



TELEGROUP d.o.o. BELGRADE

Financial Statements as of and for
the Year Ended 31 December 2019

and

Independent Auditor's Report

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*This is an English translation of Independent Auditor's Report
originally issued in the Serbian language*

INDEPENDENT AUDITOR'S REPORT

To the Owner of the Company „Telegroup“ d.o.o. Belgrade

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company "Telegroup" d.o.o. Belgrade (hereinafter: the "Company"), which comprise the balance sheet as of 31 December 2019 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia and accounting policies disclosed in Note 3 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Law on Audit and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT

To the Owner of the Company „Telegroup“ d.o.o. Belgrade (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Belgrade, 25 May 2020


Danijela Krtinic
Certified Auditor



BALANCE SHEET
As of 31 December 2019
In RSD thousand

TRANSLATION

| | Note | 31 December 2019 | 31 December 2018 |
|--|------|---------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 6 | 62,240 | 78,271 |
| Property, plant and equipment | 7 | 186,897 | 171,358 |
| Long-term financial placements | 8 | 283,583 | 334,429 |
| Long-term receivables | 9 | 75,137 | 20,919 |
| | | <u>607,857</u> | <u>604,977</u> |
| Deferred tax assets | | <u>1,475</u> | <u>515</u> |
| Current assets | | | |
| Inventories | 10 | 507,791 | 153,266 |
| Trade receivables | 11 | 1,853,700 | 912,381 |
| Other receivables | 12 | 13,795 | 11,655 |
| Short-term financial placements | 13 | 127,989 | 41,760 |
| Cash and cash equivalents | 14 | 107,167 | 58,618 |
| Value added tax receivable | | - | 1,699 |
| Prepayments and accrued income | 15 | 36,790 | 48,745 |
| | | <u>2,647,232</u> | <u>1,228,124</u> |
| TOTAL ASSETS | | <u>3,256,564</u> | <u>1,833,616</u> |
| OFF BALANCE SHEET ASSETS | 16 | <u>1,237,230</u> | <u>512,852</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Capital | 17 | 66,143 | 66,143 |
| Reserves | 17 | 9,665 | 9,665 |
| Unrealised gains on securities and other components of other comprehensive income, net | 17 | 34,176 | 88,948 |
| Retained earnings | 17 | 753,891 | 569,245 |
| | | <u>863,875</u> | <u>734,001</u> |
| Long-term provisions and liabilities | | | |
| Long-term provisions | 18 | 6,002 | 5,456 |
| Long-term liabilities | 19 | 52,529 | 24,010 |
| | | <u>58,531</u> | <u>29,466</u> |
| Deferred tax liabilities | | <u>-</u> | <u>-</u> |
| Current liabilities | | | |
| Short-term financial liabilities | 20 | 139,050 | 113,923 |
| Advances and deposits received and retainers | 21 | 493,184 | 123,235 |
| Accounts payable | 21 | 1,524,200 | 796,102 |
| Other short term liabilities | 22 | 17,154 | 11,712 |
| Value added tax payable | 23 | 26,920 | - |
| Other tax liabilities | 23 | 24,209 | 12,062 |
| Accruals and deferred income | 23 | 109,441 | 13,115 |
| | | <u>2,334,158</u> | <u>1,070,149</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>3,256,564</u> | <u>1,833,616</u> |
| OFF BALANCE SHEET LIABILITIES | | <u>1,237,230</u> | <u>512,852</u> |

The accompanying notes on pages 1 to 57
are an integral part of these financial statements.

The accompanying financial statements were approved for issue on 22 May 2020 and signed on behalf of the Company's management by:

Milan Stefanovic
Director

Miladina Veljkovic
Control officer

INCOME STATEMENT

For the period 01 January - 31 December 2019

In RSD thousand

TRANSLATION

| | Note | 2019 | 2018 |
|--|------|--------------------|--------------------|
| OPERATING INCOME | | | |
| Income from the sale of goods | 26 | 1,177,535 | 974,821 |
| Income from the sale of products and services | 26 | 4,008,456 | 2,179,226 |
| Other operating income | 26 | 1,097 | 555 |
| Revenues from premiums, subsidies, grants, donations, etc. | 26 | 784 | - |
| | | 5,187,872 | 3,154,602 |
| OPERATING EXPENSES | | | |
| Costs of goods sold | 27 | (873,942) | (735,737) |
| Own-work and goods capitalised | | 288 | 891 |
| Costs of material | 28 | (1,355,970) | (468,156) |
| Cost of fuel and energy | 28 | (25,175) | (23,311) |
| Wages, salaries and other personnel expenses | 29 | (315,821) | (249,213) |
| Productive services costs | 30 | (1,484,165) | (1,011,845) |
| Depreciation and amortisation | 31 | (51,649) | (25,591) |
| Long term provisions | 31 | (927) | (352) |
| Non-material costs | 32 | (939,980) | (539,906) |
| | | (5,047,341) | (3,053,220) |
| OPERATING INCOME | | 140,531 | 101,382 |
| Financial income | 33 | 30,867 | 8,752 |
| Financial expenses | 34 | (24,419) | (22,208) |
| Net financial (loss)/income | | 6,448 | (13,456) |
| Losses from fair value adjustments of other assets at fair value through profit and loss | 35 | (9,469) | (56,174) |
| Other income | 36 | 118,775 | 21,471 |
| Other expenses | 37 | (38,282) | (10,341) |
| OPERATING PROFIT BEFORE TAX | | 218,003 | 42,882 |
| Net profit from discontinued operations, effects of changes in accounting policies and prior year's error adjustment | | - | - |
| PROFIT BEFORE TAX | | 218,003 | 42,882 |
| INCOME TAXES | | | |
| Tax expense of the period | 24 | (34,317) | (13,572) |
| Deferred tax (expenses)/income of the period | 24 | 960 | 651 |
| NET PROFIT FOR THE YEAR | | 184,646 | 29,961 |

The accompanying notes on pages 1 to 57 are an integral part of these financial statements.

Milan Stefanovic
Director

Miladina Veljkovic
Control officer


STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2019
In RSD thousand

TRANSLATION

| | 2019 | 2018 |
|---|----------|--------|
| NET PROFIT FOR THE YEAR | 184,646 | 29,961 |
| Other comprehensive income: | | |
| Actuarial (losses)/gains on defined benefits plans | 376 | (397) |
| Gains/(losses) on translation of financial statements of foreign operations | (4,696) | (19) |
| Gains/(losses) on financial asset held for sale | (50,452) | 52,052 |
| Total other comprehensive income/(loss), net of related taxes | (54,772) | 51,636 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 129,874 | 81,597 |

The accompanying notes on pages 1 to 57
are an integral part of these financial statements.


Milan Stefanovic
Director


Miladina Veljkovic
Control officer

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2019
In RSD thousand

TRANSLATION

| | Capital | Statutory reserves | Other reserves | Actuarial gains/ (Losses) | Unrealized gains/ (losses) on financial asset held for sale, net | Retained earnings | Total equity |
|--|---------------|--------------------|----------------|---------------------------|--|-------------------|----------------|
| Balance as of 1 January 2018 | 66,143 | 6,695 | 2,970 | 886 | 36,426 | 539,284 | 652,404 |
| Net profit for the year | - | - | - | - | - | 29,961 | 29,961 |
| Other comprehensive income: | | | | | | | |
| Actuarial (losses)/gains arising from calculation of retirement benefits | - | - | - | (416) | - | - | (416) |
| Unrealized (losses)/gains on financial asset held for sale | - | - | - | - | 52,052 | - | 52,052 |
| Balance as of 31 December 2018 | <u>66,143</u> | <u>6,695</u> | <u>2,970</u> | <u>470</u> | <u>88,478</u> | <u>569,245</u> | <u>734,001</u> |
| Net profit for the year | - | - | - | - | - | 184,646 | 184,646 |
| Other comprehensive income: | | | | | | | |
| Actuarial (losses)/gains arising from calculation of retirement benefits | - | - | - | (4,320) | - | - | (4,320) |
| Unrealized (losses)/gains on financial asset held for sale | - | - | - | - | (50,452) | - | (50,452) |
| Balance as of 31 December 2019 | <u>66,143</u> | <u>6,695</u> | <u>2,970</u> | <u>(3,850)</u> | <u>38,026</u> | <u>753,891</u> | <u>863,875</u> |

The accompanying notes on pages 1 to 57 are an integral part of these financial statements.



Milan Stefanovic
Director

Miladina Veljkovic
Control officer

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2019
In RSD thousand

TRANSLATION

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Sales and advances received | 5,310,023 | 3,102,839 |
| Interest received from business activities | 18,507 | - |
| Other cash inflows from operating activities | 14,555 | 3,886 |
| Payments to suppliers and advances paid | (4,861,572) | (2,750,351) |
| Wages, salaries and other personnel expenses | (297,093) | (233,508) |
| Interest paid | (6,705) | (9,401) |
| Income tax | (22,376) | (3,556) |
| Cash outflows for other taxes payable | (32,033) | (58,041) |
| Net cash flows from operating activities | <u>123,306</u> | <u>51,868</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Other financial placements (net inflows) | (100,927) | (56,899) |
| Purchase of shares and investments (net outflows) | (15) | - |
| Net cash flows from investing activities | <u>(100,942)</u> | <u>(56,899)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term borrowings (net outflows) | 46,147 | (16,931) |
| Short-term borrowings (net inflows) | (10,446) | - |
| Finance lease | (9,313) | - |
| Net cash flows from financing activities | <u>26,388</u> | <u>(16,931)</u> |
| Total cash inflows | <u>5,389,232</u> | <u>3,106,725</u> |
| Total cash outflows | <u>(5,340,480)</u> | <u>(3,128,687)</u> |
| Net inflows/(outflows) in cash and cash equivalents | <u>48,752</u> | <u>(21,962)</u> |
| Cash and cash equivalents, beginning of the year | 58,618 | 80,840 |
| Foreign currency gains on translation of cash and cash equivalents | - | 19 |
| Foreign currency losses on translation of cash and cash equivalents | (203) | (279) |
| Cash and cash equivalents, end of the year | <u>107,167</u> | <u>58,618</u> |

The accompanying notes on pages 1 to 57
are an integral part of these financial statements.

Milan Stefanovic
Director

Miladina Veljkovic
Control officer



TeleGroup Belgrade

Notes to the Financial Statements for the Year Ended 31 December 2019

Belgrade, 2020
ONEFORALL

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

1. CORPORATE INFORMATION

Company for telecommunications engineering “TeleGroup” d.o.o. Belgrade, (hereinafter: the Company), Svetozara Miletica 9a, was established on 16 January 2001. The Company was established by the company “TeleGroup” Limited from London, Great Britain (hereinafter: the Founder).

The Company’s main activity is the providing of IT consulting services. The Company designs and implements IT solutions, develops software applications, implements IPTV and OTT solutions for delivering video content, and for the building and integration of the telecommunication, electrical power and traffic infrastructure. The Company also offers professional services related to consulting, design, integration, installation, putting systems into operation, maintenance of systems, equipment and software applications, software engineering and project management.

The Company has entered into partnership and cooperation contracts with many renowned global companies. The Company has acquired an enviable client database, which is comprised of distinguished companies and institutions, by implementing major projects in big systems of various telecom operators, electrical power systems, state, public and financial sectors and through the cooperation with small- and medium-sized enterprises.

As of 31 December 2019 the Company has 171 employees and as of 31 December 2018 138 employees. Tax identification number of the Company is 101733237.

As of 31 December 2019 the Company has 4 subsidiaries (Note 8) and a branch in Germany.

These separate financial statements were adopted by the Founder of the Company on 22 May 2020. The adopted financial statements can be subsequently amended, based on the Decision of the Founder of the Company no later than the end of 2020.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Law on Accounting (“Official Gazette of the Republic of Serbia”, no. 62/2013, 30/2018 and 73/2019 - other law - hereinafter: the Law).

In accordance with the Law, for recognition, valuation, presentation and disclosure of items in the financial statements, medium-sized legal entities are entitled to apply Financial Reporting Standards (hereinafter: IFRS) for the preparation of financial statements, which the Company opted for. IFRS, for the purposes of the Law, comprise the Conceptual Framework for Financial Reporting, International Accounting Standards (“IASs”) and International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), the translations of which to the Serbian language are approved and published by the competent Ministry of Finance (“the Ministry”).

Pursuant to the Decision of the Minister of Finance of the Republic of Serbia on Determining the Translation of International Financial Reporting Standards no. 401-00-4980/2019-16 dated 21 November 2019 (“RS Official Gazette”, no. 92/2019), the official translation of IFRSs has been established.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

The IFRS translation established and published by the Ministry consists of the Conceptual Framework for Financial Reporting, IASs basic texts, IFRSs basic texts issued by the IASB, as well as interpretations issued by the IFRIC, in the form in which they are issued or adopted and which do not include reasoning, illustrative examples, guidelines, comments, dissenting opinions, elaborated examples and other supplementary explanatory material that may be adopted in connection with standards or interpretations, unless it is not explicitly stated that it is an integral part of the standard or interpretationstumačenjima, osim ako se izričito ne navodi da je sastavni deo standarda, odnosno tumačenja.

These IFRSs, pursuant to the aforementioned Minister of Finance's Decision, are to be applied for the preparation of the financial statements starting from the year ending 31 December 2020, and may be applied when preparing the financial statements for the year ended 31 December 2019 (with disclosure of relevant information in the notes to the financial statements). The Company has decided to apply those IFRSs when preparing its financial statements for the year ended 31 December 2020.

The above-mentioned IFRS translation includes all revised and new IASs, IFRSs and interpretations, effective for annual periods beginning on or after 1 January 2018 and earlier, i.e. effective on financial statements for the year ended 31 December 2018.

Amended and new IASs, IFRSs and interpretations issued by the IASB and IFRIC, effective after this date, have not been officially translated and published in the Republic of Serbia (see Note 2.2 (a) and (b)).

The financial statements are presented in RSD unless otherwise stated. Dinar (RSD) is an official reporting and functional currency of the Republic of Serbia. All transactions in currencies that are not a functional currency are treated as foreign currency transactions.

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 ("Official Gazette of the Republic of Serbia no. 95/2014 and 144/2014).

The accompanying separate financial statements include assets, liabilities, equity, financial performance and cash flows of the Company, excluding its subsidiaries. The Company also prepares the consolidated financial statements.

The principal accounting policies applied in the preparation of these financial statements are set out in Note 3. The policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2.1. Basis of Measurement

The accompanying financial statements have been prepared under the historical cost convention and going concern principle.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS

- (a) *Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia*

Until the date of preparation of the accompanying separate financial statements, the following IASs, IFRSs and interpretations which are their integral parts, as well as their amendments, issued by the IASB and IFRIC, became effective as of 1 January 2019, and are, as such, applicable to the financial statements for 2019. They have not been translated and published by the Ministry of Finance, and, therefore, have not been implemented by the Company:

- IFRIC 23 “Uncertainty over Income Tax Treatments”;
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation;
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures; and
- Annual Improvements to IFRSs, “2015-2017 Cycle” - IFRS 3, IFRS 11, IAS 12 and IAS 23, published by the IASB in December 2017.

Considering the foregoing, and given the potentially material effects which the departures of accounting regulations of the Republic of Serbia from IASs and IFRSs may have on the Company’s separate financial statements, the accompanying separate financial statements cannot be treated as financial statements prepared in accordance with IAS/IFRS and IAS.

IFRS 16 “Leases” also came into force on 1 January 2019 and has not been officially translated and published by the Ministry, but the Company opted for its early application.

IFRS 16 “Leases” brings major changes for lessees and will have a significant effect on any entity that has entered into material amounts which were accounted for as operating leases as of January 2019. In contrast, for lessors, the accounting requirements have largely been carried forward unchanged from IAS 17.

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The key novelty for lessees is that in most cases a lease will result in an asset being capitalised (a “right of use” asset) together with the recognition of a liability for the corresponding lease payments. This will result in changes to key financial ratios and has the potential to affect borrowing costs (interest expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)**2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)***(a) Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia (Continued)*

Rental costs arising from operating lease, which used to be recorded under other expenses, in the previous years (until 2018 inclusive), are now recognised under depreciation costs of right-of-use assets (Note 31) and interest expenses for the effect of discounting operating lease liabilities (Note 34).

As at the beginning of a lease, a lessee recognizes a lease liability and an asset representing the right to use that asset during the period of lease (a “right of use” asset). Interest expense on lease liability and depreciation of the right of use asset should be separately recognized, as required.

It is necessary to re-measure the lease liability upon the occurrence of certain events (changes in lease term, future payments due to changes in index or rate applied to calculate those payments). Lessor recognizes the amount of re-measured lease liability as adjustment of value of a right of use asset.

On transition, there is a choice of two following approaches:

- Full retrospective approach under which the cumulative effect of the initial application of IFRS 16 is recognised as an adjustment to retained earnings as of 1 January 2018, with comparative information being restated; or
- Modified retrospective approach under which the cumulative effect of the initial application of IFRS 16 is recognised as an adjustment to retained earnings at the date of the initial application, i.e. as of 1 January 2019, with comparative information not being restated.

Impact Assessment of IFRS 16 “Leases”

The application of IFRS 16 since 1 January 2019 has had a significant effect on Company’s financial statements with regard to lease agreements, as described below.

The Company decided to use the modified retrospective approach for the application of IFRS 16. Thus, the comparative figures in the standalone financial statements have not been adjusted, but they are presented using previously applicable accounting policies.

During the initial application of IFRS 16, right-of use assets were measured in the amount of the lease liability using the average incremental borrowing rate of 4.48% for leased cars and 5% for the leased business premises.

The initial application resulted in recognising lease liabilities in the amount of RSD 20,021 thousand and, accordingly, right-of-use assets in the amount of RSD 20,021 thousand in the balance sheet as of 1 January 2019. Retained earnings were not adjusted as of 1 January 2019 due to initial application of the standard as there was no effect on it.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)

- (a) *Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia (Continued)*

Impact Assessment of IFRS 16 “Leases” (Continued)

The Company decided to use exemptions proposed by the standard regarding lease agreements for a lease term of up to 12 months from the date of the initial application and lease agreements for which the concerned asset may be regarded as an asset of a small value.

The Company identified contracts for business premises and cars, which used to be recognised as operating lease, to be qualified as leases defined under the new standard.

The standard requires certain estimates related to, first of all, the lease agreement validity period. The incremental borrowing rate that is applied to the calculation of assets and liabilities arising from the leased cars equals the interest rate of leasing companies in a period that is closest to the agreement commencement period and with a maturity equalling the agreement validity period, while the incremental borrowing rate applied to the calculation of assets and liabilities arising from the leased business premises is determined based on an insight into interest rates that banks apply on loans granted for the purchase of business premises of a similar value.

Operating lease expenses in the standalone income statement are mainly related to short-term lease agreements and small-value lease assets.

The information on right-of-use assets based on the initial application of IFRS and the related lease liabilities is disclosed in Notes 19, 20 and 22.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)

(a) *Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia (Continued)*

Impact Assessment of IFRS 16 "Leases" (Continued)

Effects of the First-time Adoption of IFRS 16 on the Balance Sheet as of 1 January 2019

| | In accordance with IAS 17 as of 31 December 2018 | Changes in valuation | In accordance with IFRS 16 as of 1 January 2019 |
|---|---|-------------------------|--|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 78,271 | - | 78,271 |
| Property, plant and equipment | 171,358 | 20,021 | 191,379 |
| Long-term financial placements | 334,429 | - | 334,429 |
| Long-term receivables | 20,919 | - | 20,919 |
| | <u>604,977</u> | <u>20,021</u> | <u>624,998</u> |
| Deferred tax assets | 515 | - | 515 |
| Current assets | | | |
| Inventories | 153,266 | - | 153,266 |
| Trade receivables | 912,381 | - | 912,381 |
| Other receivables | 11,655 | - | 11,655 |
| Short-term financial placements | 41,760 | - | 41,760 |
| Cash and cash equivalents | 58,618 | - | 58,618 |
| Value added tax | 1,699 | - | 1,699 |
| Prepayments and accrued income | 48,745 | - | 48,745 |
| | <u>1,228,124</u> | <u>-</u> | <u>1,228,124</u> |
| Total assets | <u>1,833,616</u> | <u>20,021</u> | <u>1,853,637</u> |
| LIABILITIES | | | |
| Equity | | | |
| Stake capital | 66,143 | - | 66,143 |
| Reserves | 9,665 | - | 9,665 |
| Unrealised gains from securities and of other components of other comprehensive income | 88,948 | - | 88,948 |
| Retained earnings | 569,245 | - | 569,245 |
| | <u>734,001</u> | <u>-</u> | <u>734,001</u> |
| Long-term provisions and liabilities | | | |
| Long-term provisions | 5,456 | - | 5,456 |
| Long-term liabilities | 24,010 | 20,021 | 44,031 |
| | <u>29,466</u> | <u>20,021</u> | <u>49,487</u> |
| Short-term liabilities | | | |
| Short-term domestic borrowings | 82,736 | - | 82,736 |
| Other short-term financial liabilities | 31,187 | - | 31,187 |
| Received advances, deposits and retainers | 123,235 | - | 123,235 |
| Accounts payable | 796,102 | - | 796,102 |
| Other short-term liabilities | 11,712 | - | 11,712 |
| Liabilities for other taxes and contributions | 12,062 | - | 12,062 |
| Accruals and deferred income | 13,115 | - | 13,115 |
| | <u>1,070,149</u> | <u>-</u> | <u>1,070,149</u> |
| Total liabilities | <u>1,833,616</u> | <u>20,021</u> | <u>1,853,637</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)

(a) *Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia (Continued)*

Impact Assessment of IFRS 16 "Leases" (Continued)

Effects of the First-time Adoption of IFRS 16 on the Balance Sheet as of 31 December 2019

| | In accordance with IAS 17 as of 31 December 2019 | Changes in valuation | In accordance with IFRS 16 as of 31 December 2019 |
|--|---|-------------------------|--|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 62,240 | - | 62,240 |
| Property, plant and equipment | 178,760 | 8,137 | 186,897 |
| Long-term financial placements | 283,583 | - | 283,583 |
| Long-term receivables | 37,085 | - | 37,085 |
| | 561,668 | 8,137 | 569,805 |
| Deferred tax assets | 1,475 | - | 1,475 |
| Current assets | | | |
| Inventories | 507,791 | - | 507,791 |
| Trade receivables | 1,891,752 | - | 1,891,752 |
| Other receivables | 13,795 | - | 13,795 |
| Short-term financial placements | 127,989 | - | 127,989 |
| Cash and cash equivalents | 107,167 | - | 107,167 |
| AVR | 36,790 | - | 36,790 |
| | 2,685,284 | - | 2,685,284 |
| Total assets | 3,248,427 | 8,137 | 3,256,564 |
| LIABILITIES | | | |
| Equity | | | |
| Stake capital | 66,143 | - | 66,143 |
| Reserves | 9,665 | - | 9,665 |
| Unrealised gains from securities and of other components of other comprehensive income | 38,026 | - | 38,026 |
| Unrealised losses from securities and of other components of other comprehensive income | (3,850) | - | (3,850) |
| Retained earnings | 754,343 | (452) | 753,891 |
| | 864,327 | (452) | 863,875 |
| Long-term provisions and liabilities | | | |
| Long-term provisions | 6,002 | - | 6,002 |
| Long-term liabilities | 43,940 | 8,589 | 52,529 |
| | 49,942 | 8,589 | 58,531 |
| Short-term liabilities | | | |
| Short-term domestic borrowings | 94,074 | - | 94,074 |
| Other short-term financial liabilities | 44,976 | - | 44,976 |
| Received advances, deposits and retainers | 493,184 | - | 493,184 |
| Accounts payable | 1,524,200 | - | 1,524,200 |
| Other short-term liabilities | 17,154 | - | 17,154 |
| VAT liabilities | 26,920 | - | 26,920 |
| Liabilities for other taxes and contributions | 24,209 | - | 24,209 |
| Accruals and deferred income | 109,441 | - | 109,441 |
| | 2,334,158 | - | 2,334,158 |
| Total liabilities | 3,248,427 | 8,137 | 3,256,564 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)

(a) *Standards, Amendments and Interpretations to Existing Standards Effective in the Current Reporting Period not yet Officially Translated and Adopted in the Republic of Serbia (Continued)*

Impact Assessment of IFRS 16 “Leases” (Continued)

Effects of the Application of IFRS 16 on the Income Statement for the Year ended 31 December 2019

| | In accordance with IAS 17 2019 | Changes in valuation | In accordance with IFRS 16 2019 |
|---|--------------------------------------|-------------------------|---------------------------------------|
| Operating income | | | |
| Income from the sale of goods | 1,177,535 | - | 1,177,535 |
| Income from the sale of products and services | 4,008,456 | - | 4,008,456 |
| Income from premiums, subsidies, grants, donations, etc. | 784 | - | 784 |
| Other operating income | 1,097 | - | 1,097 |
| | 5,187,872 | - | 5,187,872 |
| Operating expenses | | | |
| Cost of goods sold | (873,942) | - | (873,942) |
| Own-work and goods capitalised | 288 | - | 288 |
| Cost of material | (1,355,970) | - | (1,355,970) |
| Cost of fuel and energy | (25,175) | - | (25,175) |
| Cost of salaries, compensations and other personal expenses | (315,821) | - | (315,821) |
| Costs of productive services | (1,494,732) | 10,567 | (1,484,165) |
| Amortisation/depreciation expenses | (42,089) | (9,560) | (51,649) |
| Long-term provisions | (927) | - | (927) |
| Non-material costs | (939,980) | - | (939,980) |
| | (5,048,349) | 1,007 | (5,047,341) |
| Operating profit | 139,524 | 1,007 | 140,531 |
| Financial income | 30,867 | | 30,867 |
| Financial expenses | (22,960) | (1,459) | (24,419) |
| Gains from financing activities | 7,907 | (1,459) | 6,448 |
| Losses on value adjustments of other assets stated at fair value through profit and loss | (9,469) | - | (9,469) |
| Other income | 118,775 | - | 118,775 |
| Other expenses | (38,282) | - | (38,282) |
| Profit before tax | 218,455 | (452) | 218,003 |
| Tax expense of the period | (34,317) | - | (34,317) |
| Deferred tax income of the period | 960 | - | 960 |
| Net profit | 185,098 | (452) | 184,646 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.2. Impact and Implementation of the New and Revised IAS/IFRS (Continued)

(b) *New Standards, Amendments and Interpretations to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Company*

There are a number of new and amended standards and IFRIC interpretations, which have been issued by the IASB, that are not effective for the annual periods beginning on 1 January 2019, and have not been early adopted by the Company.

- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32 due to compliance with the new Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7 - “Interest Rate Benchmark Reform” (effective for annual periods beginning on or after 1 January 2020) and
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021).

2.3. Odstupanje računovodstvenih propisa Republike Srbije od MSFI

An IFRS translation that is established and published by the Ministry includes IAS/IFRS basic texts, published by the International Accounting Standards Board, as well as interpretations published by the IFRS Interpretations Committee in the form in which they were issued and which does not include basis for conclusion, illustrative examples, guidelines, comments, opposite opinions, elaborate examples and further explanatory material that can be adopted in relation to standards, i.e. interpretations, unless it is explicitly stated that it constitutes an integral part of standards/interpretations.

An IFRS translation was established on the basis of the Decision of the Minister of Finance of the Republic of Serbia on Determining the Translation of International Financial Reporting Standards no. 401-00-4980/2019-16 dated 21 November 2019 (“RS Official Gazette”, no. 92/2019). The IFRS translation has been in effect since the financial statements prepared for the year ended 31 December 2018. Those IFRSs and their interpretations that were amended or issued after this date have not been translated and published, and therefore they were not applied during the preparation of the accompanying financial statements.

Taking into consideration the abovementioned and the fact that certain laws and bylaws prescribe accounting procedures which in certain cases depart from IFRS requirements and that the Law on Accounting stipulates that RSD is the official reporting currency, the Republic of Serbia accounting regulations may depart from IFRS requirements, which may affect the reality and objectivity of the accompanying financial statements. Therefore, the accompanying financial statements cannot be deemed financial statements fully prepared in accordance with IFRS as described under the provisions of IAS 1 “Presentation of Financial Statements”.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

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

2.4. Foreign Currency Translation

Assets and liabilities components denominated in foreign currencies are translated into RSD at the official exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 40). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses arising upon settling such transactions and translation of monetary assets and liabilities denominated in foreign currencies at the year-end are credited or debited to the income statement, as financial income/expenses.

2.5. Comparative Figures

Comparative figures represent the data included in the audited financial statements as of and for the year ended 31 December 2018, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

2.6. Going Concern Assumption

The financial statements of the Company have been prepared under the going concern principle, which means that the Company will continue its operations in the foreseeable future, covering the period of at least twelve months from the date of the financial statements.

2.7. Use of Estimates

The preparation of the financial statements in accordance with IFRS requires the application of the key accounting estimates. It also requires the management to use its judgement in the application of the accounting policies of the Company. These estimates and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. If through examination it is determined that there have been changes in the estimated value, the determined effects are recognised in the financial statements in the period when the change has occurred. Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Intangible Assets

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

The useful life of intangible assets is estimated as definite.

Intangible assets with definite useful lives are amortised over the useful lives of such assets and tested for impairment if there is any indication that such assets may be impaired. Amortisation of intangible assets is calculated using the straight-line method to allocate their cost over their estimated useful life ranging from 1 to 5 years.

Gains/losses from the disposal or sale of intangible assets are credited/debited 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.

3.2. Property, Plant and Equipment

Items of property, plant and equipment which fulfil the requirements to be recognised as assets are initially recognised 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 capitalised borrowing costs.

Subsequent to the initial measurement, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent expenses are included in the cost of an item of property, plant and equipment or recognised as a separate asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The net book value of a replaced asset is transferred out of the books. All other repair and maintenance costs are charged to the income statement of the period in which they are incurred.

Gains/losses from the disposal of property and equipment are credited/debited 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 of other assets is calculated using the straight-line method to allocate their cost /or revalued amounts/ over their estimated useful lives, as follows:

| | |
|-----------------------------------|-------------|
| Buildings | 76 years |
| Machinery and equipment | 5-7 years |
| Motor vehicles | 4-6.5 years |
| Furniture, fittings and equipment | 5-8 years |

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Property, Plant and Equipment (Continued)

The calculation of depreciation for tax purposes is done in accordance with the Corporate Income Tax Law of the Republic of Serbia ("Official Gazette of the Republic of Serbia", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 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 ("Official Gazette of the Republic of Serbia", no. 116/2004, 99/2010, 104/2018 and 8/2019), which results in deferred taxes.

3.3. Equity Investments in Subsidiaries

Zavisna pravna lica predstavljaju ona pravna lica koja su pod kontrolom Društva, pri čemu Subsidiaries are all entities under Company's control, where control refers to the Company's 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 stated at the original acquisition cost less potential impairment losses.

3.4. Impairment of Non-Financial Assets

Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that incurred impairment are reviewed for possible reversal of the impairment at each reporting date.

3.5. Financial Instruments

Financial Assets

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

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue (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 recognised on the trade date - on the date when the Company commits to purchase or sell the assets.

Financial assets cease to be recognised when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realised, expired, abandoned, and/or ceded.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Instruments (Continued)

Financial Assets (Continued)

The Company's financial assets comprise cash, short-term deposits, securities held for trading, accounts receivable and other trade receivables, loans and advances.

Subsequent measurement of financial assets depends on their classification. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale assets and held-to-maturity assets.

Classification of financial assets depends on the purposes for which they have been acquired. The Company's management determines the classification of its financial assets at the initial recognition.

(a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit and loss are financial assets that are held for trading. A financial asset is classified under this category if it has been acquired mainly in order to be sold in the short run. Derivatives are also classified as assets held for trading unless they are determined as a risk hedging instrument. Assets under this category are classified as current assets.

As of 31 December 2019 the Company did not have assets at fair value through profit and loss.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Exceptionally to the general rule of initial recognition of financial assets, short-term interest-free receivables, where the discount effect is not material, are initially recognised at the original invoice value.

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

Other long-term financial placements include interest-free receivables from employees arising from approved housing loans.

Trade receivables are recorded at invoiced value net of allowance for impairment. The assessment of the receivables' allowance for impairment 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 impairment is recognised in the income statement within other expenses. Income from the reversal of impairment losses arising from subsequent collection and estimated collectability of receivables is recognised in the income statement under the income from the value adjustment of other assets that is recognised at fair value through profit and loss.

Short-term financial placements are stated at nominal value and they represent given borrowings and loans and short-term time deposits held with commercial banks.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Instruments (Continued)

Financial Assets (Continued)

(c) Financial Assets Available for Sale

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, whereas all unrealised gains and losses are recognised 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 placements.

Financial Liabilities

Financial liabilities are recognised 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 cease to be recognised when the Company fulfils the obligations, 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 recognised in the income statement.

Financial liabilities are initially recognised 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 recognised at the original invoiced value.

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

For the purposes of IAS 39 "Financial Instruments: Recognition and Measurement", the Company's financial liabilities are classified as borrowings and loans. The management performs the classification of its financial placements at initial recognition.

(a) Borrowings from Banks

Borrowings from banks are initially recognised at the amount of the consideration received (nominal value). Borrowings are subsequently measured at the amortised 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 fixed interest rates.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Instruments (Continued)

Financial Liabilities (Continued)

(b) Accounts Payable

Accounts payable and other short-term payables are stated at amortised cost, which corresponds to their nominal (invoiced) value due to their short-term nature.

Offsetting of Financial Instruments

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

Cash and Cash Equivalents

Cash and cash equivalents include balances on current accounts held with banks.

3.6. Inventories

Inventories are stated at the lower of cost and net realisable value.

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

Output from inventories is determined using weighted average cost method.

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

The value of inventories of materials and goods is adjusted in cases when it is assessed that it is necessary to reduce the value of such inventories to their net realisable value, by debiting other expenses.

3.7. Off-balance Sheet Assets and Liabilities

Off-balance sheet assets/liabilities include receivables/payables arising from collaterals, such as guarantees and other forms of guarantees.

3.8. Distribution of Profit

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are recognised in the amounts representing the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provision charge is recognised 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.

When the outflow of the economic benefits is no longer probable, provisions are reversed, through current year's income statement. Provisions are not recognised for future losses.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognised in the financial statements. Contingent liabilities are disclosed in notes to the financial statement, unless probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements. Contingent assets are disclosed in notes to the financial statement, unless probability of an outflow of resources embodying economic benefits is probable.

3.10. Leases

Company as a Lessee

The Company recognises the property and other assets it leases in accordance with IFRS 16 "Leases".

The Company recognises the right to use assets that are amortised/depreciated over the period and liabilities over the lease term - the lease term being the contracted/estimated lease period. The liability is due and payable based on Lessor's periodic invoices. The Company does not recognise rental costs, but it states an amortisation/depreciation cost with a right-of-use and interest as a financial expense.

Small-value leases and short-term leases of up to 12 months are still recorded as an expense of the period under the cost of productive services (Note 30).

Company as the Lessor

Finance Lease

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Leases (Continued)

Company as the Lessor (Continued)

Finance Lease (Continued)

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

3.11. Employee Benefits

(a) Employee Taxes and 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, 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 government funds. The Company has no legal obligation to pay further benefits. These 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. The right to these benefits usually conditioned with the employee remaining in service up to the retirement age and/or the completion of a minimum service period. The expected expenses for the benefits accumulate during the years of employment.

Liabilities from the benefits and related expenses are recognised in the amount of present value of future cash flows using the projected unit credit actuarial valuation method. Costs of past services provided are recognised in the income statement when incurred, while actuarial gains and losses are recognised in the statement of other comprehensive income. The basic assumptions on which the calculation of provision for employee benefits was performed are disclosed in Note 18.

(c) Profit Sharing

The Company recognises a liability and an expense for bonuses and profit sharing in the period when the decision on their payment has been adopted. The aforementioned liability is debited to retained earnings.

3.12. Revenue Recognition

The Company recognises 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

TRANSLATION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Revenue Recognition (Continued)

(a) *Sales of Products and Goods*

Income from sale of products and goods is recognised 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. It is deemed that upon sale no element of financing is present, since sales is performed with the 60 days credit, which is in accordance with the market practice.

(b) *Sales of Services*

The Company sells telecommunication services. 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 recognised 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 recognised under the percentage-of-completion method. In accordance with this method, revenue is generally recognised based on the services performed to date, determined as a percentage of the total services to be provided..

(c) *Interest Income*

Interest income originates from interests accrued on deposits with banks, loans extended to related and third parties, as well as default interest accrued on default payments by the customers, in accordance with the contractual provisions. Interest income is recognised on an accrual basis.

(d) *Operating Lease Income*

Operating lease income originates from the operative lease of equipment and is accrued on a straight-line basis over the lease period.

3.13. Expense Recognition

Expenses are recognised in the income statement on an accrual basis and determined for the period they were incurred in.

(a) *Operating Expenses*

Operating expenses include costs incurred in the generation of sales revenues and include cost of goods sold, costs of materials, fuel and energy, gross salaries, depreciation costs and services provided by third parties. Operating expenses include general expenses such as rental expenses, marketing, insurance, payment transactions, taxes and other costs incurred in the current accounting period.

(b) *Financial Expenses*

Financial expenses include interest expenses and exchange rate differences and other financial expenses. Interest expenses include interest calculated for received loans, which is recorded in the income statement in the period in which the expenses arise, on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Expense Recognition (Continued)

(c) *Other Expenses*

Other expenses include losses arising from sales and disposal of property, plant and equipment and intangible assets, shortages, direct write-off of receivables and sundry expenses.

3.14. Current and Deferred Income Taxes

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

Current Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax and relevant by-laws. Income tax is payable at the rate of 15% on the tax base reported in the annual corporate income tax return.

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 5 ensuing years.

Deferred Income Tax

Deferred income tax is recognised, 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 realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised on all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

Unrecognised 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.

3.15. 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 have 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 are carried out on commercial terms and conditions. Outstanding balances of receivables and liabilities at the balance sheet date, as well as transactions occurred during the reporting periods with related parties separately disclosed in notes to the financial statements (Note 38).

NOTES TO THE FINANCIAL STATEMENTS
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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, credit risk, foreign exchange risk and liquidity risk. The Company's overall risk management, in the current situation of the unpredictability of financial markets, is focused on the minimisation of the potential adverse effects on the Company's financial performance. Risk management has been defined by the Company's policies as adopted by the Board of Directors.

4.1. Financial Instruments by Category

Categories of financial instruments, according to the carrying value as of 31 December 2019 and 2018 are presented in the following table:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| <i>Financial assets</i> | | |
| Cash and cash equivalents | 107,167 | 58,618 |
| Securities and other long-term financial placements | 106,591 | 157,452 |
| Other long-term receivables | 75,137 | 20,919 |
| Trade receivables | 1,853,700 | 912,381 |
| Other receivables | 13,795 | 11,655 |
| Short-term financial placements | 127,989 | 41,760 |
| | <u>2,284,379</u> | <u>1,202,785</u> |
| <i>Financial liabilities</i> | | |
| Long-term and short-term borrowings, leases | 191,579 | 137,933 |
| Accounts payable | 1,524,200 | 796,102 |
| Other short-term liabilities | 17,154 | 11,712 |
| | <u>1,732,933</u> | <u>945,747</u> |

4.2. 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 recognised assets and liabilities in foreign operations.

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 31 December 2019
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4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)
4.2. Financial Risk Factors (Continued)
Foreign Exchange Risk (Continued)

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. On the other hand, the Company does not hedge its entire foreign exchange risk exposure due to the existing legislation and undeveloped financial market.

Exposure to foreign exchange risk as of 31 December is presented in the table below:

| | EUR | USD | RSD | 2019 Total |
|---|------------------|------------------|------------------|-----------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 5,797 | 51,408 | 49,962 | 107,167 |
| Securities and other long-term financial placements | - | - | 106,591 | 106,591 |
| Other long-term receivables | 49,262 | 6,370 | 19,505 | 75,137 |
| Trade receivables | 132,635 | 17,066 | 1,703,999 | 1,853,700 |
| Other receivables | 11,050 | - | 2,745 | 13,795 |
| Short-term financial placements | 127,989 | - | - | 127,989 |
| Total | 326,733 | 74,844 | 1,882,802 | 2,284,379 |
| Financial liabilities | | | | |
| Long-term and short-term borrowings, leases | 191,579 | - | - | 191,579 |
| Trade payables | 240,694 | 335,442 | 948,064 | 1,524,200 |
| Other short-term liabilities | 3,248 | - | 13,906 | 17,154 |
| Total | 435,521 | 335,442 | 961,970 | 1,732,933 |
| Net effect | (108,788) | (260,598) | 920,832 | 551,446 |
| 10% | (10,879) | (26,060) | | |

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019
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4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)
4.2. Financial Risk Factors (Continued)
(a) Market Risk (Continued)
Foreign Exchange Risk (Continued)

| | EUR | USD | RSD | 2018 Total |
|---|-----------------|------------------|----------------|------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 3,351 | 14,430 | 40,837 | 58,618 |
| Securities and other long-term financial placements | - | - | 157,452 | 157,452 |
| Other long-term receivables | 11,268 | 6,171 | 3,480 | 20,919 |
| Trade receivables | 128,296 | 1,368 | 782,717 | 912,381 |
| Other receivables | 2,625 | - | 9,030 | 11,655 |
| Short-term financial placements | 40,670 | - | 1,090 | 41,760 |
| Total | 186,210 | 21,969 | 994,606 | 1,202,785 |
| Financial liabilities | | | | |
| Long-term and short-term borrowings, leases | 137,933 | - | - | 137,933 |
| Trade payables | 60,520 | 139,581 | 596,001 | 796,102 |
| Other short-term liabilities | - | - | 11,712 | 11,712 |
| Total | 198,453 | 139,581 | 607,713 | 945,747 |
| Net effect | (12,243) | (117,612) | 386,893 | 257,038 |
| 10% | (1,224) | (11,761) | | |

Sensitivity Analysis

Depreciation of the Dinar of 10% against EUR and USD would result in the following effects to the Company's result, with all other variables held constant:

| | 2019 | 2018 |
|--------------|-----------------|-----------------|
| EUR | (10,879) | (1,224) |
| USD | (26,060) | (11,761) |
| Total | (36,939) | (12,985) |

If as of 31 December 2019, the functional currency has increased/weakened by 10% against EUR and USD, with all other variables held constant, profit for the year after tax would have been higher/lower by the amount of RSD 36,939 thousand (2018: RSD 12,985 thousand), mainly as a result of foreign exchange gains/losses on translation of borrowings denominated in foreign currencies and receivables/payables denominated in EUR and USD.

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For the Year Ended 31 December 2019

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4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)

4.2. Financial Risk Factors (Continued)

(a) Market Risk (Continued)

Foreign Exchange Risk (Continued)

Sensitivity Analysis (Continued)

As of 31 December 2019, financial assets denominated in EUR amount to RSD 326,733 thousand (31 December 2018: RSD 186,210 thousand) which accounts for 81.36% (2018: 89.44%) of the total financial assets of the Company denominated in foreign currency.

As of 31 December 2019, financial liabilities denominated in EUR amount to RSD 435,521 thousand (31 December 2018: RSD 198,453 thousand) which accounts for 56.49% (2018: 58.69%) of the total financial liabilities of the Company denominated in foreign currency.

As of 31 December 2019, liabilities arising from borrowings and finance lease are denominated in a foreign currency in the amount of EUR 1,095,537.33.

Price Risk

The Company is not exposed to equity securities price risk because it does not have investments classified in the balance sheet either as available-for-sale or at fair value through profit or loss, whose effects of changes in fair value are presented in the income statement.

On the other hand, the Company is exposed to price risk from the changes in prices of services, due to the strong competition in the telecommunications market. By introducing new services, the Company strives to compensate for the existing risk.

Interest Rate Risk

The Company's interest rate risk arises mainly from long-term borrowings from banks. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

During 2019 and 2018, the majority of the Company's placements and borrowings were granted at fixed interest rates.

(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 specific characteristics of each individual customer. The Company has significant concentrations of credit risk, because the participation of the major individual customer, excluding related legal entities does not exceed 12% of the total income from sales (2018: 12%).

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4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)
4.2. Financial Risk Factors (Continued)
(b) Credit Risk (Continued)

In accordance with the adopted credit policy, the Company analyses the creditworthiness 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 Director 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 does not have enough highly liquid assets to settle liabilities when they fall due. The Company manages its assets and liabilities in such a way that it can fulfil 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 a sufficient amount of highly liquid assets (cash and cash equivalents) as well as a continuous inflow of cash from goods and services, which allow it to meet its commitments on due dates. The Company does not use financial derivatives.

In order to manage liquidity risk, the Company has adopted the financial policies which define the maximum amount of the advance payment to works and equipment suppliers, grace period and the length of repayment period depending on the value and type of purchase contracts. In addition, pursuant to the business policy, a dispersion in the decision-making levels in the procurement of goods/services was made.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (balances due within 12 months equal their carrying balances as the impact of discounting is not material):

| 31 December 2019 | Up to 3 months | From 3 to 12 months | From 1 to 5 years | Total |
|---|-----------------------|----------------------------|--------------------------|------------------|
| Long-term and short-term borrowings, leases | 8,041 | 31,211 | 152,327 | 191,579 |
| Accounts payable | 1,514,767 | 9,433 | - | 1,524,200 |
| Other trade payables | 17,154 | - | - | 17,154 |
| | 1,539,962 | 40,644 | 152,327 | 1,732,933 |

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4. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (Continued)
4.2. Financial Risk Factors (Continued)
(c) Liquidity Risk (Continued)

| 31 December 2018 | Up to 3 months | From 3 to 12 months | From 1 to 5 years | Total |
|---|-----------------------|----------------------------|--------------------------|----------------|
| Long-term and short-term borrowings, leases | 7,845 | 106,078 | 24,010 | 137,933 |
| Accounts payable | 796,102 | - | - | 796,102 |
| Other trade payables | 11,712 | - | - | 11,712 |
| | 815,659 | 106,078 | 24,010 | 945,747 |

4.3. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and to provide returns for shareholders.

In order to maintain or adjust the capital structure, the Company may consider the following options: to adjust the amount of dividends paid to shareholders, to return capital to shareholders, to issue new shares or to sell assets to reduce debts.

The Company has no external requirements related to capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. This ratio is calculated as net debt divided by total capital. Net debt is calculated when the total loans (both short-term and long-term, as presented in the balance sheet) are reduced by cash and cash equivalent. The total capital is calculated when net debt is added to capital stated in the balance sheet.

The gearing ratios as of 31 December 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---|----------------|----------------|
| Total borrowings (Notes 19 and 20) | 191,579 | 137,933 |
| Less: Cash and cash equivalents (Note 14) | (107,167) | (58,618) |
| Net debt | 84,412 | 79,315 |
| Equity | 863,875 | 734,001 |
| Equity - total | 948,287 | 813,316 |
| Gearing ratio | 8.90% | 9.75% |

* Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents.

** Total capital is calculated as equity as shown in the balance sheet plus net debt.

NOTES TO THE FINANCIAL STATEMENTS
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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 realised results, as a rule.

(a) Estimates and Assumptions

Useful Lives of Intangible Assets and Property, Plant and Equipment

Intangible assets and property, plant and equipment are amortised 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. 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 balance sheet date, the Company's management reviews the carrying amounts of the Company's intangible assets and property, plant and equipment presented in the financial statements. 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 judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Impairment of Accounts Receivable and Other Receivables

The Company calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers to make required payments. The Company bases its estimate on the ageing of the account receivables balance and its historical write-off experience, customer credit-worthiness and changes in its customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively.

Retirement Benefits

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 future increase of retirement benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 18 to the financial statements.

If the used discount rate would differ by 1% (higher or lower), the provision for retirement benefits would be RSD 819 thousand lower or RSD 1,036 thousand higher in comparison with the provision for retirement benefits recognized in the Company's books of account as of 31 December 2019.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(a) Estimates and Assumptions (Continued)

Provisions for Litigations

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The Company routinely assesses the likelihood of any adverse judgements or outcomes of the litigations, as well as ranges of probable and reasonable estimated losses.

Reasonable estimates include judgments made by the Company's management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute to resolution, and prior experience.

A provision is recognized when it is probable that there is a liability whose amount can be reliably estimated by careful analysis. The required provision may change in the future due to new developments and new information becoming 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.

Fair Value

Company's business policy is to disclose the information on the fair value of assets and liabilities, for which there is official market information and when the fair value significantly differs from the carrying value.

There is no sufficient market experience, stability and liquidity in the Republic of Serbia when it comes to the purchase and sale of receivables and other financial assets and liabilities since official market information is not always available.

Therefore, it is not possible to reliably determine fair value in the absence of an active market. The Company's management assesses risks and makes an allowance for impairment in cases when it is estimated that the value at which assets are stated in the books of account is not going to be realised/recovered.

According to the Company's management, amounts in the accompanying financial statements reflect the value which, in given circumstances, is the most reliable and most useful for reporting purposes.

Deferred Tax Assets

Deferred tax assets are recognised 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 recognised, based on the period of in which it was created and the amount of future taxable profits and the tax policy planning strategy.

NOTES TO THE FINANCIAL STATEMENTS
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6. INTANGIBLE ASSETS

| | Concessions, patents, licenses and similar rights | Total |
|---|--|---------|
| COST | | |
| As of 1 January 2018 | 24,895 | 24,895 |
| Transfer from construction in progress to intangible assets (Note 7) | 79,377 | 79,377 |
| Balance as of 31 December 2018 | 104,272 | 104,272 |
| Disposals and write-offs | (3,108) | (3,108) |
| Balance as of 31 December 2019 | 101,164 | 101,164 |
| ACCUMULATED AMORTISATION | | |
| As of 1 January 2018 | 24,152 | 24,152 |
| Amortisation charge (Note 31) | 1,849 | 1,849 |
| Balance as of 31 December 2018 | 26,001 | 26,001 |
| Amortisation charge (Note 31) | 16,031 | 16,031 |
| Disposals and write-offs | (3,108) | (3,108) |
| Balance as of 31 December 2019 | 38,924 | 38,924 |
| CARRYING VALUE AS OF: | | |
| - 31 December 2019 | 62,240 | 62,240 |
| - 31 December 2018 | 78,271 | 78,271 |

NOTES TO THE FINANCIAL STATEMENTS
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7. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Buildings - right-of-use assets | Plant and equipment | Plant and equipment right-of-use assets | Investment property | Construction in progress | Total |
|---|-------|-----------|---------------------------------|---------------------|---|---------------------|--------------------------|----------|
| COST | | | | | | | | |
| Balance as of 1 January 2018 | 9,804 | 109,180 | - | 152,513 | - | 820 | 14,755 | 287,072 |
| Additions | - | - | - | - | - | - | 86,319 | 86,319 |
| Transfer from construction in progress | - | - | - | 21,697 | - | - | (101,074) | (79,377) |
| Disposals and write-offs | - | (1,951) | - | (16,508) | - | - | - | (18,459) |
| Balance as of 31 December 2018 | 9,804 | 107,229 | - | 157,702 | - | 820 | - | 275,555 |
| Additions | - | - | - | - | - | - | 34,324 | 34,324 |
| First-time adoption of IFRS 16 | - | - | 5,626 | - | 14,395 | - | - | 20,021 |
| Transfer from construction in progress to plant and equipment | - | - | - | 34,324 | - | - | (34,324) | - |
| Transfer from buildings to investment property | - | (370) | - | - | - | 370 | - | - |
| Disposals and write-offs | - | (675) | - | (8,010) | (3,750) | - | - | (8,685) |
| Balance as of 31 December 2019 | 9,804 | 106,184 | 5,626 | 184,016 | 10,645 | 1,190 | - | 317,465 |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| Balance as of 1 January 2018 | - | 15,688 | - | 80,530 | - | 108 | - | 96,326 |
| Depreciation (Note 31) | - | 1,414 | - | 22,317 | - | 11 | - | 23,742 |
| Increase/decrease | - | - | - | - | - | - | - | - |
| Disposals and write-offs | - | (278) | - | (15,593) | - | - | - | (15,871) |
| Balance as of 31 December 2018 | - | 16,824 | - | 87,254 | - | 119 | - | 104,197 |
| Depreciation (Note 31) | - | 1,389 | 2,813 | 24,658 | 6,747 | 11 | - | 26,058 |
| Transfer | - | (58) | - | - | (1,425) | 58 | - | - |
| Disposals and write-offs | - | (102) | - | (7,720) | - | - | - | (7,822) |
| Balance as of 31 December 2019 | - | 18,053 | 2,813 | 104,192 | 5,322 | 188 | - | 130,568 |
| CARRYING VALUE AS OF: | | | | | | | | |
| - 31 December 2019 | 9,804 | 88,131 | 2,813 | 79,824 | 5,323 | 1,002 | - | 186,897 |
| - 31 December 2018 | 9,804 | 90,405 | - | 70,448 | - | 701 | - | 171,358 |

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7. PROPERTY, PLANT AND EQUIPMENT (Continued)

The equipment acquired under the finance lease by the Company includes the following:

| | 2019 | 2018 |
|---|---------------|---------------|
| Cost | 59,982 | 34,318 |
| Accumulated depreciation | (17,492) | (9,564) |
| Carrying value as of 31 December | 42,490 | 24,754 |

The Company leases vehicles under the finance lease agreement terms. The periods of these agreements are between 4 and 5 years.

The cost of written off equipment the Company utilises in its operations as of 31 December 2019 amounted to RSD 57,130 thousand (31 December 2018: RSD 64,634 thousand). The Company has neither pledges nor mortgages on buildings, plant and equipment.

Based on the Company's management estimate, property, plant and equipment as of 31 December 2019 are not impaired.

8. LONG-TERM FINANCIAL PLACEMENTS

| | 2019 | 2018 |
|---|----------------|----------------|
| Equity investments in subsidiaries (gross) | 188,977 | 188,977 |
| Less: Allowance for impairment | (12,000) | (12,000) |
| Equity investments in subsidiaries (net) | 176,977 | 176,977 |
| | 2019 | 2018 |
| Equity investments in associates (gross) | 15 | - |
| Less: allowance for impairment | - | - |
| Equity investments in associates (net) | 15 | - |
| Securities available for sale | 100,905 | 151,357 |
| Other long-term financial placements | 5,686 | 6,095 |
| Balance as of 31 December | 283,583 | 334,429 |

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8. LONG-TERM FINANCIAL PLACEMENTS (Continued)

Equity investments in subsidiaries relate to investments in the following companies:

| Name and headquarters | 2019 | 2018 | Interest % |
|---|----------------|----------------|-------------------|
| Jel-Mi Impregnacija d.o.o. Markovac | 26,042 | 26,042 | 80.31% |
| Greensoft d.o.o. Novi Sad | 3,689 | 3,689 | 51.00% |
| Telegroup Podgorica d.o.o. Podgorica | 492 | 492 | 100.00% |
| Telegroup Finance d.o.o. Belgrade | 158,754 | 158,754 | 78.26% |
| Total | 188,977 | 188,977 | |
| Total gross balance as of 31 December | 188,977 | 188,977 | |
| Allowance for impairment (Note 35) | (12,000) | (12,000) | |
| Net equity investments in subsidiaries | 176,977 | 176,977 | |

Apart from the abovementioned subsidiaries, the Company has a branch in Germany that was founded in 2016.

Movements in the allowance for impairment of long-term financial placements:

| | 2019 | 2018 |
|---|---------------|---------------|
| Balance as of 1 January | 12,000 | 24 |
| Additional allowance for impairment (Note 35) | - | 12,000 |
| Derecognition | - | (24) |
| Balance as of 31 December | 12,000 | 12,000 |

Securities available for sale in the amount of RSD 100,905 thousand (31 December 2018: RSD 151,357) are related to Company's investments in shares of Jubmes banka a.d. Belgrade, which are publicly traded at the Belgrade Stock Exchange. The fair value of investments traded on an active market is determined on the basis of the current market value at the time of concluding business operations as of 31 December 2019.

Financial assets available for sale are denominated in RSD.

Other long-term financial placements in the amount of RSD 5,686 thousand (31 December 2018: RSD 6,095 thousand) are related to a long-term loan granted to a individual with maturity of 25 years, with no interest (Note 38d).

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9. LONG-TERM RECEIVABLES

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Other long-term receivables in RSD | 19,505 | 3,480 |
| Other long-term receivables in a foreign currency | 55,632 | 17,439 |
| Receivables from the Pre-packaged Reorganisation Plan | 26,293 | - |
| Less: Allowance for impairment | <u>(26,293)</u> | <u>-</u> |
| Balance as of 31 December | <u>75,137</u> | <u>20,919</u> |

Movements in the allowance for impairment of long-term receivables:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|-----------------|
| Balance as of 1 January | - | - |
| Allowance for impairment - transfer from trade receivables (Note 11) | <u>26,293</u> | <u>-</u> |
| Balance as of 31 December | <u>26,293</u> | <u>-</u> |

Other long-term receivables in the total amount of RSD 37,085 thousand are related to trade receivables, intended for money retention for good work performance, which fall due upon project completion, i.e. after the works' handover. These retentions are made in percentages, defined in the agreements with customers, for each delivered invoice/progress bill. The other long-term receivables in the amount of RSD 38,052 thousand relate to trade receivables whose maturity exceeds one year.

10. INVENTORIES

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Material, spare parts, tools and small inventory | <u>4,479</u> | <u>9,691</u> |
| Goods | 123,326 | 63,217 |
| Less: Allowance for impairment | <u>-</u> | <u>-</u> |
| Goods | <u>123,326</u> | <u>63,217</u> |
| Advances paid for inventories and services: | | |
| - parent company | 30,567 | - |
| - other related parties | 136,111 | - |
| - other legal entities | 217,223 | 91,365 |
| Less: Allowance for impairment of advances | <u>(3,915)</u> | <u>(11,007)</u> |
| Advances paid for inventories and services | <u>379,986</u> | <u>80,358</u> |
| Balance as of 31 December | <u>507,791</u> | <u>153,266</u> |

Inventories of goods amounting to RSD 123,326 thousand were measured at fair value less costs to sell.

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10. INVENTORIES (Continued)

Movements in the allowance for impairment of advances is as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|---------------------|----------------------|
| Balance as of 1 January | 11,007 | 21,049 |
| Recovered impaired advances (Note 36) | <u>(7,092)</u> | <u>(10,042)</u> |
| Balance as of 31 December | <u><u>3,915</u></u> | <u><u>11,007</u></u> |

11. TRADE RECEIVABLES

Gross trade receivables as of 31 December 2019 amount to RSD 1,909,960 thousand (31 December 2018: RSD 1,040,907 thousand), whereas the accompanying allowance for impairment as of 31 December 2019 amounts to RSD 18,208 thousand (31 December 2018: RSD 128,526 thousand).

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|-----------------------|
| Domestic trade receivables - subsidiaries | 1,280 | 1,126 |
| Less: Allowance for impairment - subsidiaries | <u>(1,242)</u> | <u>(695)</u> |
| Domestic trade receivables - subsidiaries (Note 38c) | <u>38</u> | <u>431</u> |
| Foreign trade receivables - parent and subsidiaries (Note 38c) | <u>5,363</u> | <u>55,662</u> |
| Domestic trade receivables - other related parties | <u>105</u> | <u>8,029</u> |
| Foreign trade receivables - other related parties (Note 38c) | <u>84,099</u> | <u>65,554</u> |
| Domestic trade receivables | 1,776,296 | 902,088 |
| Less: Allowance for impairment of domestic trade receivables | <u>(16,966)</u> | <u>(127,831)</u> |
| Domestic trade receivables | <u>1,759,330</u> | <u>774,257</u> |
| Foreign trade receivables | 4,765 | 8,448 |
| Less: Allowance for impairment of foreign trade receivables | <u>-</u> | <u>-</u> |
| Foreign trade receivables | <u>4,765</u> | <u>8,448</u> |
| Balance as of 31 December | <u><u>1,853,700</u></u> | <u><u>912,381</u></u> |

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11. TRADE RECEIVABLES (Continued)

The carrying value of trade receivables classified as loans and receivables, corresponds to their fair value.

| | <u>Total</u> | <u>Within credit period</u> | <u>Out of credit period</u> |
|--|------------------|-------------------------------------|---------------------------------|
| Domestic trade receivables - parent and subsidiaries | 1,280 | 13 | 1,267 |
| Foreign trade receivables - parent and subsidiaries | 5,363 | 279 | 5,084 |
| Domestic trade receivables - other related parties | 105 | 105 | - |
| Foreign trade receivables - other related parties | 84,099 | 50,976 | 33,123 |
| Domestic trade receivables | 1,776,296 | 1,742,099 | 72,249 |
| Foreign trade receivables | 4,765 | 4,706 | 59 |
| Total | 1,871,908 | 1,798,178 | 111,782 |

| | <u>Within credit period</u> | <u>Out of credit period < 60 days</u> | <u>61 to 180</u> | <u>181 to 365</u> | <u>>365</u> | <u>Total</u> |
|--|-------------------------------------|--|----------------------|-----------------------|----------------|------------------|
| Domestic trade receivables - parent and subsidiaries | 13 | 26 | 51 | 77 | 1,113 | 1,280 |
| Foreign trade receivables - parent and subsidiaries | 279 | 4,757 | 327 | - | - | 5,363 |
| Domestic trade receivables - other related parties | 105 | - | - | - | - | 105 |
| Foreign trade receivables - other related parties | 50,976 | 28,007 | 3,908 | 1,208 | - | 84,099 |
| Domestic trade receivables | 1,704,047 | 19,331 | 37,515 | 4,595 | 10,808 | 1,776,296 |
| Foreign trade receivables | 4,706 | 59 | - | - | - | 4,765 |
| Total | 1,760,126 | 52,179 | 41,802 | 5,880 | 11,921 | 1,871,908 |

As of 31 December 2019 trade receivables amounting to RSD 18,208 thousand (31 December 2018: RSD 128,526 thousand) are completely due and impaired.

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11. TRADE RECEIVABLES (Continued)

Movements in the allowance for impairment of trade receivables were as follows:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|-----------------------|
| Balance as of 1 January | 128,526 | 102,189 |
| Additional charge for the year (Note 35) | 9,469 | 28,930 |
| Recovered previously provisioned receivables (Note 36) | (90,361) | (2,160) |
| Direct write-off | (3,133) | (433) |
| Transfer to long-term receivables (Note 8) | (26,293) | - |
| Balance as of 31 December | <u><u>18,208</u></u> | <u><u>128,526</u></u> |

Determination and reversal of allowance for impairment of receivables is stated in 'Other expenses/other income' in the income statement (Notes 35 and 36). Amounts credited to allowance for impairment are transferred out of the books when it is not expected that they will be settled.

Out of total domestic trade receivables as of 31 December 2019 amounting to RSD 1,853,700 thousand, the amount of RSD 149,701 thousand is denominated in foreign currencies, out of which the amount of RSD 17,066 thousand is denominated in USD and RSD 132,635 thousand in EUR. The remaining portion amounting to RSD 1,703,999 thousand is expressed in domestic currency.

Other items within trade receivables do not contain impaired assets.

12. OTHER RECEIVABLES

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Interest and dividends receivable: | | |
| - related parties | 4,403 | 2,341 |
| - third parties | 14,956 | 12,390 |
| Receivables from employees | 157 | 29 |
| Receivables from state authorities for overpaid tax (Branch in Germany) | 9 | 2,625 |
| Other current receivables | - | - |
| Gross balance as of 31 December | <u><u>19,525</u></u> | <u><u>17,385</u></u> |
| Less: Allowance for impairment | (5,730) | (5,730) |
| Balance as of 31 December | <u><u>13,795</u></u> | <u><u>11,655</u></u> |

Movements in the allowance for impairment of other receivables are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Balance as of 1 January | 5,730 | 486 |
| Additional allowance for impairment (Note 35) | - | 5,244 |
| Balance as of 31 December | <u><u>5,730</u></u> | <u><u>5,730</u></u> |

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13. SHORT-TERM FINANCIAL PLACEMENTS

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|----------------------|
| Short-term loans and placements - parents and subsidiaries (Note 38d) | 51,381 | 23,747 |
| Less: Allowance for impairment | <u>(2,310)</u> | <u>(3,310)</u> |
| | 49,071 | 20,437 |
| Short-term domestic loans and placements | 89,383 | 31,919 |
| Less: Allowance for impairment | <u>(11,000)</u> | <u>(11,000)</u> |
| | 78,383 | 20,919 |
| Other short-term financial placements | <u>535</u> | <u>404</u> |
| Balance as of 31 December | <u>127,989</u> | <u>41,760</u> |

Total allowance for impairment of short-term financial placements as of 31 December 2019 amounts to RSD 13,310 thousand, while movements in the allowance for impairment of short-term financial placements are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Balance as of 1 January | 14,310 | 6,725 |
| Additional allowance for impairment (Note 35) | - | 10,000 |
| Recovered previously provisioned short-term loans and placements (Note 36) | (1,000) | (2,000) |
| Derecognition | <u>-</u> | <u>(415)</u> |
| Balance as of 31 December | <u>13,310</u> | <u>14,310</u> |

Loans granted to subsidiaries are non-interest bearing, except for the loan granted to Greensoft d.o.o. Novi Sad which became a related party in 2015. The interest on the granted placement is 6% p.a. and the net balance as of 31 December 2019 amounts to RSD 49,071 thousand (Note 38d). Loans granted to other related parties in the amount of RSD 2,310 thousand are fully impaired.

Domestic short-term loans and placements relate to loans granted to third parties. They were granted with the repayment period from 6 to 12 months with the interest rate ranging from 6% to 12% per annum. As collateral for securing the collection of the granted loans, the Company received promissory notes and established a first-tier mortgage of the business premises in Nis for one placement.

Other short-term placements include funds deposited with the domestic commercial banks (overnight) in the amount of RSD 158 thousand and a current portion of long-term financial placements in the amount of RSD 377 thousand (Note 38d). Interest rate on overnight loans is variable and it depends on the amount of time deposits.

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14. CASH AND CASH EQUIVALENTS

| | 2019 | 2018 |
|---|----------------|---------------|
| Current accounts | 49,382 | 40,245 |
| Foreign currency account | 57,155 | 17,134 |
| Other cash and cash equivalents in RSD | 579 | 592 |
| Other cash and cash equivalents in foreign currencies | 51 | 647 |
| Balance as of 31 December | 107,167 | 58,618 |

As of 31 December 2019 the Company had RSD 20,000 thousand of undrawn credit facilities granted by banks (2018: RSD 20,000 thousand), for which the conditions for withdrawal have been fulfilled. The above mentioned funds are granted overdraft, which represents a portion of the approved credit line with Banca Intesa a.d. Belgrade.

15. PREPAYMENTS AND ACCRUED INCOME

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| Prepaid expenses | 8,244 | 25,235 |
| Receivables for uninvoiced income | 804 | 8,556 |
| Other prepayments and accrued income | 27,742 | 14,954 |
| Balance as of 31 December | 36,790 | 48,745 |

16. OFF-BALANCE SHEET ASSETS AND LIABILITIES

| | 2019 | 2018 |
|----------------------------------|------------------|----------------|
| Mortgages | - | - |
| Guarantees | 1,237,230 | 512,852 |
| Balance as of 31 December | 1,237,230 | 512,852 |

In 2019 the Company received mortgage cancellation letters from the banks that cancelled mortgages established on commercial buildings.

The Company had contingent liabilities related to banking and other guarantees and on other grounds, arising from regular business operations in the amount of RSD 1,237,230 thousand (31 December 2018: RSD 512,852 thousand). No financial liabilities are expected to arise from contingent liabilities.

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17. EQUITY

| | Capital | Reserves | Gains/losses arising from securities | Actuarial gains or losses | Losses arising from the translation of FS of foreign transactions | Retained earnings | Total |
|---|---------------|--------------|--------------------------------------|---------------------------|---|-------------------|----------------|
| Balance as of 1 January 2018 | 66,143 | 9,665 | 36,426 | 1,055 | (169) | 539,284 | 652,404 |
| Net profit for the year | - | - | - | - | - | 29,961 | 29,961 |
| Other comprehensive income: | | | | | | | |
| Changes in fair value of financial assets available for sale | - | - | 52,052 | (397) | (19) | - | 51,636 |
| Balance as of 31 December 2018 | 66,143 | 9,665 | 88,478 | 658 | (188) | 569,245 | 734,001 |
| Net profit for the year | - | - | - | - | - | 184,646 | 184,646 |
| Other comprehensive income: | | | | | | | |
| Changes in fair value of financial assets available for sale (Note 8) | - | - | (50,453) | 377 | - | - | (50,076) |
| Balance as of 31 December 2019 | 66,143 | 9,665 | 38,025 | 1,035 | (4,884) | 753,891 | 863,875 |

(a) Capital

The amount of the Company's capital registered with the Serbian Business Registers Agency as of 16 January 2001 amounts to RSD 66,143 thousand out of which the contribution in kind amounts to RSD 522 thousand and contribution in cash amounts to RSD 65,621 thousand.

The Company is owned by Telegroup Limited, Great Britain.

(b) Reserves

Reserves are used for future losses coverage.

(c) Revaluation Reserves and Unrealised Gains and Losses

Unrealised gains arising from securities available for sale amounting to RSD 38,026 thousand as of 31 December 2019 (31 December 2018: RSD 88,478 thousand), represent a positive effect of reducing the fair value arising from shares of Jubmes banka a.d. Belgrade.

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18. LONG-TERM PROVISIONS

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Employee benefits and other employee benefits | 5,162 | 4,611 |
| Other long-term provisions | <u>840</u> | <u>845</u> |
| Balance as of 31 December | <u>6,002</u> | <u>5,456</u> |

(a) Employee Benefits and Other Employee Benefits

Provisions for retirement benefits and other employee benefits are measured at the present value of the future outflows using the discount rate reflecting the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Bearing in mind that in the Republic of Serbia there is no developed market for such bonds, the reference interest rates of the National Bank of Serbia have been used.

| | Employee benefits and other employee benefits | Total |
|---------------------------------------|--|---------------------|
| Balance as of 1 January 2019 | <u>4,611</u> | <u>4,611</u> |
| Additional provisions | 551 | 551 |
| Effect of discounting | - | - |
| Utilised during the year | <u>-</u> | <u>-</u> |
| Balance as of 31 December 2019 | <u>5,162</u> | <u>5,162</u> |

Basic actuarial assumptions used are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Discount rate | 2.25% | 3.0% |
| Future salary increases | 1.0% | 2.0% |
| Inflation rate | 2.5% | 3.0% |
| Fluctuation rate | 18.56% | 20.58% |
| Total number of employees as of 31 December | 171 | 138 |

(b) Warranty provisions

The Company generally offers 1 to 3 year warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. As of 31 December 2019, the Company estimates that there will be no expenses incurred on the basis of given warranty period, and that it is not necessary to recognize provisions on this basis.

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18. LONG-TERM PROVISIONS (Continued)

(c) Litigations

Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations.

As of 31 December 2019 the Company does not act as a defendant in any litigation.

19. LONG-TERM LIABILITIES

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Long-term borrowings and domestic loans | 60,262 | 37,946 |
| Finance lease liabilities | 28,654 | 17,251 |
| Operating lease liabilities | 8,589 | - |
| Total long-term liabilities | 97,505 | 55,197 |
| <i>Less: Current portion of long-term borrowings due within one year (Note 20)</i> | (33,530) | (23,760) |
| <i>Less: Current portion of long-term finance lease liabilities due within one year (Note 20)</i> | (11,446) | (7,427) |
| Total current portion of long-term liabilities due within one year | (44,976) | (31,187) |
| Balance as of 31 December | 52,529 | 24,010 |

Maturity of long-term loans and borrowings:

| | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| From 1 to 2 years | 36,864 | 12,401 |
| From 2 to 5 years | 15,665 | 11,609 |
| Balance as of 31 December | 52,529 | 24,010 |

The carrying value of the Company's borrowings is denominated in the following currencies:

| | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| EUR | 60,262 | 37,946 |
| Balance as of 31 December | 60,262 | 37,946 |

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19. LONG-TERM LIABILITIES (Continued)
Overview of the Long-term Loans by Creditors

| Loans from domestic banks | Annual interest rate | Currency | 2019 | | 2018 | |
|---------------------------|----------------------|----------|-----------------|----------------|-----------------|----------------|
| | | | In the currency | Amount RSD 000 | In the currency | Amount RSD 000 |
| ProCredit Bank | 3%+6m Euribor | EUR | 120,021 | 14,114 | 321,042 | 37,946 |
| NLB Bank | 2.75% | EUR | 392,440 | 46,148 | - | - |
| Total | | | 512,461 | 60,262 | 321,042 | 37,946 |

Borrowing from ProCredit Bank a.d. amounting to RSD 14,114 thousand relate to the loan granted in 2017, in the total amount of EUR 500,000 with the repayment period of 36 months, at a fixed nominal interest rate of 3% in the first 24 months, and after the expiry of this period at an interest rate of 3%+6m Euribor per annum. The loan repayment is in 30 equal instalments, upon the expiration of the grace period of 6 months. Blank promissory notes are provided as a collateral.

Borrowing from NLB banka a.d. amounting to RSD 46,148 thousand relate to the loan granted in 2019 in the total amount of EUR 500,000 for 36 months, at a fixed nominal interest rate of 2.75% per annum. The loan repayment is in 36 equal instalments. Blank promissory notes are provided as a collateral.

(i) Finance Lease Liabilities

Finance lease liabilities are effectively secured as the right that the leased asset shall be returned to the lessor if the lessee fails to settle the liability.

Finance lease liabilities - minimum lease payments:

| | 2019 | | 2018 | |
|----------------------------------|---------------|---------------|---------------|---------------|
| | Present value | Future value | Present value | Future value |
| Up to 1 year | 10,644 | 11,446 | 6,881 | 7,427 |
| From 1 to 3 years | 16,510 | 17,208 | 9,479 | 9,824 |
| Balance as of 31 December | 27,154 | 28,654 | 16,360 | 17,251 |

The difference between the future value of minimum lease payments and their present value represents the interest contained in the lease payments.

Finance lease liabilities have the repayment period from 36 to 48 months and the interest rate ranging from 5.69% to 6.20%. The Company provided promissory notes as collateral for securing the timely settlement of liabilities arising from finance lease.

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20. SHORT-TERM FINANCIAL LIABILITIES

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Domestic short-term borrowings | 94,074 | 82,736 |
| Current portion of long-term borrowings due within one year (Note 19) | 33,530 | 23,760 |
| Current portion of long-term finance lease liabilities due within one year (Note 19) | <u>11,446</u> | <u>7,427</u> |
| Balance as of 31 December | <u>139,050</u> | <u>113,923</u> |

Short-term domestic loans relate to the liabilities arising from a loan granted by ProCredit Bank a.d. in the amount of RSD 58,796 thousand based on the revolving credit line approved in 2019 in the total amount of EUR 500,000, at an interest rate of 3.3%+6m Euribor per annum. The loan is granted for working capital. Collaterals for the loan are promissory notes.

The remaining amount of RSD 35,278 is related to the revolving credit granted by UniCredit Bank in the total amount of EUR 300,000, at an interest rate of 1 month Euribor+3% p.a.

A portion of long-term liabilities maturing in the following year is related to the loan approved by ProCredit Bank a.d. in 2017 in the amount of EUR 120,020.71 (equivalent of RSD 14,114 thousand) and to the loan approved by NLB Bank maturing in the following year in the amount of EUR 165,111.21 (equivalent of RSD 19,416 thousand).

A portion of long-term liabilities arising from the finance lease maturing in the following year amounts to EUR 97,336.51 (equivalent of RSD 11,446 thousand).

The total carrying value of short-term financial liabilities of the Company as of 31 December 2019 in the amount of RSD 139,050 thousand is denominated in a foreign currency, i.e. EUR 1,182,468.43.

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21. RECEIVED ADVANCES, DEPOSITS AND RETAINERS AND ACCOUNTS PAYABLE

| | 2019 | 2018 |
|---|------------------|----------------|
| Advances received in RSD | 382,951 | 95,150 |
| Foreign currency advances received | 110,233 | 28,085 |
| Total advances received | 493,184 | 123,235 |
| Foreign trade payable - parent company (Note 38c) | 22,427 | 1,862 |
| Foreign trade payable - related parties (Note 38c) | - | 45 |
| Domestic trade payables - related parties (Note 38c) | 453,807 | 134,751 |
| Foreign trade payable - related parties (Note 38c) | 1,293 | - |
| Domestic trade payables | 859,265 | 206,551 |
| Foreign trade payables | 186,376 | 159,751 |
| Other accounts payable in RSD | 628 | 292,791 |
| Other accounts payable in a foreign currency | 404 | 351 |
| Total accounts payable | 1,524,200 | 796,102 |
| Total accounts payable | 2,017,384 | 919,337 |

Advances received in the amount of RSD 493,184 thousand relate to the delivery of equipment and services.

Trade payables are non-interest bearing and have the credit days ranging from 30 to 90 days. Accounts payable as of 31 December 2019 amounting to RSD 576,136 thousand are denominated in foreign currency, out of which the amount of RSD 335,442 thousand in USD and the amount of RSD 240,694 thousand in EUR. The Company's management deems that the stated value of trade payables approximated their fair value as of the balance sheet date.

Lease liabilities maturing over the next year in the amount of RSD 405 thousand are stated under domestic trade payables.

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22. OTHER SHORT-TERM LIABILITIES

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Gross salaries and compensations | 12,404 | 8,610 |
| Interests payable and financing expenses | - | 315 |
| Liabilities to employees | 595 | 1,949 |
| Liabilities to individuals for contractual fees | 221 | 761 |
| Liabilities to individuals for contractual fees (IFRS 16) | 542 | - |
| Other liabilities | <u>3,392</u> | <u>77</u> |
| Balance as of 31 December | <u>17,154</u> | <u>11,712</u> |

The Company management deems that the stated value of other short-term liabilities reflects their fair value as of the balance sheet date.

23. VALUE ADDED TAX AND OTHER TAX LIABILITIES, ACCRUALS AND DEFERRED INCOME

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|----------------------|
| a) Value added tax payable | <u>26,920</u> | <u>-</u> |
| b) Taxes, contributions and other duties | | |
| Tax liabilities | 21,963 | 10,022 |
| Contributions payable charged to expenses | 50 | 49 |
| Other liabilities for lease taxes (IFRS 16) | 102 | - |
| Other liabilities for taxes, contributions and other taxes | <u>2,094</u> | <u>1,991</u> |
| | <u>24,209</u> | <u>12,062</u> |
| c) Accruals and deferred income | | |
| Accrued expenses | 3,968 | 5,899 |
| Deferred income | 70,943 | 548 |
| Other accruals and deferred income | <u>34,530</u> | <u>6,668</u> |
| Total | <u>109,441</u> | <u>13,115</u> |

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24. INCOME TAXES
(a) Components of Income Taxes

Major components of tax expense are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|------------------------|------------------------|
| Tax income /(expense) of the period | | |
| Tax expense charged to income for the year | (34,317) | (13,572) |
| | <u>(34,317)</u> | <u>(13,572)</u> |
| Deferred tax income/(expense) of the period | | |
| Occurrence and reversal of temporary differences | 960 | 651 |
| | <u>960</u> | <u>651</u> |
| Total | <u><u>(33,357)</u></u> | <u><u>(12,921)</u></u> |

(b) Numerical Reconciliation of Income Tax Expense and Loss Before Tax Multiplied by the Income Tax Rate

Calculated income tax expense/(income) differs from the theoretical amount which would be arrived at using the currently-enacted tax rate of 15% on the accounting loss before tax, as follows:

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Profit before tax | 218,003 | 42,882 |
| Income tax at statutory rate of - 15% | 32,700 | 6,432 |
| Expenses not deductible for tax purposes | 1,617 | 7,140 |
| | <u>1,617</u> | <u>7,140</u> |
| Total | <u><u>34,317</u></u> | <u><u>13,572</u></u> |
| <i>Effective tax rate</i> | <u>15.74%</u> | <u>31.65%</u> |

(c) Deferred Tax Assets and Liabilities

Deferred tax assets, net relate to the temporary difference between the carrying value of property, equipment and intangible assets and their tax basis, and long-term provisions for retirement benefits.

Movements in deferred tax assets during the year were as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|-------------------|
| Balance as of 1 January | <u>658</u> | <u>690</u> |
| Effects of temporary differences (credited)/charged to the income statement | 817 | (32) |
| | <u>817</u> | <u>(32)</u> |
| Balance as of 31 December | <u><u>1,475</u></u> | <u><u>658</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

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24. INCOME TAXES (Continued)

Movements in deferred tax liabilities during the year are presented in the table below:

| | 2019 | 2018 |
|---|-------|-------|
| Balance as of 1 January | 143 | 826 |
| Effects of temporary differences (credited)/charged to the income statement | (143) | (683) |
| Balance as of 31 December | - | 143 |
| Net effect | 960 | 651 |

25. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

Pursuant to Article 18 of the Law on Accounting, the Company performed reconciliation of accounts receivable and accounts payable with its debtors and creditors as of 31 December 2019.

The Company prepared and submitted to the client's 850 confirmations, out of which 787 were returned, while 63 confirmations had not been returned until the date of preparation of these financial statements.

Since these confirmations include a clause stating that "if the recipient does not return the confirmation within a certain period of time, the balance of receivables and payables shall be deemed reconciled", the Company considers that the outstanding balances stated in the remaining unreturned confirmations, are also reconciled.

The total amount of reconciled confirmations relates to:

- receivables in the amount of RSD 2,344,661 thousand; and
- payables in the amount of RSD 2,016,256 thousand.

Unreconciled confirmations relate to:

- receivables in the amount of RSD 3,338 thousand, i.e. 0.142%; and
- payables in the amount of RSD 98 thousand, i.e. 0.005%.

Based on the performed reconciliation procedure there are no material unreconciled amounts of receivables and payables.

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26. OPERATING INCOME

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|-------------------------|
| Sales of goods | | |
| Sales of goods to parents and subsidiaries on a foreign market (Note 38a) | 5,983 | 10,286 |
| Sales of goods to other related parties on the domestic market (Note 38a) | 2,296 | 18 |
| Sales of goods to other related parties on a foreign market (Note 38a) | 368,020 | 277,386 |
| Sales of goods on the domestic market | 797,212 | 683,763 |
| Sales of goods on a foreign market | <u>4,024</u> | <u>3,368</u> |
| Total sales of goods | <u>1,177,535</u> | <u>974,821</u> |
| Sales of products and services | | |
| Sales of products and services to parents and subsidiaries on a foreign market (Note 38a) | - | 29,108 |
| Sales of products and services to other related parties on a foreign market (Note 38a) | 5,742 | 21,329 |
| Sales of products and services to other related parties on the domestic market (Note 38a) | 574 | 8,891 |
| Sales of products and services to parents and subsidiaries on a domestic market (Note 38a) | 128 | 648 |
| Sales of products and services on the domestic market | 3,974,264 | 2,085,940 |
| Sales of products and services on a foreign market | <u>27,748</u> | <u>33,310</u> |
| Total sales of products and services | <u>4,008,456</u> | <u>2,179,226</u> |
| Other operating income | <u>1,097</u> | <u>555</u> |
| Income from premiums and subsidies | <u>784</u> | <u>-</u> |
| Total operating income | <u>5,187,872</u> | <u>3,154,602</u> |

The most significant portion of Company's operating income is related to the income from the sale of products and services on the domestic market, which was generated by providing the services that relate to the development and implementation of IT solutions, software application development, implementation of IPTV and OTT solutions for the delivery of video content and for the building and integration of telecommunication, electrical power and traffic infrastructure.

Other operating income amounting to RSD 1,097 thousand is related to rental income from other related parties in the amount of RSD 568 thousand (2018: 155 thousand) (Note 38a).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

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27. COST OF GOODS SOLD

Cost of goods sold as of 31 December 2019 amounted to RSD 873,942 thousand (2018: RSD 735,737 thousand), out of which the amount of RSD 183,659 thousand relates to the parent company and the amount of RSD 42,510 thousand (2018: RSD 214,797 thousand) (Note 38a) refers to related parties.

28. COST OF MATERIAL, FUEL AND ENERGY

| | 2019 | 2018 |
|---------------------------|------------------|----------------|
| Processing material | 1,344,340 | 460,530 |
| Other material (overhead) | 5,961 | 4,427 |
| Spare parts | 5,669 | 3,199 |
| Costs of material | 1,355,970 | 468,156 |
| Fuel and energy | 25,175 | 23,311 |
| Total | 1,381,145 | 491,467 |

Out of the total amount of cost of material, the amount of RSD 156,965 thousand (Note 38a) relates to related parties.

29. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

| | 2019 | 2018 |
|---|----------------|----------------|
| Gross salaries and compensations | 233,414 | 175,237 |
| Payroll taxes and contributions payable by the employer | 36,883 | 30,614 |
| Temporary job contracts | - | - |
| Remuneration to physical persons arising from other contracts | 9,213 | 14,821 |
| Other personal expenses and benefits | 36,311 | 28,541 |
| Total | 315,821 | 249,213 |
| Number of employees at the year end | 171 | 138 |

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019
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TRANSLATION
30. COSTS OF PRODUCTIVE SERVICES

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|-------------------------|
| Expenses of own-work and goods capitalised | 1,330,073 | 888,643 |
| Transportation cost | 26,677 | 19,987 |
| Maintenance | 36,164 | 15,469 |
| Rental expenses | 68,781 | 74,146 |
| Fairs | 968 | 349 |
| Advertising and marketing fees | 18,014 | 11,217 |
| Other services | 3,488 | 2,034 |
| Total | <u>1,484,165</u> | <u>1,011,845</u> |

Out of the total amount of expenses of own-work and goods capitalised, the amount of RSD 868,034 thousand relates to related parties (Note 38a).

31. DEPRECIATION AND AMORTISATION EXPENSES

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Amortisation charge (Note 6) | 16,031 | 1,849 |
| Depreciation charge (Note 7) | 26,058 | 23,742 |
| Total | <u>42,089</u> | <u>25,591</u> |
| Depreciation charge of leased property, plant and equipment IFRS 16 (Note 7) | 9,560 | - |
| Total | <u>51,649</u> | <u>25,591</u> |

32. NON-MATERIAL COSTS

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-----------------------|-----------------------|
| Cost of non-productive services | 855,067 | 465,632 |
| Representation | 23,764 | 24,604 |
| Insurance premiums | 6,249 | 3,695 |
| Bank charges | 22,995 | 13,394 |
| Membership fees | 4,324 | 2,833 |
| Taxes | 7,571 | 6,925 |
| Contributions | 579 | 586 |
| Other non-material costs | 19,431 | 22,237 |
| Total | <u>939,980</u> | <u>539,906</u> |

Out of the total amount of non-material costs, the amount of RSD 35,997 thousand relates to the parent company, while the amount of RSD 107,713 thousand relates to related parties (Note 38a).

The most significant portion of other non-material costs in the amount of RSD 13,385 thousand relates to donations and sponsorships.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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33. FINANCIAL INCOME

| | 2019 | 2018 |
|---|---------------|--------------|
| Financial income from parent and subsidiaries transactions (Note 38b) | 2,853 | 1,080 |
| Financial income from other related party transactions (Note 38b) | 631 | 1,784 |
| Interest income | 20,880 | 2,334 |
| Foreign exchange gains and gains arising from foreign currency clause application | 6,503 | 3,554 |
| Total | 30,867 | 8,752 |

34. FINANCIAL EXPENSES

| | 2019 | 2018. |
|---|---------------|---------------|
| Financial expenses - parent and subsidiaries transactions (Note 38b) | 11,316 | 13,804 |
| Financial expenses - other related parties transactions (Note 38b) | 2,312 | 342 |
| Interest expense | 4,913 | 4,199 |
| Foreign exchange losses and losses arising from foreign currency clause application | 4,420 | 3,863 |
| Other financial expenses | 1,458 | - |
| Total | 24,419 | 22,208 |

35. LOSSES FROM VALUE ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019 | 2018 |
|---|--------------|---------------|
| Impairment of non-current financial placements (Note 8) | - | 12,000 |
| Impairment of trade receivables (Note 11) | 9,649 | 28,930 |
| Impairment of short-term financial placements (Note 13) | - | 10,000 |
| Impairment of other receivables (Note 12) | - | 5,244 |
| Total | 9,469 | 56,174 |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

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36. OTHER INCOME

| | 2019 | 2018 |
|---|----------------|---------------|
| Gains on sale of intangible assets, property, plant and equipment | 1,422 | 1,960 |
| Surpluses | 2 | 15 |
| Recovered advances provided for (Note 10) | 7,092 | 10,042 |
| Recovered receivables provided for (Note 11) | 90,361 | 2,160 |
| Recovered short-term loans and placements recovered for (Note 13) | 1,000 | 2,000 |
| Sundry income | 8,575 | 5,252 |
| Equipment value adjustment | - | - |
| Liabilities waived | 10,323 | 42 |
| Total | 118,775 | 21,471 |

37. OTHER EXPENSES

| | 2019 | 2018 |
|---|---------------|---------------|
| Losses on the sale and disposal of intangible assets, property, plant and equipment | 107 | 626 |
| Shortages | 29 | 20 |
| Direct write off of receivables | 3,442 | 7,873 |
| Other sundry expenses | 34,704 | 1,822 |
| Total | 38,282 | 10,341 |

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For the Year Ended 31 December 2019

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38. RELATED PARTY TRANSACTIONS

The Company's major shareholder is Telegroup Limited, London, which holds 100% of the Company's basic capital. As of 31 December 2019 the Company had four subsidiaries and a branch in Germany.

(a) Acquisitions and Sale to Related Parties

The following transactions were carried out with related parties:

| | 2019 | 2018 |
|---|----------------|----------------|
| <i>Sales of goods and services (Note 26)</i> | | |
| Parent company - Telegroup LTD, Great Britain | - | 22,836 |
| Subsidiary - Telegroup d.o.o. Podgorica | 5,983 | 16,559 |
| Subsidiary - Greensoft d.o.o. Novi Sad | 128 | 129 |
| Subsidiary - Telegroup Finance d.o.o. Belgrade | - | 519 |
| Other related parties - Telegroup d.o.o. Banja Luka | 373,762 | 286,892 |
| Other related parties - TG-SEC Banja Luka | - | 11,822 |
| Other related parties - TG-SEC d.o.o. Banja Luka, Belgrade branch | 371 | 7,097 |
| Other related parties - All Control d.o.o. Belgrade | 2,681 | 81 |
| Other related parties - Teamenergo d.o.o. Belgrade | 386 | 1,883 |
| | 383,311 | 347,818 |

Goods are sold based on the pricelists and terms that would be available to third parties.

| | 2019 | 2018 |
|---|------------------|----------------|
| <i>Purchases of goods and services (Notes 7, 27, 30 and 32)</i> | | |
| Parent company - Telegroup LTD, Great Britain | 219,656 | 217,015 |
| Subsidiary - Greensoft d.o.o. Novi Sad | - | 1,092 |
| Subsidiary - Telegroup Finance d.o.o. Belgrade | 1,522 | 1,864 |
| Other related parties - Telegroup d.o.o. Banja Luka | 89,627 | 23,667 |
| Other related parties - Telegroup GMBH, Berlin | 22,981 | 28,593 |
| Other related parties - TG-SEC d.o.o. Banja Luka, Belgrade branch | 131,795 | 32,158 |
| Other related parties - All Control d.o.o. Belgrade | 4,200 | 1,650 |
| Other related parties - Teamenergo d.o.o. Belgrade | 753,782 | 497,270 |
| Other related parties - DKM Riznica | 100 | 100 |
| Other related parties - TG-SEC d.o.o. Belgrade | 171,215 | - |
| | 1,394,878 | 803,409 |

Goods and services are bought on normal market terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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38. RELATED PARTY TRANSACTIONS (Continued)

(b) Financial Income and Expenses - Related Parties

| | 2019 | 2018 |
|---|---------------|---------------|
| <i>Financial income (Note 33)</i> | | |
| Parent - Telegroup LTD, Great Britain | 773 | 47 |
| Subsidiary - Telegroup d.o.o. Podgorica | - | 43 |
| Subsidiary - Greensoft d.o.o. Novi Sad | 2,080 | 991 |
| Subsidiary - Telegroup Finance d.o.o. Belgrade | - | - |
| Other related parties - Telegroup d.o.o. Banja Luka | 631 | 1,783 |
| | 3,484 | 2,864 |
| | | |
| | 2019 | 2018 |
| <i>Financial expenses (Note 34)</i> | | |
| Parent - Telegroup LTD, Great Britain | 721 | 1,008 |
| Subsidiary - Telegroup d.o.o. Podgorica | 100 | 80 |
| Subsidiary - Greensoft d.o.o. Novi Sad | 184 | 44 |
| Subsidiary - Telegroup Finance d.o.o. Belgrade | 10,311 | 12,672 |
| Other related parties - Telegroup d.o.o. Banja Luka | 2,251 | 339 |
| Other related parties - TG-SEC Banja Luka | 61 | 3 |
| | 13,628 | 14,146 |

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38. RELATED PARTY TRANSACTIONS (Continued)

(c) Year-end Balances Arising from Sales/Purchases of Goods/Services (Net Present Value)

| | 2019 | 2018 |
|---|----------------|----------------|
| Receivables from related parties (Note 11) | | |
| Parent - Telegroup LTD, Great Britain | - | 33,449 |
| Subsidiary - Telegroup d.o.o. Podgorica | 5,363 | 22,213 |
| Subsidiary - Greensoft d.o.o. Novi Sad | 38 | 431 |
| Other related parties - Telegroup d.o.o. Banja Luka | 84,099 | 53,734 |
| Other related parties - Telegroup GMBH | - | - |
| Other related parties - TG-SEC Banja Luka | - | 11,820 |
| Other related parties - Teamenergo d.o.o. Belgrade | 49 | 598 |
| Other related parties - TG-SEC d.o.o. Banja Luka, Belgrade branch | 42 | 7,403 |
| Other related parties - All Control d.o.o. Belgrade | 14 | 28 |
| | 89,605 | 129,676 |
| Payables to related parties (Note 21) | | |
| Parent - Telegroup LTD, Great Britain | 22,427 | 1,862 |
| Other related parties - DKM Riznica | 120 | 120 |
| Other related parties - All Control | 1,398 | 360 |
| Other related parties - TG-SEC Banja Luka | 1,293 | - |
| Other related parties - TG-SEC d.o.o. Belgrade | 106,228 | - |
| Other related parties - Teamenergo d.o.o. | 315,288 | 83,801 |
| Other related parties - TG-SEC d.o.o. Banja Luka Belgrade branch | 30,773 | 50,470 |
| Other related parties - Telegroup d.o.o. Podgorica | - | 45 |
| | 477,527 | 136,658 |

Receivables from related parties arise mainly from sale transactions and are due 60 days after the date of sale. Receivables are not secured in nature and bear no interest. Receivables from other related parties presented in the table above also include advances paid for goods/services. Payables to related parties arise mainly from purchase transactions and are due 60 days after the purchase date. Payables do not bear interest.

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38. RELATED PARTY TRANSACTIONS (Continued)
(d) Loans and interest to related parties

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Loans to directors, management and their family members: | | |
| Long-term loan portion (Note 8) | 5,686 | 6,095 |
| Short-term domestic borrowings (Note 13) | 14,000 | - |
| Short-term loan portion (Note 13) | <u>377</u> | <u>377</u> |
| Total | <u>20,063</u> | <u>6,472</u> |
| Loans and interest to related parties (Notes 12 and 13): | | |
| Subsidiary - Greensoft d.o.o. Novi Sad | <u>53,474</u> | <u>22,778</u> |
| End of year | <u>53,474</u> | <u>22,778</u> |

(e) Advances paid for inventories and services to related parties (Note 10):

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------|
| Parent company - Telegroup LTD, Grait Britain | 30,567 | - |
| Other related parties - Telegroup d.o.o. Banja Luka | <u>136,111</u> | <u>-</u> |
| End of year | <u>166,678</u> | <u>-</u> |

39. EVENTS AFTER THE REPORTING PERIOD

A major challenge for the international community in 2020 is the recent coronavirus (Covid-19) outbreak, whose expansion worldwide is expected to cause a transitory negative impact in the global economy. The effects of the Covid-19 pandemic on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide-and the Republic of Serbia among them have already taken measures to contain the virus' expansion (for example restriction in traveling, quarantine and sanitary measures) and cushion the shock on both economic supply and demand via fiscal measures and government benefits.

The baseline scenario is that the expansion of the coronavirus globally, across the EU and in Serbia will be contained and gradually slows down (as is already the case in China) by the end of the first half of 2020. In such a case, the outbreak of the coronavirus is expected to have a notable negative economic impact mainly on the first and the second quarter of 2020, and probably by the end of 2020. The European and Serbian economy are expected to rebound in the second half of 2020, as confidence returns.

On 15 March 2020 the Decision to Declare a State of Emergency in the Republic of Serbia due to the Covid-19 virus epidemic was enacted.

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39. EVENTS AFTER THE REPORTING PERIOD (Continued)

On 20 March 2020 the Government of the Republic of Serbia adopted the first set of tax measures, i.e. a Regulation on Tax Measures during the State of Emergency in order to Mitigate Economic Consequences of COVID-19, whereas on 10 April 2020 a Program of Economic Measures to Mitigate Negative Effects Caused by the COVID-19 Pandemic and Support the Serbian Economy was adopted. Out of the envisaged measures it is important for the Company that the state intends to mitigate the consequences that the state of emergency and global pandemic have had on the economy and citizens.

The Company's management has taken all necessary measures based on the recommendations and decrees issued by the Ministry of Health and the Government of the Republic of Serbia and it continually monitors all activities and measures of the competent state authorities. One of the crucial measures for the prevention of the epidemic spread and the protection of employees' health is related to the organisation of employees' operating activities outside the Company's business premises (work from home), where possible.

The Company uses subsidies granted by the State through a set of measures; a moratorium on the payment of due payroll taxes and contributions, with a later repayment at 24 instalments, as well as the advance payment of corporate income tax for March, April and May until the final corporate income tax return for 2020 is submitted.

The Company uses the second set of measures provided to companies through direct financial aid in the form of three minimum salaries in the Republic of Serbia.

The third set of measures used by the Company is directed at the liquidity preservation. The Company has withdrawn a loan from the Development Fund in the amount of RSD 250 million at an interest rate of 1% p.a. and with a repayment period of 3 years and 6 months and a grace period until 30 September 2020.

The Company is in the process of determining the expected effects caused by the coronavirus pandemic, but as of the date of preparation of the attached financial statements, these effects have not been assessed. According to a preliminary assessment based on the currently available information and assessment of the implementation of plans, the management believes that the new situation may have an adverse impact on business activity, primarily due to a budget reduction and investments by local and foreign companies, which will result in a decrease in the scope of work. The recession caused by the global COVID-19 pandemic will affect business both in Europe and the Balkans. Over the next period the Company will develop a strategy on accommodating to new business conditions, which will certainly require a bigger and faster capital turnover, higher liquidity, strong and stable partners and clients in order to enable normal business conditions during the recession. Company business partners and clients are comprised of renowned companies, while the projects on which they cooperate are long-term and stable. Difficult business conditions are expected over the next period of 2020, but they will in no way endanger the Company's ability to continue as a going concern in the foreseeable future.

Apart from the aforesaid, there were no other significant events that would require adjustments or disclosures in Notes to the accompanying financial statements.

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40. EXCHANGE RATES

The official exchange rates of the National Bank of Serbia for the major currencies, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2019 and 2018 into the functional currency (RSD), were as follows:

| | 31 December 2019 | In RSD 31 December 2018 |
|-----|------------------------|----------------------------------|
| EUR | 117.5928 | 118.1946 |
| USD | 104.9186 | 103.3893 |
| CHF | 108.4004 | 104.9779 |
| GBP | 137.5998 | 131.1816 |

Belgrade, 22 May 2020



Miladina Veljkovic
Control Officer



Milan Stefanovic
Director



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