unused tax losses can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy

6. REVENUES FROM SALES

Revenues from sales are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|------------------|
| | 2020. | 2019. |
| Sales of merchandise | 2,133 | 1,926 |
| Sales of finished goods and services rendered to domestic Customers | 4,117,849 | 5,031,248 |
| Sales of finished goods and services rendered to foreign Customers | 473,351 | 308,109 |
| Total | 4,593,333 | 5,341,283 |

7. OTHER OPERATING INCOME

Other operating incomes are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|----------------|
| | 2020. | 2019. |
| Income from premiums, subventions, donations, compensations and tax returns | 0 | 40 |
| Income from donations under specified conditions | 381,687 | 343,254 |
| Rental fees income | 8,949 | 9,471 |
| Total | 390,636 | 352,765 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

8. MATERIAL COSTS

Costs of material are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|------------------|
| | 2020. | 2019. |
| Material procurement cost | 27 | 99 |
| Cost of raw material | 1,096,889 | 1,483,224 |
| Cost of other material (overhead) | 10,396 | 6,527 |
| Cost of fuel and energy | 43,525 | 52,006 |
| Cost of spare parts | 4,427 | 7,729 |
| Cost of a one-time write-off of inventory and tools | 4,797 | 3.491 |
| Total | 1,160,061 | 1,553,076 |

9. COSTS OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

Costs of salaries, fringe benefits and other personal expenses are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|------------------|
| | 2020. | 2019. |
| Costs of salaries and fringe benefits (gross) | 1,444,231 | 1,342,160 |
| Taxes and contributions on salaries and benefits | 222,720 | 203,968 |
| The cost of compensation for services contract | 8,670 | 7,484 |
| Costs of remunerations according to author's contracts | 3,263 | 5,946 |
| Costs of salaries for temporary contracts | 12,187 | 7,117 |
| Compensations to individuals for other contracts | 3,520 | 6,737 |
| Costs of remuneration to members of Management Board and Supervisory Board | 4,255 | 3,438 |
| Other personal expenses remunerations | 64,935 | 133,821 |
| Total | 1,763,781 | 1,710,671 |

Gross income of direct management in 2020 amounts to RSD 114,813 thousand.

10. COSTS OF DEPRECIATION AND PROVISIONS

Costs of depreciation and provisions are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|----------------|
| | 2020. | 2019. |
| Depreciation costs | 59,973 | 63,762 |
| Costs of provisions during the warranty period | 194,316 | 29,068 |
| Provisions for employee compensations and other benefits | 7,518 | 5,237 |
| Other provisions | 20,558 | 12,627 |
| Total | 282,365 | 110,694 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

11. OTHER OPERATING EXPENSES

Other operating expenses are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|------------------|
| | 2020. | 2019. |
| Costs of services used in production process of own costs capitalized | 1,098,309 | 1,716,870 |
| Transport services costs | 18,929 | 21,655 |
| Maintenance costs | 27,395 | 31,980 |
| Rental costs | 11,117 | 12,264 |
| Fair costs | 0 | 366 |
| Advertising costs | 1,436 | 2,530 |
| Research costs | 0 | 5 |
| Other non-production costs | 16,280 | 20,621 |
| Total | 1,173,466 | 1,806,291 |

12. NON-PRODUCTION COSTS

Non-production costs are related to:

| | <i>in RSD 000</i> | |
|----------------------------------|-------------------|----------------|
| | 2020. | 2019. |
| Costs of non-production services | 91,669 | 91,889 |
| Representation costs | 21,553 | 25,650 |
| Costs of insurance premiums | 9,805 | 12,658 |
| Costs of payment operations | 21,228 | 25,022 |
| Costs of membership fees | 3,171 | 3,252 |
| Tax costs | 11,303 | 18,583 |
| Contribution costs | 1,608 | 987 |
| Other non-production costs | 45,230 | 29,957 |
| Total | 205,567 | 207,998 |

13. FINANCIAL REVENUES

Financial revenues are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|---------------|
| | 2020. | 2019. |
| Financial income from parent and subsidiary companies | 3,129 | 100 |
| Financial income from other subsidiary companies | 303 | 347 |
| Income from interest (to third parties) | 1,993 | 2,472 |
| FX gains (to third parties) | 1,045 | 6,888 |
| Income from foreign currency clause (to third parties) | 4,806 | 4,360 |
| Other financial revenues | 2,012 | 0 |
| Total | 13,288 | 14,167 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

14. FINANCIAL EXPENSES

Financial expenses are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|---------------|
| | 2020. | 2019. |
| Cost of interest (to third parties) | 10,094 | 9,603 |
| FX losses (to third parties) | 1,925 | 6,086 |
| Expenses from foreign currency clause (to third parties) | 8,242 | 926 |
| Total | 20,261 | 16,615 |

15. OTHER REVENUES

Other revenues are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|---------------|
| | 2020. | 2019. |
| Gains on sales of Intangible assets and property, plant and equipment | 874 | 1,030 |
| Collected written-off receivables | 54,321 | 58,732 |
| Revenues from the effects of hedging which do not fulfill the conditions to be set out in the framework of other comprehensive results | 690 | 616 |
| Income from reduction of liabilities | 781 | 1,737 |
| Income from abolishing of long-term and short-term provisions | 20,772 | 22,193 |
| Other income | 5,608 | 13,053 |
| Income from valuation adjustments of long-term investments and securities available for sale | 659 | 645 |
| Total | 83,705 | 98,006 |

16. OTHER EXPENSES

Other expenses are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|----------------|
| | 2020. | 2019. |
| Losses on writing-offs and disposals of Intangible assets and Property, plant and equipment | 369 | 191 |
| Costs of debt enforcement | 0 | 0 |
| Other expenses | 0 | 0 |
| Losses on writing-offs and disposals short term financial investments | 15,381 | 15,953 |
| Losses on writing-offs and disposals of Intangible assets and Property, plant and equipment | 56,462 | 89,158 |
| Total | 72,212 | 105,302 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

17. LOSS FROM DISCONTINUED OPERATIONS

Profit from discontinued operations is related to:

| | <i>in RSD 000</i> | |
|--|-------------------|---------------|
| | 2020. | 2019. |
| Gains on the effects of changes in accounting policies which are not materialy significant | 35,655 | 13,170 |
| Total | 35,655 | 13,170 |

18. INCOME TAX

The basic components of income taxes are as follows:

| | 2020. | 2019. |
|--|---------------|---------------|
| Current income tax | 50,682 | 55,574 |
| Deferred tax income / expense for the period | (4,273) | 3,956 |
| Total tax expense period | 46,409 | 59,530 |

Current income tax

The reconciliation of gross profit shown in the current income statement with the tax profit from the tax balance is shown in the following table:

| | | | | | | In RSD |
|--------------------------|-----------------------|-------------|--------------------|------------------------------------|------------------------------------|-----------------------|
| Name of compaly | Taxable profit | Loss | Taz base | Schredule of calculated taz | Deduction of calculated taz | Calculated tax |
| IMP – Automatika | 96,037,081 | 0 | 96,037,081 | 14,403,974 | 0 | 14,403,974 |
| IMP – Računarski sistemi | 129,266,652 | 0 | 129,266,652 | 19,391,134 | 0 | 19,391,134 |
| IMP – Telekomunikacije | 6,850,282 | 0 | 6,850,282 | 1,028,855 | 0 | 1,028,855 |
| Idvorski Laboratorije | 1,126,379 | 0 | 1,126,379 | 167,252 | 0 | 167,252 |
| IMP – Piezotehnologija | 1,930,600 | 0 | 1,930,600 | 288,890 | 0 | 288,890 |
| Institute Mihajlo Pupin | 87,282,732 | 0 | 87,282,732 | 13,091,296 | 0 | 13,091,296 |
| IMP – Poslovne usluge | 15,389,767 | 0 | 15,389,767 | 2,311,123 | 0 | 2,311,123 |
| TOTAL | 337,883,493 | 0 | 337,883,493 | 50,682,524 | 0 | 50,682,524 |

The effective tax rate in 2020 was 12.63% (2019: 21.08%).

For 2020, transfer price studies were performed and adjustments were made on the basis of transfer prices in individual Tax Balances of the Companies within the Group.

Deferred tax liabilities and assets are recognized for the amount of the difference between current depreciation and amortization calculated for accounting and tax purposes due to the application of different depreciation rates in the financial statements and the tax balance sheet.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

18. INCOME TAX (Continued)

The balance of deferred tax assets / liabilities as at 31 December is shown in the following table:

| | <u>2020.</u> | <u>2019.</u> |
|--------------------------------------|---------------------|---------------------|
| Deferred tax assets | 7,853 | 5,247 |
| Deferred tax liabilities | (217) | (1,885) |
| Deferred tax liabilities, net | <u>7,636</u> | <u>3,362</u> |

The balance of deferred tax assets / liabilities by companies in the Group as at 31 December 2020 and 2019 is shown in the following table:

| | <u>2020.</u> | <u>2019.</u> |
|---|---------------------|-----------------------|
| Deferred tax assets | | |
| IMP-Automatika L.t.d. | 4,292 | 3,398 |
| IMP-Računarski sistemi L.t.d. | 772 | 360 |
| IMP-Telekomunikacije L.t.d. | 0 | 0 |
| Idvorski laboratorije L.t.d. | 886 | 1,302 |
| Institute Mihajlo Pupin L.t.d. | 1,414 | 0 |
| IMP-Poslovne usluge L.t.d. | 489 | 187 |
| | <u>7,853</u> | <u>5,247</u> |
| Deferred tax liabilities | | |
| IMP-Telekomunikacije L.t.d. | (205) | (647) |
| IMP-Piezotehnologija L.t.d. | (12) | (11) |
| Institute Mihajlo Pupin L.t.d. | 0 | (1,227) |
| | <u>(217)</u> | <u>(1,885)</u> |
| Deferred tax assets and liabilities, net | <u>7,636</u> | <u>3,362</u> |

19. INTANGIBLE ASSETS

Intangibles are related to:

| | <u>2020.</u> | <i>in RSD 000</i> <u>2019.</u> |
|---|---------------------|-----------------------------------|
| Concession, patent, licence, and other similar rights | 7,156 | 6,830 |
| Total | <u>7,156</u> | <u>6,830</u> |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

19. INTANGIBLE ASSETS (Continued)

| | Concessions, patents, licences and similar rights | Intangible assets in preparation | Total |
|--|--|---|---------------|
| COST VALUE | | | |
| Balance as of January 1 st 2019 | 30,119 | - | 30,119 |
| New procurement | 4,736 | - | 4,736 |
| Activation | - | - | - |
| Balance as of 31. December 2019 | 34,855 | - | 34,855 |
| Procurement during the year | 2,052 | - | 2,052 |
| Balance as of 31. December 2020 | 36,907 | - | 36,907 |
| ACCUMULATED DEPRECIATION | | | |
| Balance as of January 1 st 2019 | 26,390 | - | 26,390 |
| Amortization (Note 10) | 1,635 | - | 1,635 |
| Balance as of 31. December 2019 | 28,025 | - | 28,025 |
| Amortization (Note 10) | 1,726 | - | 1,726 |
| Balance as of 31. December 2020 | 29,751 | - | 29,751 |
| UNWRITTEN VALUE PER DAY: | | | |
| - Balance as of 31. December 2020 | 7,156 | - | 7,156 |
| - Balance as of 31. December 2019 | 6,830 | - | 6,830 |

20. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are related to:

| | 2020. | <i>in RSD 000</i> 2019. |
|--|----------------|-----------------------------------|
| Buildings | 144,881 | 147,490 |
| Plant and equipment | 148,454 | 155,139 |
| Other property, plant and equipment | 13,256 | 13,242 |
| Advances for property, plant and equipment | 0 | 0 |
| Total | 306,591 | 315,871 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

The trend of property, plant and equipment during 2020 is presented in the following table:

| | Buildings | Plant and equipment | Other equipment | Property, plant and equipment under construction | Advances | Total |
|--|----------------|---------------------|-----------------|--|----------|------------------|
| COST VALUE | | | | | | |
| Balance as of January 1 st 2019 | 637,559 | 524,294 | 12,957 | 0 | 100 | 1,174,910 |
| Purchase during year | 1,589 | 0 | 286 | 48,034 | 0 | 49,909 |
| Transfer from PPE | 0 | 48,034 | 0 | (48,034) | (100) | (100) |
| Disposals | 0 | (10,695) | 0 | 0 | 0 | (10,695) |
| Balance as of December 31st 2019 | 639,148 | 561,633 | 13,243 | 0 | 0 | 1,214,024 |
| Cost value during the year | 12,397 | 0 | 13 | 36,858 | 0 | 49,268 |
| Transfer from PPE | 0 | 36,858 | 0 | (36,858) | 0 | 0 |
| Disposals | 0 | (10,773) | 0 | 0 | 0 | (10,773) |
| Balance as of December 31st 2020 | 651,545 | 587,718 | 13,256 | 0 | 0 | 1,252,519 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Balance as of January 1 st 2019 | 476,787 | 369,752 | 0 | 0 | 0 | 846,539 |
| Amortization (Note 10) | 14,872 | 48,466 | 0 | 0 | 0 | 63,338 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance as of December 31st 2019 | 0 | (11,724) | 0 | 0 | 0 | (11,724) |
| ACCUMULATED DEPRECIATION | 491,659 | 406,494 | 0 | 0 | 0 | 898,153 |
| Amortization (Note 10) | 15,005 | 44,363 | 0 | 0 | 0 | 59,368 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance as of December 31st 2020 | 0 | (11,593) | 0 | 0 | 0 | (11,593) |
| Amortization (Note 10) | 506,664 | 439,264 | 0 | 0 | 0 | 945,928 |
| Undiscounted value: | | | | | | |
| - December 31 st 2020 | 144,881 | 148,454 | 13,256 | 0 | 0 | 306,591 |
| - December 31 st 2019 | | | | | | |
| Undiscounted value: | 147,489 | 155,139 | 13,242 | 0 | 0 | 315,871 |

The purchase value of fully depreciated property, plant and equipment at 31 December 2020 is RSD 272,007 thousand.

The company leases a certain number of cars through financial leasing. The current (unrecorded) value of equipment taken on lease as at 31 December 2020 is RSD 35,114 thousand.

Based on the assessment of the Company's management, there is no indication that the property, plant and equipment on the reporting date is impaired.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

21. LONG TERM FINANCIAL INVESTMENTS

Long term financial investments are related to:

| | 2020. | 2019. |
|--|-------------------|---------------|
| | <i>in RSD 000</i> | |
| Investments in capital of parent companies and subsidiaries | 92 | 112 |
| Investments in other legal entities and other securities able for sale | 2,652 | 2,926 |
| Other long term investments | 12,938 | 13,909 |
| Balance as of December 31st | 15,682 | 16,947 |

(i) Investments in capital of subsidiaries:

| | 2020. | 2019. |
|---|-----------|------------|
| In stakes | 92 | 209 |
| Less: Provisions | 0 | (97) |
| Balance as of December 31st | 92 | 112 |

Equity investments in associated companies relate to:

| <u>Name and headquarters</u> | <u>2020.</u> | <u>2019.</u> | <u>% stakes</u> |
|---|--------------|--------------|-----------------|
| Projekt inženjering Ltd | 62 | 62 | 20 |
| Elektronske transakcije Ltd | 11 | 11 | 25 |
| Servis inženjering IMP Ltd | 9 | 9 | 20 |
| Zero Waste Ltd | 0 | 20 | 20 |
| IMP-BEEL Ltd | 10 | 10 | 20 |
| Balance as of December 31st | 92 | 112 | |

(ii) Equity investments in associated companies

| | 2020. | 2019. |
|---|--------------|--------------|
| In stakes | 8,778 | 9,052 |
| Less: Provisions | (6.126) | (6.126) |
| Balance as of December 31st | 2,652 | 2,926 |

Equity investments in other legal entities relate to:

| <u>Name and headquarters</u> | <u>2020.</u> | <u>2019.</u> |
|---|--------------|--------------|
| Komercijalna banka a.d. Belgrade | 2,926 | 2,652 |
| Balance as of December 31st | 2,926 | 2,652 |

The fair value of other investments that are traded in an active market is determined based on current market value at the time of conclusion of business on December 31st 2020.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

21. LONG TERM FINANCIAL INVESTMENTS (Continued)

(iii) *Other long term financial investments*

| | <u>2020.</u> | <u>2019.</u> |
|---|----------------------|----------------------|
| Long-term deposit- operating lease | 0 | 0 |
| Receivables from employees – purchase of apartments | 2,947 | 3,037 |
| Receivables from employees - loans | 10,360 | 11,900 |
| Minus: Value adjustment | (369) | (1,028) |
| Balance as of December 31st | <u>12,938</u> | <u>13,909</u> |

Other long-term financial investments include loans to employees for the purpose of purchasing, building apartments for the period of 20 years and an interest rate of 2% per year. The loans are revalued twice a year according to the growth of average monthly earnings without taxes and contributions.

Receivables from long-term housing loans are valued at the balance sheet date at amortized cost less any subsequent impairment, ie value adjustment for estimated non-collectibility of the financial instrument, based on discounting expected future cash flows using an interest rate of 1.00% per annum.

22. INVENTORIES

Inventories are related to:

| | <u>2020.</u> | <i>in RSD 000</i> <u>2019.</u> |
|------------------------------------|-----------------------|-----------------------------------|
| Material | 446,841 | 494,809 |
| Merchandise in warehouse | 1,317 | 1,345 |
| Balance as of December 31st | <u>448,158</u> | <u>496,154</u> |

23. ADVANCES PAID

Advances paid are related to:

| | <u>2020.</u> | <i>in RSD 000</i> <u>2019.</u> |
|---------------------------------------|-----------------------|-----------------------------------|
| Advances paid for services - domestic | 433,253 | 111,370 |
| Advances paid for services - foreign | 19,233 | 10,948 |
| Provisions for advances paid | (2,216) | (2,804) |
| Balance as of December 31st | <u>450,270</u> | <u>119,514</u> |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

24. RECEIVABLES FROM SALES

Receivables from sales are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|------------------|
| | 2020. | 2019. |
| Trade receivables - domestic | 578,057 | 1,133,994 |
| Trade receivables – foreign | 96,794 | 265,811 |
| Provisions for trade receivables | (187,542) | (186,671) |
| Balance as of December 31st | 487,309 | 1,213,134 |

Movements in allowance for impairment were as follows:

| | 2020. | 2019. |
|---|----------------|----------------|
| Balance at beginning of year | 186,671 | 167,218 |
| Collected during the year | 55,757 | 80,128 |
| Provisions during the year | (54,886) | (60,675) |
| Balance as of December 31st | 187,542 | 186,671 |

Amounts charged to the allowance are written off when they are not expected to be collected.

Concentration of credit risk with respect to receivables are not significant because the Company has a large number of unrelated customers with individually small amounts of debts. Accordingly, the Company does not consider it necessary to make additional provisions for credit risk exposure which exceeds formed allowance for impairment of receivables. Therefore the maximum exposure to credit risk at the reporting date is equal to the net book value of the receivables from the sale.

The Group owns bills of exchange as collateral

25. OTHER RECEIVABLES

Other receivables are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|---------------|
| | 2020. | 2019. |
| Receivables for interest and dividends | 171 | 170 |
| Receivables from employees | 2,474 | 876 |
| Receivables for overpaid tax | 320 | 23 |
| Receivables for overpaid income tax | 7,343 | 1,239 |
| Receivables for other taxes and contributions prepaid | 0 | 104 |
| Receivables for compensations to be refunded | 1,193 | 6,136 |
| Other current receivables | 145 | 2,395 |
| Balance as of December 31st | 11,646 | 10,943 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are related to:

| | 2020. | <i>in RSD 000</i> 2019. |
|------------------------------------|------------------|-----------------------------------|
| Current (business) accounts | 867,950 | 486,663 |
| The main cash register | 11 | 0 |
| Foreign exchange account | 647,204 | 692,661 |
| Other cash and cash equivalents | 51,791 | 2,157 |
| Balance as of December 31st | 1,566,956 | 1,181,481 |

27. ASSETS FOR VAT AND OTHER PUBLIC REVENUE AND ACCURED

Assets for VAT and other public revenue and accrued are related to:

| | 2020. | <i>in RSD 000</i> 2019. |
|--|----------------|-----------------------------------|
| Value added tax invoices received in the general rate (excluding advance payments) | 77,957 | 121,268 |
| Value added tax paid upon import of goods at the general rate | 0 | 0 |
| Receivables for prepaid income Value added tax | 10,988 | 16,685 |
| Prepaid costs | 14,846 | 8,438 |
| Accrued income | 758,029 | 543,230 |
| Deferred tax assets | 7,636 | 3,362 |
| Other active accruals | 0 | 0 |
| Balance as of December 31st | 869,456 | 692,983 |

28. CAPITAL AND RESERVES

Capital and reserves are related to:

| | 2020. | <i>in RSD 000</i> 2019. |
|--|------------------|-----------------------------------|
| Stakes in limited liability companies | 475.659 | 475.659 |
| Other capital | 10.332 | 10.332 |
| Legal reserves | 2.997 | 2.997 |
| Gains or losses on securities available for sale | (58,267) | (18,436) |
| Retained profit from previous years | 729,126 | 595,728 |
| Retained profit from current year | 321,185 | 222,874 |
| Balance as of December 31st | 1,481,032 | 1,289,154 |

With the Government of the Republic of Serbia April 17th 2007 the Agreement on the share of state ownership of the means used by the Company. In accordance with the Agreement the Republic of Serbia shall assume all the founding and management rights, while the share of state ownership of the means used by the Company is 100%.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

28. CAPITAL AND RESERVES (Continued)

Decision of the Agency for Business Registers No. BD 19647/2014 of March 10th 2014 were executed reconciliation of the basic capital of the Company expressed in the Company to the amount of capital registered with the Register of Business Entities of the Agency for Business Registers and it amounted to RSD 413.803 thousand on this day.

Decision No. 104241/2014 of December 12th 2014, increase of the capital of the Company in the amount of RSD 61,831 thousand, so that at December 31st 2014. on the amount of RSD 475,634 thousand.

The Company is in 2020 realized net profit of RSD 321,185 thousand.

29. LONG TERM PROVISIONS

Long-term provisions are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|----------------|
| | 2020. | 2019. |
| Provisions for costs incurred during the warranty period | 109,711 | 63,080 |
| Provisions for fees and other employee benefits | 90,369 | 44,192 |
| Balance as of December 31st | 200,080 | 107,272 |

(a) Provisions for costs within the warranty period

Provisions for costs within the warranty period are formed based on the assessment of the professional services of the Parent and Consolidated Subsidiaries and relate to provisions for contracts for completed projects, for which there is an obligation to service for spare parts, engineering and other related costs.

(b) Employee benefits and other benefits

Provisions for the other employee benefits include provisions for redundancy which is measured at the present value of the expected future outflow, using the discount rate that reflects interest on high-quality paper of the values reported in the currency of benefits will be paid. Bearing in mind that in Serbia there is no active market for such bonds have been used in market rates of return on government bonds.

Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019

29. LONG-TERM PROVISIONS (Continued)

The principal actuarial assumptions used were as follows:

GROUP INSTITUTE “MIHAJLO PUPIN” L.t.d. BELGRADE

| Serial no. | Pretpostavke korišćene prilikom izrade obračuna rezervisanja za otpremnine prilikom odlaska u penziju | 2020. year | | | | | |
|------------|---|--|---------------------------|-------------------------|------------------------------|-------------------------|------------------------|
| 1. | Discount rate | 1,00% | | | | | |
| 2. | Estimated growth rate of average earnings | 6,00% | | | | | |
| 3. | Percentage of fluctuation | 1,47% | | | | | |
| 4. | The amount of severance pay at the time of booking | 252.603,00 | | | | | |
| 5. | The amount of severance pay in the previous calculation | 233.637,00 | | | | | |
| | Companies in the Group | Automatika | Računarski sistemi | Telekomunikacije | Idvorski laboratorije | Piezotehnologija | Poslovne usluge |
| 6. | Total number of employees on 01.01. current year | 161 | 69 | 22 | 4 | 7 | 48 |
| 7. | The total number of employees who left the company during the year | 6 | 2 | 1 | 0 | 0 | 2 |
| 8. | Of that, the number of retired workers who were paid severance pay upon retirement during the year | 1 | 1 | 1 | 0 | 0 | 1 |
| 9. | Total number of new employees during the year | 28 | 5 | 4 | 1 | 0 | 2 |
| 10. | Total number of employees on 31.12. current year | 183 | 72 | 25 | 5 | 7 | 48 |
| 11. | Were there any changes in the general act regarding the amount of provisions to which employees are entitled when retiring in relation to the previous period | No | | | | | |
| 12. | Method of recognizing actuarial gains/losses | Entirely in the period in which they arise | | | | | |
| 13. | Where there any changes in the general act regarding the recognition of provisions upon retirement compared to the previous period | No | | | | | |

Mortality tables for the period were used in the actuarial calculation 2010 – 2012.

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

30. LONG TERM LIABILITIES

Long term liabilities are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|----------------|
| | 2020. | 2019. |
| Liabilities from financial leasing | 15,865 | 21,100 |
| Long-term loans and borrowings in the country | 173,914 | 190,094 |
| Balance as of December 31st | 189,779 | 211,194 |

Obligations from financial leasing related to leasing of cars from 5 to 6 years with an effective interest rate of 2.35 to 6.69% per year.

IMP – Automatika L.t.d. Belgrade has an obligation based on a loan with Raiffeisen Bank (part), in the amount of EUR 127,000.00 (currency clause), with a grace period until June 30, 2020 for a repayment period of 18 months and an interest rate of one month Euribor plus 1.90% .

IMP - Automatika L.t.d. Belgrade has an obligation based on a loan with Raiffeisen Bank (part), in the amount of EUR 427,000.00 (currency clause), with a grace period of 6 months (the loan was approved on May 25, 2019) for a repayment period of 18 months and interest of one-month Euribor plus 1.90%.

IMP - Automatika L.t.d. Belgrade has an obligation based on a loan with Intesa Bank (part), in the amount of EUR 424,600.00 (currency clause), with a grace period until 01.02. 2020 for a repayment period of 18 months and interest on the three-month Euribor plus 2.10%.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Raiffeisen Bank at EUR 501,290.28, with a currency clause and a grace period until 30.06.2021. year, one-month Euribor plus 1.95% interest.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Raiffeisen Bank at EUR 90,340.75, with a currency clause and a grace period until 30.06.2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Raiffeisen Bank at EUR 421,083.85, with a currency clause and a grace period until 30.06.2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Raiffeisen Bank at EUR 250,638.27, with a currency clause and a grace period until 30.06.2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Banca Intesa at EUR 353,300.00, with a currency clause and a grace period of 6 months. The loan was approved on July 1, 2020. year, three-month Euribor plus 2.10% interest.

31. SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities are related to:

| | <i>in RSD 000</i> | |
|--|-------------------|----------------|
| | 2020. | 2019. |
| Short-term loans from parent companies and subsidiaries | 0 | 0 |
| Short term loans – domestic | 356,988 | 379,165 |
| Portion of the long-term liabilities that matures for less than a year | 0 | 2,011 |
| Balance as of December 31st | 356,988 | 381,176 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

31. SHORT-TERM FINANCIAL LIABILITIES (Continued)

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 127.000,00 (currency clause) relating to a loan obtained from Raiffeisen Bank, with a grace period until June 30, 2021, plus 18 months repayment. The interest rate on this loan is a one-month euribor plus 1,90%.

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 427.000,00 (currency clause) relating to a loan obtained from Raiffaiesen Bank (part) with a grace period until June 30, 2021 (loan approved May 25, 2019) plus 18 months repayment and the interest rate on this loan is a one-month euribor plus 1,90%.

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 424.600,00 (currency clause) relating to a loan obtained from Banca Intesa (part) with a grace period until October 23, 2021, plus 12 months repayment. The interest rate on this loan is a quarterly euribor plus 2,10%.

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 510.000,00 (currency clause) relating to a loan obtained from Banca Intesa (part), approved on July 1, 2020. year, with a grace period of 3 months and 21 months of repayment and interest on the three-month Euribor plus 2.10%.

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 300.000,00 (currency clause) relating to a loan obtained from Halk Bank, with the dynamics of repayment at once (maturity November 6, 2021) and the interest rate on this loan is a quarterly euribor plus 2.25%

IMP Automatika d.o.o., Belgrade has a credit in the amount of EUR 426.000.00 relating to a loan obtained from OTP bank, approved on May 12, 2020, with the dynamics of repayment at once (maturity May 12, 2021) and interest three-month Euribor plus 1.90%.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has (part of) a loan with Raiffeisen Bank at EUR 501,290,28, with a currency clause and a grace period until 30.06.2020. year, one-month Euribor plus 1.95% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE (part of) a loan with Credit Agricol Bank at EUR 450,000.00, with a currency clause and the beginning of repayment until March 27, 2021. year, quarterly Euribor plus 2.10% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has (part of) a loan with Raiffeisen Bank in the amount of EUR 421,083,85, with a currency clause and a grace period until June 30, 2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has (part of) a loan with Raiffeisen Bank at EUR 250,638,27, with a currency clause and a grace period until June 30, 2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has (part of) a loan with Raiffeisen Bank at EUR 90,340,75, with a currency clause and a grace period until June 30, 2021. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has (part of) a loan with Raiffeisen Bank in the amount of EUR 1,000,000.00, with a currency clause and a grace period until October 31, 2019. year, one-month Euribor plus 1.90% interest.

INSTITUTE MIHAJLO PUPIN Ltd Belgrade has (part of) a loan with Banca Intesa at EUR 353,300.00, with a currency clause and a grace period of 6 months. The loan was approved on July 1, 2020. year, three-month Euribor plus 2.10% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has a loan with Credit Agricole in the amount of EUR 100.00.00, with a currency clause and repayment at once on March 31, 2021. year, quarterly Euribor plus 2.10% interest.

INSTITUTE MIHAJLO PUPIN LTD BELGRADE has a loan with Credit Agricole in the amount of EUR 220.00.00, with a currency clause and repayment at once on March 31, 2021. year, quarterly Euribor plus 2.10% interest.

32. RECEIVED ADVANCES

Received advances are related to:

| | <i>in RSD 000</i> | |
|---|-------------------|----------------|
| | 2020. | 2019. |
| Received advances, deposits and caution money | 994,774 | 865,951 |
| Balance as of December 31st | 994,774 | 865,951 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

33. TRADE PAYABLES

Trade payables are related to:

| | 2020. | <i>in RSD 000</i> 2019. |
|------------------------------------|----------------|-----------------------------------|
| Trade payables – domestic | 321,424 | 595,764 |
| Trade payables – foreign | 4,782 | 143,039 |
| Balance as of December 31st | 326,206 | 738,803 |

34. OTHER SHORT-TERMS LIABILITIES

Other current liabilities are related to

| | 2020. | <i>in RSD 000</i> 2019. |
|---|----------------|-----------------------------------|
| Obligations to the importer | 0 | 0 |
| Liabilities for net salaries and fringe benefits, except allowances to be refunded | 77,658 | 70,658 |
| Liabilities for taxes on salaries and fringe benefits charged to employees | 9,916 | 9,028 |
| Liabilities for contributions on salaries and fringe benefits charged to employees | 20,864 | 18,909 |
| Liabilities for taxes and contributions on salaries and fringe benefits charged to employer | 17,459 | 15,836 |
| Liabilities for refundable net fringe benefits | 102 | 454 |
| Liabilities for taxes and contributions on refundable fringe benefits charged to employees | 40 | 179 |
| Liabilities for taxes and contributions on refundable fringe benefits charged to employer | 24 | 105 |
| Liabilities for interests and finance costs | 529 | 1,007 |
| Liabilities for dividends | 0 | 0 |
| Liabilities for share in the profit | 0 | 0 |
| Liabilities to employees | 63,905 | 71,193 |
| Liabilities to members of Management Board and Supervisory Board | 225 | 181 |
| Liabilities to individuals for contracted fees | 1,095 | 1,415 |
| Liabilities for short-term provisions | 121,842 | 16,010 |
| Other liabilities | 159 | 112 |
| Balance as of December 31st | 313,818 | 205,087 |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

35. LIABILITIES FOR VALUE ADDED TAX AND OTHER PUBLIC REVENUES ACCRUALS AND DEFERRED INCOME

| | <i>in RSD 000</i> | |
|---|-------------------|----------------|
| | 2020. | 2019. |
| Liabilities for VAT on difference between calculated VAT and previous taxes | 45,179 | 38,779 |
| Liabilities for turnover tax | 0 | 658 |
| Liabilities for income tax | 6,301 | 26,735 |
| Liabilities for taxes, customs, and other duties charged to | 80 | 70 |
| Other liabilities for taxes, contributions and other duties | 1,789 | 5,439 |
| Donations received | 233,910 | 140,629 |
| Deferred tax liabilities | 0 | 0 |
| Other accruals and deferred income | 13,288 | 42,910 |
| Balance as of December 31st | 300,547 | 255,220 |

36. OFF-BALANCE SHEET EVIDENCE

Off-balance sheet are related to:

| | <i>in RSD 000</i> | |
|------------------------------------|-------------------|--------------|
| | 2020. | 2019. |
| Off-Balance sheet assets | 1,934,567 | 1,776,368 |
| Off-Balance sheet liabilities | (1,934,567) | (1,776,368) |
| Balance as of December 31st | 0 | 0 |

Guarantees in the amount of RSD 1,934,567 thousand at 31. December 2020 include guarantees of performance bonds issued to suppliers by banks.

**Notes to consolidated financial statements
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37. POTENTIAL LIABILITIES

INSTITUTE MIHAJLO PUPIN L.t.d. BELGRADE in the capacity of bankruptcy creditor:

1. Minel-contact networks of AD Belgrade in bankruptcy
Commercial Court in Belgrade 45.St.4762 / 12

Reported claim. 11,889,744.78 RSD

Recognized claim in full by the Conclusion of the Commercial Court in Belgrade dated April 25, 2013: RSD 11,889,744.78.

Date 03.06.2019. the court issued a decision terminating the bankruptcy proceedings against the bankruptcy debtor, and continuing against the bankruptcy estate. In the further procedure, it is expected that the bankruptcy estate will be liquidated and a decision on division will be made. According to the finality of the court decision, the collection will depend on the amount of the bankruptcy estate and the percentage of collection of creditors' claims according to the payment lines, the Institute will be in the III payment line.

2. Telefonija AD Belgrade
Commercial Court in Belgrade 3.St.71 / 2014 (formerly 6.St.3715 / 2012)

Bankruptcy proceedings started from the beginning, the reorganization plan prepared in advance was put out of force.

Reported receivable in the amount of: RSD 1,665,810.72 in the name of the principal debt
RSD 2,217,719.75 in the name of statutory interest.

Recognized claim by the Conclusion of the Commercial Court in Belgrade dated March 24, 2015: RSD 1,665,810.72 in the name of the principal debt and RSD 1,915,113.60 in the name of the statutory interest rate

At the hearing held on October 19, 2015, the reorganization plan was not adopted and a decision on the bankruptcy of the debtor was made. On July 16, 2019, an announcement on the public sale of the bankruptcy debtor's property was submitted to the Court. During 2020, sales, liquidation of the bankruptcy estate, decision-making on division and payment of recognized receivables are expected. The collection will depend on the amount of the bankruptcy estate and the percentage of collection of creditors by payment lines. The institute will be in the third payment line.

3. Partner inženjering ltd Belgrade
Commercial Court in Belgrade-now bankruptcy over the Bankruptcy estate 8.St.255 / 2016
(formerly 9.St.4659 / 2010)

Reported receivable in the amount of: RSD 8,117,941.21 in the name of the principal debt
RSD 1,766,046.73 in the name of legal interest.

Recognized claim in full by the Conclusion of the Commercial Court in Belgrade from March 29, 2011. Decision of the Commercial Court in Belgrade on the suspension of bankruptcy over the bankruptcy debtor (bankruptcy debtor sold in the bankruptcy procedure on 30.05.2016.) And the continuation of the procedure over the bankruptcy estate 8. St.255 / 2016 of 04.10.2016. became final and enforceable, according to the Main Division, the Institute as a bankruptcy creditor from the III payment order was collected in the percentage of 2.08% of the recognized claim, payment in the amount of 205,894.54 RSD on 20.12.2018. Bankruptcy was expected to end in 2019, but the Court has not yet ruled on the termination of the proceedings, so the proceedings are still ongoing.

4. GOŠA Factory of rail vehicles, passenger and special wagons LTD Smederevska Palanka-
in bankruptcy Commercial Court in Požarevac 3.St.28 / 2017

Reported claim: RSD 89,280.00 in the name of the principal debt
RSD 58,070.75 in the name of statutory interest

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

37. POTENTIAL LIABILITIES (Continued)

The claim was reported on January 16, 2018. By the conclusion of the Commercial Court in Požarevac from September 26, 2018. year receivable recognized in full (147,350.75 RSD). Date 28.11.2019. The Court issued a decision terminating the bankruptcy of the bankruptcy debtor (due to the sale of the bankruptcy debtor as a legal entity on November 12, 2019), and continuing against the bankruptcy estate, case number St.3 / 2020. According to the Main Division, bankruptcy creditors of the 2nd and 3rd order (3rd order - commercial creditors, in which group the Institute is also included), were not paid, payment was made to priority creditors of the 1st order - employees' salaries in the amount of 49.28 % of recognized receivables. At this moment, the bankruptcy trustee for the bankruptcy estate is conducting 3 court proceedings, so that the bankruptcy proceedings will last until the final conclusion of all 3 litigation proceedings. If they are resolved in favor of the bankruptcy estate - there may be additional divisions.

INSTITUTE MIHAJLO PUPIN L.t.d. Belgrade in the capacity of defendant:

5. Mirković Mara from Belgrade - for the purpose of concluding a lease agreement for an indefinite period of time

The Fourth Defendant Institute, - now the Third Basic Court in Belgrade 5.P.12256 / 13

On 18 May 2017, the first-instance court again issued a Decision on the termination of the procedure, the second-instance court accepted the plaintiff's appeal, revoked the decision on the termination of the procedure and returned the case to the first-instance court for retrial.

In the continued procedure, all the proposed evidence was presented and the Institute submitted a request to terminate the procedure until the final conclusion of the procedure before the RGA-Real Estate Cadastre Service - New Belgrade Branch to correct the registration of the right to use the disputed apartment in favor of the Mihajlo Pupin Institute Belgrade. The court has not yet ruled on the motion to stay the proceedings. The outcome of the litigation procedure is uncertain, in the end the court will decide on the legal issue - whether the right to use the apartment with one-time disposal has been exhausted or not, and on that basis it will pass a first instance verdict.

6. Živković Mladen from Novi Sad for compensation of non-pecuniary damage RSD 93,000.00 + spp
Second Defendant Institute, Basic Court in Novi Sad P.12205 / 2019

The subject of the dispute is the compensation of non-pecuniary damage - the fear suffered due to the lowering of the toll ramp on the Prosecutor's vehicle, the Institute is the second defendant, the lawsuit is disputed in its entirety. The hearing scheduled for April 1, 2020 was not held due to the state of emergency in the Republic of Serbia. The outcome of the dispute is uncertain, it will depend on the expertise and assessment of the presented evidence by the Court.

INSTITUTE MIHAJLO PUPIN L.t.d. Belgrade as an intervener on the part of defendant JP Putevi Srbije (on the basis of concluded Agreement on maintenance of the Toll Collection System on the highway of the Republic of Serbia):

7. The company Dunav osiguranje ADO Belgrade - The main branch of insurance in Kraljevo is working recourse debt 43,338.00 RSD + spp Commercial Court in Kraljevo - 4.P.512 / 2020 (previously PI.48 / 2020)

Institute by the defendant - PE Roads of Serbia, was summoned to the lawsuit for debt that is recourse. recourse for paid compensation due to the fall of the toll ramp on the insured's vehicle, included as an intervener, and how the recordings from the toll ramps of PE Roads of Serbia are kept, due to the volume of material, only 6 months, and lack of evidence for successful defense, in order to reduce further costs procedure, the Institute concluded an Out-of-Court Settlement with the Prosecutor on November 2, 2020. year, paid to the Prosecutor on 04.11. In 2020, the amount of 56,179.43 RSD (43,338.00 RSD principal debt + 6,341.43 RSD statutory default interest + 6,500.00 RSD costs of the proceedings), the plaintiff withdrew the lawsuit on 05.11.2020. year, and the Court on the same day the Decision to withdraw the lawsuit. The procedure is over.

8. The company Dunav osiguranje ADO Belgrade due to recourse debt RSD 37,072.00 + spp Commercial Court in Sremska Mitrovica - 4.P.89 / 2020

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

37. POTENTIAL LIABILITIES (Continued)

Institute by the defendant - PE Roads of Serbia, was summoned to the lawsuit for debt that is recourse, recourse for paid compensation due to the fall of the toll ramp on the insured's vehicle, included as an intervener, and how the recordings from the toll ramps of PE Roads of Serbia are kept, due to the volume of material, only 6 months, and lack of evidence for successful defense, in order to reduce further costs procedure, the Institute concluded an Out-of-Court Settlement with the Prosecutor on August 7, 2020. year, paid to the Prosecutor on 11.08.2020. the amount of 52,872.25 RSD (37,072.00 RSD principal debt + 9,676.25 RSD default interest + 6,124.00 RSD costs of the procedure). The plaintiff withdrew the lawsuit on August 14, 2020. year, and the Court on 07.09.2020. year passed a decision to withdraw the lawsuit. The procedure is over.

9. Maričić Dragan from Novi Sad for damages RSD 70,000.00 + spp Basic Court in Novi Sad - P.12069 / 2019

Institute by the defendant - PE Roads of Serbia, invited to a lawsuit for damages due to falling tollbooths on the vehicle insured, to include in his capacity as intervener, and how to capture the tollbooths JP Roads of Serbia kept, due to the volume of material, just 6 months, and the lack of evidence for a successful defense, and in order to reduce further costs of the proceedings, the Institute concluded an Out - of - Court Settlement with the Prosecutor on 04.08.2020. years. On 11.08.2020. The Institute paid the Prosecutor the amount of RSD 85,000.00 in the name of the principal debt and the amount of RSD 34,664.00 in the name of the total costs of the proceedings. The plaintiff was on 12.08.2020. years withdrew the lawsuit. The procedure is over.

10. Company Dunav osiguranje ADO Belgrade due to recourse debt 65,310.00 RSD + spp Commercial Court in Belgrade - 10.P.1037 / 2020

Institute by the defendant - PE Roads of Serbia, was summoned to the lawsuit for debt that is recourse, recourse for paid compensation due to the fall of the toll ramp on the insured's vehicle, included as an intervener, which the Institute did and at the first hearing entered into litigation instead of the Defendant and admitted the claim, due to lack of evidence for defense (recordings from toll ramps JP Putevi Srbije kept, due to the volume of material, only 6 months). According to the Judgment based on the confession from 03.06.2020. The Institute was established on June 11, 2020. paid the Prosecutor the amount of 70,732.77 RSD (65,310.00 dinars in the name of the main debt and 5,422.77 RSD in the name of legal default interest), and he was released from paying the court fee due to the recognition of the lawsuit at the first hearing. The procedure is over.

11. LTS ALADIN Ltd. NOVI SAD for damages RSD 69,600.00 + spp - Commercial Court in Belgrade - 46.P.5421 / 2019

The Institute was invited by the defendant - JP Putevi Srbije, to join the lawsuit for damages due to the fall of the toll ramp on the insured's vehicle, as an intervener, which the Institute accepted and obtained a recording from JP Putevi Srbije of the Prosecutor's passage through the disputed toll ramp. Based on the insight into the recording, the Institute, as an intervener, disputed the lawsuit and the lawsuit. The hearing scheduled for March 31, 2020 was not held due to the state of emergency in the Republic of Serbia. The outcome of the dispute is uncertain for now, it will depend on how the Court will evaluate the presented evidence.

12. Trajko Mitrović from Smederevska Palanka for damages RSD 12,950.00 + spp Basic Court in Velika Plana - Court unit in Smederevska Palanka - 4.P.2223 / 2018

Institute by the defendant - PE Roads of Serbia, invited to a lawsuit for damages due to falling tollbooths on the vehicle insured, to include in his capacity as intervener, and how to capture the tollbooths JP Roads of Serbia kept, due to the volume of material, just 6 months, and the lack of evidence for a successful defense, and in order to reduce further costs of the proceedings, the Institute concluded an Out - of - Court Settlement with the Prosecutor on 19.05.2020. year, paid to the Prosecutor on 22.05.2020. the amount of RSD 25,112.80 (RSD 12,950.00 principal debt + RSD 2,535.80 legal default interest + RSD 9,627.00 costs of the proceedings). The plaintiff withdrew the lawsuit on May 26, 2020. The procedure is over.

13. Ivković Miloš and Ivković Ilić Dušica from Niš for compensation of non-pecuniary damage 99,000.00 RSD + spp (fear due to lowering of the toll ramp on the vehicle) Basic Court in Nis - 24.P.2888 / 20

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

37. POTENTIAL LIABILITIES (Continued)

Institute by the defendant - PE Roads of Serbia, invited to a lawsuit for damages due to falling tollbooths on the vehicle insured, to include in his capacity as intervener, as the Institute did and motion challenged the claim and the claim in its entirety. The lawsuit is ongoing. The next hearing is scheduled for June 21, 2021. The outcome of the dispute cannot be predicted.

38. FINANCIAL INSTRUMENTS

Capital Risk Management

The objective of capital management, the Groups's ability to continue its operations for an indefinite period in the foreseeable future in order to preserve capital structure to reduce the cost of capital, and the owners provide a return on capital. The Group monitors capital based on the gearing ratio which is calculated as the ratio of net indebtedness of the Group and its total capital.

Persons who control the finances at the level of the Group's capital structure are examined annually.

Indicators indebtedness of the Group as at year end were as follows:

| | <i>in RSD 000</i> | |
|---------------------------|--------------------|--------------------|
| | 2020. | 2019. |
| Debt a) | | |
| Cash and cash equivalents | 546,767 | 592,370 |
| | <u>(1,566,956)</u> | <u>(1,181,481)</u> |
| Net debt | <u>(1,020,189)</u> | <u>(589,111)</u> |
| Equity b) | <u>1,481,032</u> | <u>1,289,154</u> |
| Debt equity ratio | <u>0.69</u> | <u>0.46</u> |

a) Debt relates to long-term and short-term liabilities

b) Equity comprises founding capital, revaluation reserves, unrealized losses on securities available for sale and accumulated profit.

Significant accounting policies regarding financial instruments

Details of significant accounting policies, as well as criteria and basis for recognition of revenues and expenses for all categories of financial assets and liabilities are disclosed in Note 3 of these financial statements

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

38. FINANCIAL INSTRUMENTS (Continued)

Categories of financial instruments

| | <i>in RSD 000</i> | |
|--|-------------------|--------------------|
| | 2020. | 2019. |
| Financial Assets | | |
| Long term financial investments | 15,682 | 16,947 |
| Receivables from sales | 487,309 | 1,213,134 |
| Short-term financial investments | 0 | 0 |
| Cash and cash equivalents | 1,566,956 | 1,181,481 |
| | 2,069,947 | 2,411,562 |
| Financial Liabilities | | |
| Long-term liabilities | (189,779) | (211,194) |
| Short-term financial liabilities | (356,988) | (381,176) |
| Trade payables without received advances | (326,206) | (738,803) |
| | (872,973) | (1,331,173) |

Basic financial instruments of the Company are cash and cash equivalents, trade receivables and trade payables with basic purpose to finance its current operations. In normal business conditions the Company is exposed to the following risks.

Purpose of managing financial risks

Financial risks comprise market risk (currency risk and interest rate risk), credit risk and liquidity risk. Financial risks are recognized on timely basis and managed by decreasing of exposure of the Company to those risks. The Company doesn't use any hedge instruments in way to decrease exposure to financial risks because these instruments are not widely used and there is no active market for these instruments in the Republic of Serbia.

Market risk

The Company is exposed to financial risk from movements of currency exchange rates and interest rates.

Exposure to market risk is recognized through sensitivity analyses. There are no significant changes in the Company exposure, managing and measurement of market risk.

Currency risk

The Company is exposed to currency risk through trade payables which are nominated in foreign currency. The Company doesn't use any hedge instruments to manage currency risk because they are not adopted in business practice in Republic of Serbia.

The stability of economic environment in which the Company operates, is depending from government measures and law and legislation environment.

Book value of monetary assets and liabilities nominated in foreign currency at the date of reporting is following:

| | Assets | | Liabilities | |
|-----|---|---|---|---|
| | December 31st 2020. | December 31st 2019. | December 31st 2020. | December 31st 2019. |
| EUR | 743,998 | 919,778 | (551,550) | (980,220) |
| | 743,998 | 919,778 | (551,550) | (980,220) |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

38. FINANCIAL INSTRUMENTS (Continued)

The Company is sensitive on changes of exchange rate for EUR and USD. The following table reflects sensitivity analysis of the Company on increasing and decreasing of exchange rate for EUR. Sensitivity rate is used for disclosure of currency risk and reflects management estimation of reasonable expected fluctuations in foreign exchange rates. Sensitivity analysis includes only uncollected receivables and liabilities denominated in foreign currency and their adjustment for fluctuation foreign exchange rate of 10%. Positive number in the table reflects to increase of financial result for current year in cases when RSD increase in relation to foreign currency. In case when RSD fall for 10% in relation to foreign currency the effect on financial result will be opposite. In the case of strengthening RSD of 10% in relation to the foreign currency, the influence on the result of the current period would be contrary to that reported in the previous case. In the case of a 10% denomination in relation to a foreign currency, the impact on the outcome of the current period would be contrary to the one stated in the previous case. The main reason for this lies in the fact that a company has a predominantly short position in the currency, and therefore denominated in foreign currency far greater than those of the same.

| | December 31st 2020. +10% | December 31st 2019. +10% | December 31st 2020. (10%) | in RSD 000 December 31st 2019. (10%) |
|-----|--|--|---|--|
| EUR | 19,245 | 6,044 | (19,245) | (6,044) |
| | 19,245 | 6,044 | (19,245) | (6,044) |

Interest rate risk

The Company is exposed to fluctuations of interest rate on assets and liabilities for which interest rate is variable. This risk depends on the financial markets and the Company does not have available instruments that would mitigate its impact.

Book value of financial assets and liabilities at the end of reporting period is following:

| | 2020. | in RSD 000 2019. |
|--|------------------|-----------------------------|
| Financial asset | | |
| <i>Noninterest bearing</i> | | |
| Long-term financial investments | 12,938 | 13,909 |
| Short-term financial investments | 0 | 0 |
| | 12,938 | 13,909 |
| <i>Interest bearing</i> | | |
| Long-term financial investments | 15,682 | 16,947 |
| Receivables from sales | 487,309 | 1,213,134 |
| | 1,566,956 | 1,181,481 |
| | 2,069,947 | 2,411,562 |
| | 2,082,885 | 2,425,471 |
| Financial liabilities | | |
| <i>Noninterest bearing</i> | | |
| Trade payables without received advances | (326,206) | (738,803) |
| | (326,206) | (738,803) |
| <i>Interest bearing</i> | | |
| Long-term liabilities | (189,779) | (211,194) |
| Short-term financial liabilities | (356,988) | (381,176) |
| | (546,767) | (592,370) |
| Interest rate gap | (533,829) | (578,461) |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

38. FINANCIAL INSTRUMENTS (Continued)

Sensitivity analysis shows the following text are established based on the exposure to changes in interest rates for non-derivative instruments at balance sheet date. For variable rate obligations, the analysis was prepared assuming that the remaining amount of assets and liabilities at the balance was unchanged throughout the year. Increase or decrease of 1% is, by the management, assessment of reasonably possible changes in interest rates

| | Increase of 1 percentage point 2020. | | Decrease of 1 percentage point 2020. | | in RSD 000 |
|----------------------------|--|---------|--|-------|------------|
| | | 2019. | | 2019. | |
| The result for the year | (5,338) | (5,785) | 5,338 | 5,785 | |

Credit risk

The Company is exposed to credit risk which presents a risk that debtor will not be able to pay his debts in full amount and on due date, which cause financial losses for the Company. Exposure of the Company to credit risk is limited by amount of trade receivables as of balance sheet date. Amount of trade receivables is made from numerous customers.

Liquidity risk

Final responsibility for managing of liquidity risk is on management of the Company who has established corresponding management system for the purpose of long term, medium term and short term financing as well as liquidity managing. The Company manages liquidity risk by maintaining cash reserves, tracking of estimated and realized cash flow as well as maintaining maturity relation between financial assets and liabilities.

Following table presents book and fair value of financial asset and liabilities as of 31st December 2020 and 31st December 2019.

| | December 31 st 2020 | | December 31 st 2019 | |
|--|--------------------------------|------------------|--------------------------------|--------------------|
| | Book value | Fair value | Book value | Fair value |
| Financial asset | | | | |
| Long-term financial investments | 15,682 | 15,682 | 16,947 | 16,947 |
| Trade receivables | 487,309 | 487,309 | 1,213,134 | 1,213,134 |
| Short-term financial investments | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 1,566,956 | 1,566,956 | 1,181,481 | 1,181,481 |
| | 2,069,947 | 2,069,947 | 2,411,562 | 2,411,562 |
| Financial liabilities | | | | |
| Long-term liabilities | (189,779) | (189,779) | (211,194) | (211,194) |
| Short-term financial liabilities | (356,988) | (356,988) | (381,176) | (381,176) |
| Trade payables without received advances | (326,206) | (326,206) | (738,803) | (738,803) |
| | (872,973) | (872,973) | (1,331,173) | (1,331,173) |

**Notes to consolidated financial statements
for the year ended December 31st 2020 and 2019**

38. FINANCIAL INSTRUMENTS (Continued)

Assumptions for assessing current fair value of financial instruments

Having in mind that there is no sufficient market experience, stability and liquidity in buying and selling financial assets and liabilities, as well as lack of available market information that could be used for disclosing fair values of financial assets and liabilities, discounted cash flow method has been used for valuation. When applying this method, interest rates for similar financial instruments are used, in order to obtain relevant assessment of market value of financial instruments on the balance sheet day.

39. EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

After the balance sheet date as of December 31, 2020, no significant changes have occurred in the Group that would have an impact on the Company's financial statements.

By the Decision of the Business Registers Agency No. BD 20621/2021, dated March 12, 2021, IMP-Automatika Ltd, Belgrade, as a subsidiary of Institute Mihajlo Pupin Ltd, Belgrade, established its subsidiary with 100% ownership of IMP Automatika-Security Ltd, Belgrade, with headquarters Volgina 15, Belgrade.

40. EXCHANGE RATES

Foreign exchange rates determined on interbank market of foreign currencies and applied for estimation of items in the balance sheet for some of the main currencies are as follows:

| | in RSD | |
|-----|------------------------------------|------------------------------------|
| | December 31 th 2020. | December 31 th 2019. |
| EUR | 117,5802 | 117,5928 |
| USD | 95,6637 | 104,9186 |
| CHF | 108,4388 | 108,4004 |

In Belgrade,

Date June 9th 2021

Person responsible for preparing
the Financial Statement

Kristina Bećić



Legal representative

[Signature]