

Institute „Mihajlo Pupin“ Ltd, Belgrade

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

**Notes to the 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 29 January 1959.

The Company operates in accordance with the Law on research and development activities ("RS Official Gazette", no. 110/05 and 50/06 - correction). 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).

On 17 April 2007, an Agreement on the state-owned stake in the assets used by the Company was entered into, between the Company and the Government of the Republic of Serbia. Pursuant to the aforementioned Agreement the Republic of Serbia takes over all founder's, i.e. managing rights, so the stake of state property in assets used by the Company amounts to 100%.

The Company is the sole owner of the following six subsidiaries (with 100% stake):

1. IMP "Automatika" Ltd, Belgrade;
2. IMP "Računarski sistemi" Ltd, Belgrade;
3. IMP "Telekomunikacije" Ltd, Belgrade;
4. IMP "Piezotehnologija" Ltd, Belgrade;
5. IMP "Poslovne usluge" Ltd, Belgrade; and
6. "Idvorski Laboratorije" Ltd, Belgrade with 75% interest in capital.

The company IMP "Računarstvo" Ltd, Belgrade, Tax identification number (TIN) 10008344, Company identification number (CIN) 17178326, was deleted from the Companies Register (Serbian Business Register Agency decision no. BD 26782/2012 dated 13 March 2012) and merged with the company IMP "Računarski sistemi" Ltd, Belgrade, TIN 100008336, CIN 17178318, pursuant to the decision of the Serbian Business Register Agency no. BD 26864/2012 dated 13 March 2012.

The company IMP – Naučnotehnološki park Ltd, Belgrade - in liquidation, Tax identification number (TIN) 104802558, Company identification number (CIN) 20232005, was deleted from the Companies Register (Serbian Business Register Agency decision no. BD 74902/2020 dated 19 October 2020).

The Company is domiciled in Belgrade, 15, Volgina Street.

The Company's identification number is 07014694, and its tax identification number is: 100008310. As of 31 December 2020 the Company had 169 employees (31 December 2019: 174 employees).

These financial statements are signed by Director at 7 June 2021. Financial statements can be altered after the fact by the companies Auditor according to the relevant regulations.

2. Basis for preparation and presentation of the financial statements

(a) Basis for preparation of financial statements

Financial statements are prepared in accordance with:

- The Law on Accounting (Official Gazette of the Republic of Serbia No. 62/2013 and 30/2018),
- The Law on Audit (Official Gazette of the Republic of Serbia No. 62/2013 and 30/2018),
- International Financial Reporting Standards (Official Gazette of the Republic of Serbia No. 77/10 and No. 95/10),
- Rulebook on the Chart of Accounts and Contents of the Accounts in the Chart of Accounts for Companies, Cooperatives and Entrepreneurs (Official Gazette of the Republic of Serbia, No. 95/2014),

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For the Year Ended December 31st 2020 and 2019

2. Basis for preparation and presentation of the financial statements (continued)

(a) Basis for preparation of financial statements (continued)

- Rulebook on Amendments to the Rulebook on the Chart of Accounts and Contents of the Accounts in the Chart of Accounts for Companies, Co-operatives and Other Legal Entities and Entrepreneurs (Official Gazette of the Republic of Serbia No. 119/08, No. 9/09 and No. 3/11),
- The content and form of financial statements and the content of the positions in forms is prescribed by the Guidelines on the Content and Form of Financial Statements for Companies, Cooperatives and Entrepreneurs ("RS Official Gazette", no. 114/2014).
- Ordinance on amendments to the Ordinance on the contents and form of Financial Statements for companies, cooperatives, other legal entities and entrepreneurs (Official Gazette of the Republic of Serbia No. 5/07, 119/08 and 2/10).

Except as described below, the Company's financial statements prepared in accordance with International Standards financial reporting (IFRS).

Company has issued the financial statement in accordance with the accounting of Serbia (hereinafter referred to as the Law), published in the Official Gazette of Republic of Serbia No. 61/2013, 30/2018 and 73/2019 which requires that financial statements are prepared in accordance with all IFRS translated to 21. November, 2019. The specific requirements of the Law depart from IFRS due to the fact that they are adopted only translated the standards of these financial statements to contain the effects of IFRS as published by 21. November, 2019. In addition to the above, the Law requires a certain presentation and treatment of certain accounts and balances, which has resulted in additional departures from IFRS as follows:

- 1 Company prepared these financial statements in 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.
- 2 The solution of the Ministry of Finance of the Republic of Serbia No. 401-00-4980/2019-16 of 21. November 2020. (Official Gazette of the Republic of Serbia No. 92/2019) specifies that the official standards have an official translation of International Accounting Standard (IAS) and IFRS (IFRS) as published by the International Accounting Standard (IAS), as well as the interpretation of the standards issued by the Committee of International Financial reporting to 31st July 2013. years. Until the date of preparation of these financial statements has not translated any amendment or supplement existing or revised standards, as well as any new interpretations issued by the IASB and IFRIC after 31st July 2013. Standards and interpretations that in Serbia there is an officially translated as: IFRS 15 - Revenue from contracts with customers; IFRS 9R – Financial Instruments.

(b) Comparative data

Comparative figures and opening balances represent information contained in the financial statements for 2019. Company's financial statements have been subject to an independent audit and are presented in the Report of the Independent Auditors 10 June 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies in effect during the preparation of Financial Statments for the year ended on December 31st 2020 are, as follows:

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Intangible Assets (Continued)

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.

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, 113/2017, 95/2018 and 86/2019) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004, 99/2010, 104/2018 and 8/2019). Different depreciation methods used for the financial reporting purposes and the tax purposes give rise to deferred taxes (Note 18).

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, in order to generate benefits from their activities. It is considered that the control exists when the Company owns, directly or indirectly (through other subsidiaries) more than half of the voting rights.

Equity investments in subsidiaries are reported at the original acquisition cost less accumulated impairment losses (Note 22(i)).

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.

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(a) Loans and Receivables (Continued)

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.

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 (Note 22(iii)).

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.

Notes to the 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 (Continued)

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.

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 10). 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Leases (Continued)

Company as a Lessee (Continued)

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.

(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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Foreign Currency Translation

All assets and liabilities denominated in foreign currencies are translated into RSD counter value at the official exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 41).

Foreign currency transactions are translated into the functional currency at the official exchange rates in effect at the date of each transaction.

Foreign exchange gains and losses arising upon settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies at the year-end, as well as positive and negative effects of contracted foreign currency clauses related to receivables and liabilities, are recognized in the income statement as a part of financial income (Note 13), i.e. 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.

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Revenue Recognition (continued)

(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. 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, 113/2017, 95/2018 and 86/2019) and relevant by-laws.

Income tax is calculated at the rate of 15% (2018: 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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued))

3.16. Current and Deferred Income Taxes

Deferred Income Tax (continued)

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.

3.17. Related Party Disclosures

For the purpose of these financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or has the right to govern the financial and business operations of the entity, as defined by IAS 24 "Related Party Disclosures".

Relations between the Company and its related parties are regulated at contractual basis and under market conditions. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 38).

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 2019.

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (Continued)

4.1. Financial Risk Factors (Continued)

(a) Market Risk (Continued)

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.

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.

(c) Liquidity Risk

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.

Notes to the 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)*

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, 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.

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 29 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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 finished goods and services rendered to domestic parent companies and subsidiaries	213,649	246,116
Sales of finished goods and services rendered to domestic Customers	2,531,789	2,914,704
Sales of finished goods and services rendered to foreign Customers	412,329	168,370
Total	3,157,767	3,329,190

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	379,661	341,139
Rental fees income	8,949	9,471
Total	388,610	350,650

8. MATERIAL COSTS

Costs of material are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Material procurement cost	30,403	31,054
Cost of raw material	726,099	1,089,515
Cost of other material (overhead)	3,640	2,650
Cost of fuel and energy	10,855	12,976
Cost of spare parts	467	276
Cost of a one-time write-off of inventory and tools	1,335	619
Total	772,799	1,137,090

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

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)	642,920	632,917
Taxes and contributions on salaries and benefits	93,207	89,456
The cost of compensation for services contract	650	938
Costs of remunerations according to author's contracts	922	1,848
Costs of salaries for temporary contracts	5,591	2,788
Compensations to individuals for other contracts	233	2,336
Costs of remuneration to members of Management Board and Supervisory Board	4,255	3,438
Other personal expenses remunerations	16,565	58,907
Total	764,343	792,628

10. COSTS OF DEPRECIATION AND PROVISIONS

Costs of depreciation and provisions are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Depreciation costs	30,585	34,479
Costs of provisions during the warranty period	101,721	19,358
Provisions for employee compensations and other benefits	2,667	2,309
Other provisions	11,448	6,983
Total	146,421	63,129

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	1,629,611	1,500,489
Transport services costs	14,215	14,369
Maintenance costs	6,999	4,688
Rental costs	21	61
Fair costs	0	364
Advertising costs	646	2,196
Other non-production costs	40,631	37,225
Total	1,692,123	1,559,392

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

12. NON-PRODUCTION COSTS

Non-production costs are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Costs of non-production services	14,086	20,992
Representation costs	6,098	7,551
Costs of insurance premiums	3,913	4,697
Costs of payment operations	10,312	11,737
Costs of membership fees	1,834	1,953
Tax costs	10,409	17,142
Contribution costs	716	380
Other non-production costs	5,128	5,698
Total	52,496	70,150

13. FINANCIAL REVENUES

Finansijski prihodi se odnose na:

	<i>in RSD 000</i>	
	2020.	2019.
Financial income from parent and subsidiary companies	3,129	100
Financial income from other subsidiary companies	9	11
Income from interest (to third parties)	47	174
FX gains (to third parties)	433	3,594
Income from foreign currency clause (to third parties)	4,354	2,210
Other financial revenues	2,013	0
Total	9,985	6,089

14. FINANCIAL EXPENSES

Financial expenses are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Cost of interest (to third parties)	5,028	5,944
FX losses (to third parties)	1,504	4,307
Expenses from foreign currency clause (to third parties)	7,099	225
Total	13,631	10,476

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

15. OTHER REVENUES

Other revenues are related to:

	<i>in RSD 000</i>	
	<u>2020.</u>	<u>2019.</u>
Gains on sales of Intangible assets and property, plant and equipment	117	235
Collected written-off receivables	15,510	39,807
Revenues from the effects of hedging which do not fulfill the conditions to be set out in the framework of other comprehensive results	42	23
Income from reduction of liabilities	0	1,673
Income from abolishing of long-term and short-term provisions	20,613	21,976
Other income	1,641	9,548
Total	<u>37,923</u>	<u>73,262</u>

16. OTHER EXPENSES

Other expenses are related to:

	<i>in RSD 000</i>	
	<u>2020.</u>	<u>2019.</u>
Losses on writing-offs and disposals of trade receivables and short-term financial investments	50	2
Other expenses	6,023	7,986
Losses on writing-offs and disposals short term financial investments	66,874	44,978
Total	<u>72,947</u>	<u>52,966</u>

17. LOSS FROM DISCONTINUED OPERATIONS

Profit from discontinued operations is related to:

	<i>in RSD 000</i>	
	<u>2020.</u>	<u>2019.</u>
Gains on the effects of changes in accounting policies which are not materially significant	21,881	5,809
Total	<u>21,881</u>	<u>5,809</u>

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

18. INCOME TAX

The basic components of income taxes are as follows:

	<i>in RSD 000</i>	
	2020.	2019.
Current income tax	13,091	21,373
Deferred tax income / expense for the period	(2,641)	774
Total	10,450	22,147

Harmonization of gross profit shown in the current income statement with the tax field from the tax balance sheet is shown in the following table:

	<i>in RSD 000</i>	
	2020.	2019.
Tax base	57,644	67,551
Current tax rate	15%	15%
Current income tax	8,647	10,133
Expenses not deductible for tax purposes	4,444	11,240
Harmonization at the consolidated balance	-	-
Tax exemptions after tax credit	-	-
Current income tax	13,091	21,373
Income tax expense (current tax + deferred tax rashod-deferred tax income)	10,450	22,147
The effective tax rate (income tax expense / profit before tax x 100)	18.13%	32.79%

Deferred income taxes

	<i>Income statement</i>		<i>Balance sheet</i>	
	2020.	2019.	2020.	2019.
Deferred tax assets / liabilities				
Balance at beginning of year	(774)	811	(1,227)	(453)
Temporary differences between the carrying amounts of assets and their tax value	3,415	(1,585)	2,641	(774)
Balance at end of year	2,641	(774)	1,414	(1,227)

19. INTANGIBLE ASSETS

Intangibles are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Concession, patent, licence, and other similar rights	5,159	4,721
Total	5,159	4,721

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

19. INTANGIBLE ASSETS (Continued)

The trend in intangible assets during 2020 is presented in the following table:

	Concessions, patents, licences and similar rights	Intangible assets in preparation	Total
COST VALUE			
Balance as of January 1 st 2019	28,642	-	28,642
New procurement	3,173	-	3,173
Activation	-	-	-
Balance as of 31. December 2019.	31,815	-	31,815
New procurement	1,610	-	1,610
Balance as of 31. December 2020.	33,425	-	33,425
ACCUMULATED DEPRECIATION			
Balance as of January 1 st 2019	25,883	-	25,883
Current amortization (Note 10)	1,211	-	1,211
Balance as of 31. December 2019.	27,094	-	27,094
Current amortization (Note 10)	1,172	-	1,172
Balance as of 31. December 2020.	28,266	-	28,266
Current value			
- 31. december 2020.	5,159	-	5,159
- 31. december 2019.	4,721	-	4,721

20. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Buildings	144,881	147,490
Plant and equipment	53,513	57,522
Other property, plant and equipment	13,256	13,242
Total	211,650	218,254

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Buildings	Plant and equipment	Other equipment	PPE under construction	Total
COST VALUE					
Balance as of January 1 st 2019	637,559	203,769	12,957	-	854,285
Purchase during year	1,589	-	285	17,610	19,484
Transfer from PPE	-	17,610	-	(17,610)	-
Disposals	-	(2,679)	-	-	(2,679)
Balance as of December 31 st 2019	639,148	218,700	13,242	-	871,090
Cost value during the year	12,397	-	13	10,447	22,857
Transfer from PPE	-	10,447	-	(10,447)	-
Disposals	-	(2,485)	-	-	(2,485)
Balance as of December 31 st 2020	651,545	226,662	13,256	-	891,463
ACCUMULATED DEPRECIATION					
Balance as of January 1 st 2019	476,787	145,460	-	-	622,247
Amortization (Note 10)	14,872	19,606	-	-	34,478
Disposals	-	(3,888)	-	-	(3,888)
Balance as of December 31 st 2019	491,659	161,178	-	-	652,837
Amortization (Note 10)	15,005	15,579	-	-	30,584
Disposals	-	(3,608)	-	-	(3,608)
Balance as of December 31 st 2020	506,664	173,149	-	-	679,813
Undiscounted value:					
- December 31 st 2020	144,881	53,513	13,256	-	211,650
- December 31 st 2019	147,489	57,522	13,242	-	218,254

The purchase value of fully depreciated property, plant and equipment at 31 December 2020 is RSD 134,765 thousand.

The increase in the value of fixed assets in 2020 mainly relates to procurement of computer equipment in the amount of RSD 7,457 thousand, air conditioners in the amount of RSD 51 thousand, office furniture in the amount of RSD 886 thousand, electrical devices in the amount of RSD 87 thousand, press grinders in the amount of RSD 241 thousand, machinery in the amount of RSD 207 thousand, telephones in the amount of RSD 238 thousand, equipment for scientific research in the amount of RSD 1,270 thousand, licenses in the amount of RSD 1,610 thousand and health care funds in the amount of from RSD 9 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 4,970 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 the 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	63.814	63.855
Investments in capital of other associated companies	92	209
Investments in other legal entities and other securities able for sale	8.778	9.051
Other long term investments	1.431	1.550
Provisions for long-term financial investments	(13.226)	(13.323)
Balance as of December 31st	60,889	61,342

(i) *Investments in capital of subsidiaries:*

	2020.	2019.
In stakes	63.814	63.855
Less: Provisions	(7.100)	(7.100)
Balance as of December 31st	56.714	56.755

Equity investments in subsidiaries are related to the shares in the following Business Companies:

<u>Name and headquarters</u>	2020.	2019.
IMP-Automatika Ltd.	32.668	32.668
IMP-Računarski sistemi Ltd.	21.882	21.882
IMP-Telekomunikacije	1.029	1.029
Idvorski laboratorije Ltd.	75	75
IMP-Poslovne usluge Ltd.	1.059	1.059
IMP-Naučnotehnološki park Ltd.	-	42
Balance as of December 31st	56.714	56.755

(ii) *Equity investments in associated companies*

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

Equity investments in associated companies relate to:

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

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

21. LONG TERM FINANCIAL INVESTMENTS (Continued)

(iii) *Equity investments in other legal entities and other securities available for sale*

	<u>2020.</u>	<u>2019.</u>
In stocks	8,778	9,051
Less: Provisions	<u>(6,126)</u>	<u>(6,125)</u>
Balance as of December 31st	<u>2,652</u>	<u>2,926</u>

Equity investments in other legal entities relate to:

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

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.

(iv) *Other long term financial investments*

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.

22. INVENTORIES

Inventories are related to:

	<u>2020.</u>	<i>in RSD 000</i> <u>2019.</u>
Material	<u>60,052</u>	<u>112,954</u>
Balance as of December 31st	<u>60,052</u>	<u>112,954</u>

23. ADVANCES PAID

Advances paid are related to:

	<u>2020.</u>	<i>u RSD 000</i> <u>2019.</u>
Advances paid from one of mutual relations	35,944	242,051
Advances paid for services - domestic	57,898	24,194
Advances paid for services - foreign	18,637	11,266
Provisions for advances paid	<u>(2,241)</u>	<u>(2,241)</u>
Balance as of December 31st	<u>110,238</u>	<u>275,270</u>

Receivables from paid advances reported at December 31st 2020 in the amount of RSD 112,479 thousand (without correction values claims) are not compliant with the debtors of RSD 36 thousand or 0.0319% does not conform mentioned claims.

Notes to the 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 - parent companies and subsidiaries	70,172	75,672
Trade receivables - domestic	267,205	675,374
Trade receivables - foreign	71,583	100,854
Other receivables	(187,854)	(137,004)
Balance as of December 31st	221,106	714,896

Movements in allowance for impairment were as follows:

	<i>in RSD 000</i>	
	2020.	2019.
Balance at beginning of year	137,004	140,437
Collected during the year	(15,654)	(41,457)
Provisions during the year	66,504	38,024
Balance as of December 31st	187,854	137,004

Receivables from sales recorded at December 31st 2020 in the amount of RSD 434,280 thousand (excluding allowances for impairment) are not compliant with the debtors in the amount of RSD 52,768 thousand or 12.15% does not conform mentioned claims.

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.

25. OTHER RECEIVABLES

Other receivables are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Receivables for interest and dividends	29,478	39,474
Receivables from employees	1,175	282
Receivables for compensations to be refunded	295	4,762
Receivables for prepaid taxes-other	320	0
Receivables for subscription on the basis of income tax	6,505	0
Other current receivables	31,917	41,072
Provisions for other receivables	(27,173)	(26,831)
Balance as of December 31st	42,517	58,759

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Current (business) accounts	240,390	195,391
Foreign exchange account	566,026	634,792
Other cash and cash equivalents	51,775	2,143
Balance as of December 31st	858,191	832,326

27. ASSETS FOR VAT AND OTHER PUBLIC REVENUE AND ACCURED

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

	<i>in RSD 000</i>	
	2020.	2019.
Value added tax invoices received in the general rate (excluding advance payments)	8,139	62,067
Claims for overpaid value added tax	10,987	16,655
Prepaid costs	6,705	3,944
Accrued income	121,017	129,157
Deferred tax assets	0	0
Balance as of December 31st	146,848	211,823

28. CAPITAL AND RESERVES

Capital and reserves are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Stakes in limited liability companies	475,634	475,634
Other capital	3,923	3,923
Actuarial gains and losses on defined benefit plans	(21,402)	(4,095)
Gains or losses on available-for-sale securities	(9,918)	(9,645)
Retained profit from previous years	98,740	76,038
Retained profit from current year	47,194	45,404
Balance as of December 31st	594,171	587,259

Shares in the company as a limited liability company in the amount of RSD thousand relate to:

	IN RSD 000	Participation in %
The state capital - Government of the Republic of Serbia	475.634	100,00
Total	475.634	100,00

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

28. CAPITAL AND RESERVES (Continued)

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%.

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 47,194 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	106,013	39,157
Provisions for fees and other employee benefits	38,380	18,541
Balance as of December 31st	144,393	57,698

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 the financial statements
For the Year Ended December 31st 2020 and 2019

29. LONG TERM PROVISIONS (Continued)

The principal actuarial assumptions used were as follows:

Serial Number	The assumptions used when making the calculation of provisions for severance pay upon retirement	2020.	2019.
1.	Discount rate	1,00%	2,25%
2.	The estimated rate of growth of average earnings	6,00%	3,50%
3.	Percentage fluctuation	1,47%	1,97%
4.	The amount of severance pay at the time of provisioning	252,603,00	233,637,00
5.	The amount of severance pay in the previous calculation	233,637,00	209,847,00
6.	Total number of employees as at 01. 01. current year	193	190
7.	Total number of employees who left the Company during the year	6	9
8.	Including number of retired workers who received severance pay upon retirement during the year	1	6
9.	The total number of new employees during the year	6	12
10.	Total number of employees at 31. 12. years	193	193
11.	Have there been changes in the general act in terms of provisions to which employees are entitled upon retirement compared to the previous period	No	
12.	Method of recognizing actuarial gains / losses	In its entirety in the period in which they arise	
13.	Have there been changes in the general act in terms of the recognition of provisions for retirement compared to the previous period	No	

The actuarial calculations were used mortality tables for the period 2010 - 2012.

30. LONG TERM LIABILITIES

Long term liabilities are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Long-term loans and borrowings in the country	106,932	130,865
Liabilities from financial leasing	1,223	3,851
Balance as of December 31st	108,155	134,716

Obligations from financial leasing related to leasing of cars up to 5 years with an effective interest rate of 2.35 to 3.49% per year.

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

30. LONG TERM LIABILITIES (Continued)

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 – domestic	0	0
The part of long-term loans and borrowings that matures up to one year	161,093	203,163
Part of other long-term liabilities maturing in one year	2,629	2,560
Other short-term financial liabilities	0	2,011
Balance as of December 31st	163,722	207,734

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 Agricole 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	161,324	601,253
Balance as of December 31st	161,324	601,253

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

32. RECEIVED ADVANCES (Continued)

Liabilities for received advances, deposits and caution money reported on December 31st 2020 in the amount of RSD 161,308 thousand has not been reconciled with creditors in the amount of RSD 82,602 thousand or 51.21% does not conform to the above obligations.

33. TRADE PAYABLES

Trade payables are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Trade payables – parent and subsidiaries – domestic	47,060	171,340
Trade payables – domestic	178,110	386,275
Trade payables – foreign	616	86,921
Balance as of December 31st	225,786	644,536

Liabilities to suppliers, expressed on December 31, 2020 in the amount of RSD 115,786 thousand, were not reconciled with creditors in the amount of RSD 10 thousand, or 0.0046% of the mentioned liabilities were not harmonized.

34. OTHER SHORT-TERMS LIABILITIES

Other short-terms liabilities are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Liabilities for net salaries and fringe benefits, except allowances to be refunded	33,747	30,592
Liabilities for taxes on salaries and fringe benefits charged to employees	4,373	3,988
Liabilities for contributions on salaries and fringe benefits charged to employees	8,696	8,034
Liabilities for taxes and contributions on salaries and fringe benefits charged to employer	7,276	6,722
Liabilities for refundable net fringe benefits	21	310
Liabilities for taxes and contributions on refundable fringe benefits charged to employees	8	126
Liabilities for taxes and contributions on refundable fringe benefits charged to employer	5	72
Liabilities for interests and finance costs	335	1,007
Liabilities for share in the profit	0	0
Liabilities to employees	8,463	12,309
Liabilities to members of Management Board and Supervisory Board	225	181
Liabilities to individuals for contracted fees	153	515
Liabilities for short - term provisions	23,078	6,983
Other liabilities	55	49
Balance as of December 31st	86,435	70,888

Notes to the 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	0	0
Liabilities for turnover tax	0	39
Liabilities for income tax	0	10,539
Liabilities for taxes, customs and other duties from procurement or at the expense of costs	0	467
Liabilities for taxes, customs, and other duties charged to	15	17
Other liabilities for taxes, contributions and other duties	527	3,144
Donations received	224,643	129,337
Deferred tax liabilities	0	1,227
Other accruals and deferred income	8,893	41,491
Balance as of December 31st	234,078	186,261

Donations received include:

	2020.	2019.
Donations received by the international projects	200,444	101,143
Donations received equipment	1,701	1,949
Grants from the National Investment Plan	22,498	26,245
Total	224,643	129,337

36. OFF-BALANCE SHEET EVIDENCE

Off-balance sheet are related to:

	<i>in RSD 000</i>	
	2020.	2019.
Given sureties, guarantees and other rights	965,496	1,126,745
Assets other entities	3,573	3,573
Liabilities for given sureties, guarantees and other rights	(965,496)	(1,126,745)
Liabilities for assets in other entities	(3,573)	(3,573)
Balance as of December 31st	0	0

Guarantees in the amount of RSD 965,496 thousand at 31. December 2020 include guarantees of performance bonds issued to suppliers by banks.

**Notes to the financial statements
For the Year Ended December 31st 2020 and 2019**

37. COURT DISPUTES

Institute „Mihajlo Pupin“ Ltd Belgrad as a 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 the financial statements
For the Year Ended December 31st 2020 and 2019

37. COURT DISPUTES (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“ Ltd Belgrad in the capacity of the 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“ Ltd Belgrad as an interlocutor on the side of the defendant JP Putevi Srbije (based on the call for maintenance of the payment ramps):

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 Pl.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 the financial statements
For the Year Ended December 31st 2020 and 2019**

37. COURT DISPUTES (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 the financial statements
For the Year Ended December 31st 2020 and 2019

37. COURT DISPUTES (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. TRANSACTIONS WITH RELATED PARTIES

In its regular business, the Company realizes business transactions with its dependent legal entities and other related parties.

(a) Income and expenses from sales / purchases of goods / services

The following transactions were conducted with related parties:

	2020.	2019.
(a) Sales of goods and services		
IMP-Automatika Ltd, Belgrade	196,642	217,376
IMP Racunarski sistemi Ltd, Belgrade	11,849	10,078
IMP Telekomunikacije Ltd, Belgrade	4,170	19,168
Idvorski laboratorije Ltd, Belgrade	704	725
IMP Piezotehnologija Ltd., Belgrade	0	0
IMP Poslovne usluge Ltd, Belgrade	284	263
Total	213,649	247,610

Products and services are sold at prices and terms that would be available to third parties.

	2020.	2019.
(b) Procurement of goods and services		
IMP-Automatika Ltd, Belgrade	146,467	149,154
IMP Racunarski sistemi Ltd, Belgrade	719,890	342,526
IMP Piezotehnologija Ltd, Belgrade	31	143
IMP Poslovne usluge Ltd, Belgrade	37,606	33,764
IMP Telekomunikacije Ltd, Belgrade	57,707	83,214
Idvorski laboratorije Ltd, Belgrade	7	86
Total	961,708	608,887

Goods and services are purchased in accordance with the normal course of business.

For 2020 study was conducted on transfer pricing and consequently are made appropriate adjustments for tax purposes.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

38. TRANSACTIONS WITH RELATED PARTIES (Continued)

(b) Balances receivable / payable at the end of the year arising from sales / purchases of goods / services

	2020.	2019.
Receivables from sales		
(Note 24)		
IMP-Automatika Ltd, Belgrade	39,269	33,349
IMP Racunarski sistemi Ltd, Belgrad	337	83
IMP Telekomunikacije Ltd, Belgrad	53	11,679
IMP Piezotehnologija Ltd, Belgrad	30,483	30,483
IMP Poslovne usluge Ltd, Belgrad	30	79
Idvorski laboratorije Ltd, Belgrad	0	0
Less: Allowance for impairment	(54,593)	(30,484)
Total	15,579	45,189
Receivables from interest and dividend		
(Note 25)		
IMP-Automatika Ltd, Belgrad	29,464	39,464
Total	29,464	39,464
Short-term investments		
IMP Piezotehnologija Ltd, Belgrad	14,607	14,607
IMP Telekomunikacije Ltd, Belgrad	-	0
Idvorski laboratorije Ltd, Belgrad	-	0
	14,607	14,607
Less: Allowance for impairment		
IMP Piezotehnologija Ltd, Belgrad	(14,607)	(14,607)
Total	0	0
Liabilities from business		
(Note 33)		
IMP-Automatika Ltd, Belgrad	4,130	0
IMP Racunarski sistemi Ltd, Belgrad	23,111	103,198
IMP Telekomunikacije Ltd, Belgrad	11,952	60,753
IMP Piezotehnologija Ltd	0	75
IMP Poslovne usluge Ltd, Belgrad	7,867	7,314
Idvorski laboratorije Ltd, Belgrad	0	0
Total	47,060	171,340

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

39. FINANCIAL INSTRUMENTS

Capital Risk Management

The objective of capital management, the Company'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 Company monitors capital based on the gearing ratio which is calculated as the ratio of net indebtedness of the Company and its total capital.

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

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

	<i>in RSD 000</i>	
	2020.	2019.
Debt a)	271,877	342,451
Cash and cash equivalents	(858,191)	(832,324)
Net debt	(586,314)	(478,872)
Equity b)	594,171	587,259
Debt equity ratio	0.99	0.82

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

Categories of financial instruments

	<i>in RSD 000</i>	
	2020.	2019.
Financial Assets		
Long term financial investments	60,889	61,342
Receivables from sales	221,106	714,896
Other receivables	42,517	58,759
Short-term financial investments	0	0
Cash and cash equivalents	858,191	832,326
	1,182,703	1,667,323
Financial Liabilities		
Long-term liabilities	(108,155)	(134,716)
Short-term financial liabilities	(163,722)	(207,734)
Trade payables without received advances	(225,786)	(644,536)
Other liabilities	(86,435)	(70,888)
	(584,098)	(1,057,874)

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

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:

		IN RSD 000	
	Assets	Liabilities	
	December 31 st 2020.	December 31 st 2019.	December 31 st 2020.
In currency	637,609	735,646	(272,493)
	<u>637,609</u>	<u>735,646</u>	<u>(272,493)</u>

The company is sensitive to changes in the exchange rate of the euro and the dollar (EUR and USD). The following table presents the details of the analysis of the Company's sensitivity to the increase and decrease of 10% of the dinar exchange rate in relation to the given foreign currencies. The sensitivity rate is used in the internal presentation of foreign exchange risk and represents management's assessment of reasonably expected changes in foreign exchange rates. The sensitivity analysis includes only outstanding receivables and liabilities denominated in foreign currencies and adjusts their translation at the end of the period for a change of 10% in foreign exchange rates. A positive number from the table indicates an increase in the results of the current period in cases of weakening of the dinar in relation to the currency in question. In the case of a 10% strengthening of the dinar against a foreign currency, the impact on the result of the current period would be the opposite of that expressed in the previous case. The main reason for this lies in the fact that the Company has a predominantly short position in foreign currency, and therefore liabilities in foreign currency are far greater than receivables in the same.

		IN RSD 000	
	December 31 st 2020. +10%	December 31 st 2019. +10%	December 31 st 2020. -10%
			December 31 st 2019. -10%
EUR	36,512	30,628	(36,512)
	<u>36,512</u>	<u>30,628</u>	<u>(36,512)</u>

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

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:

	<i>in RSD 000</i>	
	2020.	2019.
Financial asset		
<i>Noninterest bearing</i>		
Long-term financial investments	60,889	61,342
Receivables from sales	221,106	714,896
Other receivables	42,517	58,759
Short-term financial investments	0	0
Cash and cash equivalents	858,191	832,326
	1,182,703	1,667,323
	1,182,703	1,667,323
Financial liabilities		
<i>Noninterest bearing</i>		
Trade payables without received advances	(225,786)	(644,536)
Other liabilities	(86,435)	(70,888)
	(312,221)	(715,424)
<i>Interest bearing</i>		
Long-term liabilities	(108,155)	(134,716)
Short-term financial liabilities	(163,722)	(207,734)
	(271,877)	(342,450)
Interest rate gap	(271,877)	(342,450)

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		Decrease of 1 percentage point	
	2020.	2019.	2020.	2019.
The result for the current year	(2,719)	(3,424)	2,719	3,424

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

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 2019 and 31st December 2018.

	December 31 st 2020		December 31 st 2019	
	Book value	Fair value	Book value	Fair value
Financial asset				
Long-term financial investments	60,889	60,889	61,342	61,342
Trade receivables	221,106	221,106	714,896	714,896
Other receivables	42,517	42,517	58,759	58,759
Short-term financial investments	0	0	0	0
Cash and cash equivalents	858,191	858,191	832,326	832,326
	1,182,703	1,182,703	1,667,323	1,667,323
Financial liabilities				
Long-term liabilities	(108,155)	(108,155)	(134,716)	(134,716)
Short-term financial liabilities	(163,722)	(163,722)	(207,734)	(207,734)
Trade payables without received advances	(225,786)	(225,786)	(644,536)	(644,536)
Other liabilities	(86,435)	(86,435)	(70,888)	(70,888)
	(584,098)	(584,098)	(1,057,874)	(1,057,874)

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.

Notes to the financial statements
For the Year Ended December 31st 2020 and 2019

40. EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

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

41. 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:

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

In Belgrade,

Date June 7th 2021

Person responsible for preparing
the Financial Statement



Legal representative
